

CHILD NEUROLOGY FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020



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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, 2021 and 2020, 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, 2021 and 2020, and the results of its operations 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2021 the Foundation adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

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.

Responsibilities of Management for the Financial Statements (Continued)

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
April 19, 2022

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,986,231	\$ 2,319,451
Pledges Receivable, Net	1,298,043	597,474
Investments, Short-Term	389,602	-
Prepaid Expenses	31,401	18,525
Total Current Assets	3,705,277	2,935,450
LONG-TERM ASSETS		
Pledges Receivable, Net of Current Portion	625,568	884,103
Investments, Endowment	134,075	-
Funds Held with Others	-	133,951
Right-of-Use Asset	98,957	-
Property, Plant, and Equipment, Net	19,274	36,709
Total Long-Term Assets	877,874	1,054,763
Total Assets	\$ 4,583,151	\$ 3,990,213
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 270,023	\$ 204,395
Grants Payable	200,000	200,000
Lease Liability, Current Portion	34,035	-
Deferred Revenue	235,000	280,000
Total Current Liabilities	739,058	684,395
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	99,536	99,833
Lease Liability, Net of Current Portion	70,486	-
Note Payable	100,000	-
Total Long-Term Liabilities	270,022	99,833
Total Liabilities	1,009,080	784,228
NET ASSETS		
Without Donor Restrictions	448,077	363,712
With Donor Restrictions	3,125,994	2,842,273
Total Net Assets	3,574,071	3,205,985
Total Liabilities and Net Assets	\$ 4,583,151	\$ 3,990,213

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>\$ 448,077</u>	<u>\$ 3,125,994</u>	<u>\$ 3,574,071</u>

See accompanying Notes to Financial Statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 147,047	\$ 2,837,771	\$ 2,984,818
Membership Fees	555,000	-	555,000
Other Revenue	2,250	-	2,250
Investment Income	7,985	8,784	16,769
Net Assets Released from Restriction	2,209,376	(2,209,376)	-
Total Support and Revenue	<u>2,921,658</u>	<u>637,179</u>	<u>3,558,837</u>
EXPENSES			
Program Services:			
Community Education and Support	1,602,154	-	1,602,154
Research Grants	205,943	-	205,943
Total Program Services	<u>1,808,097</u>	<u>-</u>	<u>1,808,097</u>
Management and General	791,957	-	791,957
Fundraising	210,018	-	210,018
Total Expenses	<u>2,810,072</u>	<u>-</u>	<u>2,810,072</u>
CHANGE IN NET ASSETS	111,586	637,179	748,765
Net Assets - Beginning of Year	<u>252,126</u>	<u>2,205,094</u>	<u>2,457,220</u>
NET ASSETS - END OF YEAR	<u><u>\$ 363,712</u></u>	<u><u>\$ 2,842,273</u></u>	<u><u>\$ 3,205,985</u></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	\$ 1,873,086	\$ 216,453	\$ 2,089,539	\$ 836,269	\$ 264,325	\$ 3,190,133

See accompanying Notes to Financial Statements.

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

EXPENSES	Community Education and Support	Research Grants	Total Program Services	Management and General	Fundraising	Total Functional 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	138,066	127,940	1,198,708
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
Technology and IT Support	4,083	-	4,083	11,738	4,290	20,111
Office Supplies and Other	39	-	39	11,092	1,361	12,492
Total Expenses	\$ 1,602,154	\$ 205,943	\$ 1,808,097	\$ 791,957	\$ 210,018	\$ 2,810,072

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 368,086	\$ 748,765
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	17,435	14,430
Change in Funds Held With Others	-	(3,934)
Right-of-Use Asset Obtained in Exchange for Operating Lease Liability	(104,516)	-
Amortization of Right-of-Use Asset	5,559	-
Realized and Unrealized Gain on Investments	(6,251)	-
Effects of Changes in Operating Assets and Liabilities:		
Contributions Receivable	(442,034)	(130,348)
Prepaid Expenses and Other Assets	(12,876)	(16,343)
Accounts Payable and Accrued Expenses	65,628	19,568
Grants Payable	(297)	1,686
Lease Liability	104,521	-
Deferred Revenue	(45,000)	195,000
Net Cash Provided (Used) by Operating Activities	(49,745)	828,824
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(24,093)
Purchase of Investments	(462,612)	-
Proceeds from Sale of Investments	79,137	-
Net Cash Used by Investing Activities	(383,475)	(24,093)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Note Payable	100,000	-
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(333,220)	804,731
Cash and Cash Equivalents - Beginning of Year	2,319,451	1,514,720
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,986,231	\$ 2,319,451

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020, the allowance was \$-0-. Long-term pledge receivables are recorded net of discounts of \$9,432 and \$49,397 as of December 31, 2021 and 2020, 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, 2021 AND 2020**

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 were made up of endowment investments held at the American Academy of Neurology Institute for purposes of earning long-term investment income. These funds were pooled with the investments at the American Academy of Neurology Institute. The Foundation liquidated their investments held with others in 2021. These investments in marketable securities were recorded at fair value and consist primarily of equity funds and corporate bond funds. Investments in certificates of deposit were recorded at cost. In addition, the investments included two limited partnerships that were 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.

