

CHILD NEUROLOGY FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019



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**CHILD NEUROLOGY FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Neurology Foundation
Lexington, Kentucky

We have audited the accompanying financial statements of Child Neurology Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows 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.

Auditors' 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 audits 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 auditors' 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.

Board of Directors
Child Neurology Foundation

Opinion

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 12, 2021

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019**

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,319,451	\$ 1,514,720
Pledges Receivable, Net	597,474	661,874
Prepaid Expenses	18,525	2,182
Total Current Assets	2,935,450	2,178,776
LONG-TERM ASSETS		
Pledges Receivable, Net of Current Portion	884,103	689,355
Funds Held with Others	133,951	130,017
Property, Plant, and Equipment, Net	36,709	27,046
Total Long-Term Assets	1,054,763	846,418
Total Assets	\$ 3,990,213	\$ 3,025,194
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 204,395	\$ 184,827
Grants Payable	200,000	200,000
Deferred Revenue	280,000	85,000
Total Current Liabilities	684,395	469,827
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	99,833	98,147
Total Liabilities	784,228	567,974
NET ASSETS		
Without Donor Restrictions	363,712	252,126
With Donor Restrictions	2,842,273	2,205,094
Total Net Assets	3,205,985	2,457,220
Total Liabilities and Net Assets	\$ 3,990,213	\$ 3,025,194

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 147,047	\$ 2,837,771	\$ 2,984,818	\$ 284,822	\$ 1,545,534	\$ 1,830,356
Membership Fees	555,000	-	555,000	495,000	-	495,000
Other Revenue	2,250	-	2,250	-	-	-
Investment Income	7,985	8,784	16,769	9,070	20,183	29,253
Net Assets Released from Restriction	2,209,376	(2,209,376)	-	1,309,420	(1,309,420)	-
Total Support and Revenue	<u>2,921,658</u>	<u>637,179</u>	<u>3,558,837</u>	<u>2,098,312</u>	<u>256,297</u>	<u>2,354,609</u>
EXPENSES						
Community Education and Support	1,602,154	-	1,602,154	817,766	-	817,766
Research Grants	205,943	-	205,943	203,141	-	203,141
Total Program Services	<u>1,808,097</u>	<u>-</u>	<u>1,808,097</u>	<u>1,020,907</u>	<u>-</u>	<u>1,020,907</u>
Management and General	791,958	-	791,958	498,364	-	498,364
Fundraising	210,017	-	210,017	297,265	-	297,265
Total Expenses	<u>2,810,072</u>	<u>-</u>	<u>2,810,072</u>	<u>1,816,536</u>	<u>-</u>	<u>1,816,536</u>
CHANGE IN NET ASSETS	111,586	637,179	748,765	281,776	256,297	538,073
Net Assets (Deficit) - Beginning of Year	<u>252,126</u>	<u>2,205,094</u>	<u>2,457,220</u>	<u>(29,650)</u>	<u>1,948,797</u>	<u>1,919,147</u>
NET ASSETS - END OF YEAR	<u>\$ 363,712</u>	<u>\$ 2,842,273</u>	<u>\$ 3,205,985</u>	<u>\$ 252,126</u>	<u>\$ 2,205,094</u>	<u>\$ 2,457,220</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020**

	<u>Community Education and Support</u>	<u>Research Grants</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Functional Expenses</u>
EXPENSES						
Personnel Costs	\$ 312,215	\$ 3,227	\$ 315,442	\$ 536,521	\$ 65,928	\$ 917,891
Rent and Utilities	14,453	174	14,627	15,913	3,257	33,797
Grants	299,500	201,686	501,186	-	-	501,186
Meetings and Travel	10,495	-	10,495	12,699	1,027	24,221
Professional Fees	932,232	470	932,702	138,068	127,940	1,198,710
Postage	28	53	81	2,427	195	2,703
Printing and Publications	784	-	784	1,415	112	2,311
Dues and Memberships	768	-	768	1,461	-	2,229
Management Fee	27,557	333	27,890	46,195	5,908	79,993
Depreciation	-	-	-	14,430	-	14,430
Office Supplies and Other	4,122	-	4,122	22,829	5,650	32,601
	<u>4,122</u>	<u>-</u>	<u>4,122</u>	<u>22,829</u>	<u>5,650</u>	<u>32,601</u>
Total Expenses	<u>\$ 1,602,154</u>	<u>\$ 205,943</u>	<u>\$ 1,808,097</u>	<u>\$ 791,958</u>	<u>\$ 210,017</u>	<u>\$ 2,810,072</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

EXPENSES	<u>Community Education and Support</u>	<u>Research Grants</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Functional Expenses</u>
Personnel Costs	\$ 245,115	\$ 1,621	\$ 246,736	\$ 266,234	\$ 102,217	\$ 615,187
Rent and Utilities	15,710	112	15,822	6,577	6,947	29,346
Grants	68,075	201,051	269,126	-	-	269,126
Meetings and Travel	182,881	-	182,881	98,521	36,693	318,095
Professional Fees	268,168	207	268,375	64,034	140,584	472,993
Postage	5,928	-	5,928	1,631	196	7,755
Printing and Publications	7,249	6	7,255	2,622	1,308	11,185
Dues and Memberships	1,507	-	1,507	1,899	-	3,406
Management Fee	19,549	144	19,693	21,734	8,573	50,000
Depreciation	-	-	-	7,614	-	7,614
Office Supplies and Other	3,584	-	3,584	27,498	747	31,829
Total Expenses	<u>\$ 817,766</u>	<u>\$ 203,141</u>	<u>\$ 1,020,907</u>	<u>\$ 498,364</u>	<u>\$ 297,265</u>	<u>\$ 1,816,536</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 748,765	\$ 538,073
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	14,430	7,614
Change in Funds Held With Others	(3,934)	(14,401)
Effects of Changes in Operating Assets and Liabilities:		
Contributions Receivable	(130,348)	(350,192)
Prepaid Expenses and Other Assets	(16,343)	2,165
Accounts Payable and Accrued Expenses	19,568	65,254
Grants Payable	1,686	1,171
Deferred Revenue	195,000	25,000
Net Cash Provided by Operating Activities	828,824	274,684
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(24,093)	(19,607)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	804,731	255,077
 Cash and Cash Equivalents - Beginning of Year	1,514,720	1,259,643
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,319,451	\$ 1,514,720

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Child Neurology Foundation (the Foundation), a nonprofit corporation, is established to be and serve as a collaborative center of education and support for children and families living with neurologic conditions.

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, 2020 and 2019, the allowance was \$-0-. Long-term pledge receivables are recorded net of discounts of \$49,397 and \$66,145 as of December 31, 2020 and 2019, 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, 2020 AND 2019**

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

Funds Held With Others

Funds held with others are made up of endowment investments held at the American Academy of Neurology Institute for purposes of earning long-term investment income. These funds are pooled with the investments at the American Academy of Neurology Institute. The Foundation has the ability to liquidate their investments at any time subject to the redemption restrictions on the individual investments. These investments in marketable securities are recorded at fair value and consist primarily of equity funds and corporate bond funds. Investments in certificates of deposit are recorded at cost. In addition, the investments include two limited partnerships that are diversified funds of hedge funds, reported at the estimated fair value of the Foundation's share of the fund, calculated monthly by the custodian. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility.

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. 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.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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 \$555,000 and \$495,000 at December 31, 2020 and 2019, respectively.

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 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.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Foundation follows the provisions of 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 May 12, 2021, the date the financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable include the following at December 31:

	<u>2020</u>	<u>2019</u>
Pledge Due:		
In Less Than One Year	\$ 597,474	\$ 661,874
In One to Five Years	933,500	755,500
Subtotal	<u>1,530,974</u>	<u>1,417,374</u>
Less: Discount to Present Value	(49,397)	(66,145)
Total Pledges Receivable	<u>\$ 1,481,577</u>	<u>\$ 1,351,229</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 a discount rate of approximately 2.25%.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 FUNDS HELD WITH OTHERS

The investments of the Foundation are pooled with reserve investments at the American Academy of Neurology Institute and are recorded as funds held with others on the statements of financial position. The Foundation does not own specific underlying investments within the investment pool. The custodian has allocated investments based on percentage held by the Foundation as follows at December 31:

	2020	2019
Corporate Bond Funds	\$ 39,432	\$ 38,101
Equity Funds - Foreign	27,779	25,895
Equity Funds - Mid-Cap	13,808	12,975
Equity Funds - Large Blend	42,027	43,407
Funds of Hedge Funds	10,905	9,639
Total Reserves	\$ 133,951	\$ 130,017

Investments in the corporate bond funds, money market mutual funds, equity securities, and equity funds are recorded at fair market value. The fund of hedge funds is recorded at the estimated fair value of the Foundation's share of the fund, calculated monthly by the custodian. The Foundation's share of investment income (loss) on the funds held with others, which includes earnings on the checking and savings accounts, totaled \$8,784 and \$20,183 for the years ended December 31, 2020 and 2019, respectively.

Subsequent to year-end, the investments of the Foundation held with others were transferred to a new investment custodian selected and managed by the Foundation. These investments will continue to be held for long-term purposes and support for the endowment.

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, 2020 AND 2019**

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:

	2020			Fair Value
	Level 1	Level 2	Level 3	
Funds Held with Others:				
Investment Pool Held with Others	\$ -	\$ 133,951	\$ -	\$ 133,951

	2019			Fair Value
	Level 1	Level 2	Level 3	
Funds Held with Others:				
Investment Pool Held with Others	\$ -	\$ 130,017	\$ -	\$ 130,017

NOTE 5 GRANTS PAYABLE

Grants payable include the following at December 31:

	2020	2019
Current Portion of Grants Payable	\$ 200,000	\$ 200,000
Long-Term Portion of Grants Payable	99,833	98,147
Net Grants Payable	<u>\$ 299,833</u>	<u>\$ 298,147</u>

	2020	2019
Amounts Due:		
One Year or Less	\$ 200,000	\$ 200,000
One to Five Years	100,000	100,000
Discount to Present Value	(167)	(1,853)
Net Grants Payable	<u>\$ 299,833</u>	<u>\$ 298,147</u>

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of approximately 0.13%.

NOTE 6 CONTRACT LIABILITIES

Deferred revenue consists of the following at December 31:

	2020	2019
Future Years Dues	<u>\$ 280,000</u>	<u>\$ 85,000</u>

NOTE 7 LINE OF CREDIT

The Foundation has a \$250,000 line of credit available with a bank. The line of credit has an interest rate 2.0% over LIBOR index one month rate, but not lower than 2.0%. The line of credit matures June 26, 2021 and is secured by generally all assets of the Foundation. The balance outstanding was \$-0- as of both December 31, 2020 and 2019.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Research Grants	\$ 981,068	\$ 1,172,549
Operational Grant	250,055	42,808
Infantile Spasm Awareness	50,555	555
Neuro Developmental Disorders - Endowment Earnings	33,951	30,017
Family Support and Empowerment Program	-	13,570
Child-Adult Transition Program	400,831	101,350
Harnett Infantile Spasms Awareness Grant	10,368	11,368
Annual Education Initiative (Symposium)	52,500	100,000
Children's Health Improvement through Computerized Automation (CHICA)	671,918	632,877
Perpetual Endowment Fund	100,000	100,000
Patient Education	200,000	-
Sudden Unexpected Death in Epilepsy (SUDEP)	42,500	-
Telehealth	48,527	-
Total	<u>\$ 2,842,273</u>	<u>\$ 2,205,094</u>

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:

	2020	2019
Research Grants	\$ 208,000	\$ 207,000
Operational Grant	201,000	30,000
Infantile Spasm Awareness	199,018	125,000
Neuro Developmental Disorders - Endowment Earnings	4,850	5,781
Family Support and Empowerment Program	51,170	124,698
Child-Adult Transition Program	387,500	493,797
Harnett Infantile Spasms Awareness Grant	1,000	1,000
Annual Education Initiative (Symposium)	86,000	117,000
Children's Health Improvement through Computerized Automation (CHICA)	710,959	132,144
Patient Education	-	15,000
Events	-	58,000
Telehealth	26,474	-
Emergency Response	308,405	-
Navigating the New Normal	25,000	-
Total	<u>\$ 2,209,376</u>	<u>\$ 1,309,420</u>

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 ENDOWMENT

The Foundation's donor-restricted endowment consists of one fund established to support scholarships and, as required by generally accepted accounting principles, 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.

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

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. 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.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 ENDOWMENT (CONTINUED)

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, 2018	\$ -	\$ 115,616	\$ 115,616
Investment Income	-	20,183	20,183
Contributions	-	-	-
Appropriation of Endowment Funds	-	(5,782)	(5,782)
Balance, December 31, 2019	-	130,017	130,017
Investment Income	-	8,784	8,784
Contributions	-	-	-
Appropriation of Endowment Funds	-	(4,850)	(4,850)
Balance, December 31, 2020	<u>\$ -</u>	<u>\$ 133,951</u>	<u>\$ 133,951</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, 2020 and 2019, no such deficiencies were noted.

NOTE 11 CONCENTRATIONS

At December 31, 2020, 90% of the pledges receivable balance was from three donors and approximately 43% of the contribution revenue was from two donors. At December 31, 2019, approximately 87% of pledges receivable was from two donors and 64% of contribution revenue was from one donor.

NOTE 12 OPERATING LEASES

During 2019, the Foundation entered into a 36-month lease for office space, commencing February 1, 2019 through January 31, 2022. The lease has escalating rent payments beginning with monthly payments of \$2,500 and increasing up to monthly payments of \$2,650. Minimum lease payments for this lease are \$31,725 for the year ending December 31, 2021 and \$2,650 for the year ending December 31, 2022.

**CHILD NEUROLOGY FOUNDATION
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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. As noted in Note 7, the Foundation also has a \$250,000 line of credit available should there be a need with a short fall in liquidity. During the years ended December 31, 2020 and 2019, the level of liquidity was as follows.

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 2,319,451	\$ 1,514,720
Accounts Receivable (to be Received within 12 Months)	597,474	661,874
Funds Held by Others (Available within 12 Months)	33,951	30,017
Assets with Donor Restrictions	<u>(1,486,390)</u>	<u>(1,385,722)</u>
Total Liquid Assets	<u>\$ 1,464,486</u>	<u>\$ 820,889</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 funds held with others.

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, adopted in 2019, is calculated as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
50% of Three-Year Average Expense Budgets	\$ 1,359,560	\$ 1,015,798
25% of Three-Year Average Operating Revenue	693,051	547,850
Uninsured Losses	<u>250,000</u>	<u>250,000</u>
Total	<u>\$ 2,302,611</u>	<u>\$ 1,813,648</u>