Investments

Investments are made up of short-term operating reserves invested in readily marketable exchange-traded funds and endowment investments for purposes of earning long-term investment income. These investments are recorded at fair value.

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.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$608,333 and \$555,000 at December 31, 2021 **and 2020**, 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 (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.

Adoption of New Accounting Standard

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standard (Continued)

The Foundation early adopted the requirements of the guidance effective January 1, 2021 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2020 are made under prior lease guidance in FASB Accounting Standards Codification (ASC) 840.

As a result of the adoption of the new lease accounting guidance, the Foundation recognized at the commencement of a new operating lease for office space in Lexington, Kentucky, a lease liability of \$104,516 in 2021, which represents the present value of the remaining operating lease payments of \$105,709, discounted using a discount rate of 0.7%, and a right-of-use asset of \$104,516.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 19, 2022, the date the financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable include the following at December 31:

	2021	2020
Pledge Due:		
In Less Than One Year	\$ 1,298,043	\$ 597,474
In One to Five Years	635,000	933,500
Subtotal	1,933,043	1,530,974
Less: Discount to Present Value	(9,432)	(49,397)
Total Pledges Receivable	\$ 1,923,611	\$ 1,481,577

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 0.85%.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 FUNDS HELD WITH OTHERS

The investments of the Foundation were pooled with reserve investments at the American Academy of Neurology Institute and were recorded as funds held with others on the statements of financial position. The Foundation liquidated its holdings and transferred to its own investment account in 2021. The custodian allocated investments based on percentage held by the Foundation as follows at December 31:

	<u>2021</u>	<u>2020</u>
Corporate Bond Funds	\$ -	\$ 39,432
Equity Funds - Foreign	-	27,779
Equity Funds - Mid-Cap	-	13,808
Equity Funds - Large Blend	-	42,027
Funds of Hedge Funds	-	10,905
Total Funds Held with Others	<u>\$ -</u>	<u>\$ 133,951</u>

Investments in the corporate bond funds, money market mutual funds, equity securities, and equity funds were recorded at fair market value. The fund of hedge funds was 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 \$-0- and \$8,784 for the years ended December 31, 2021 and 2020, respectively.

NOTE 4 INVESTMENTS

Beginning in 2021, the Foundation selected its own custodian and transferred its asset from funds held with others balance to new investment accounts for short-term reserves and endowment investments. The investments held by the Foundation consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 41,826	\$ -
Exchange-Traded Funds - Equities	191,439	-
Exchange-Traded Funds - Fixed Income	200,413	-
Exchange-Traded Funds - Alternatives	89,999	-
Total Investments	<u>\$ 523,677</u>	<u>\$ -</u>
Investments, Short-Term	\$ 389,602	\$ -
Investments, Endowment	134,075	-
Total Investments	<u>\$ 523,677</u>	<u>\$ -</u>

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 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.

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

	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>

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

NOTE 6 GRANTS PAYABLE

Grants payable include the following at December 31:

	2021	2020
Current Portion of Grants Payable	\$ 200,000	\$ 200,000
Long-Term Portion of Grants Payable	99,536	99,833
Net Grants Payable	<u>\$ 299,536</u>	<u>\$ 299,833</u>

	2021	2020
Amounts Due:		
One Year or Less	\$ 200,000	\$ 200,000
One to Five Years	100,000	100,000
Discount to Present Value	(464)	(167)
Net Grants Payable	<u>\$ 299,536</u>	<u>\$ 299,833</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 0.73%.

**CHILD NEUROLOGY FOUNDATION
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NOTE 7 CONTRACT LIABILITIES

Deferred revenue consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Future Years Dues	<u>\$ 235,000</u>	<u>\$ 280,000</u>

NOTE 8 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.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Research Grants	\$ 1,215,719	\$ 981,068
Operational Grant	481,650	250,055
Children's Health Improvement through Computerized Automation (CHICA)	451,918	671,918
Child-Adult Transition Program	341,350	400,831
Annual Education Initiative (Symposium)	175,000	52,500
Sudden Unexpected Death in Epilepsy (SUDEP)	130,000	42,500
Patient Education	111,598	200,000
Peer Support	75,000	-
Harnett Infantile Spasms Awareness Grant	9,368	10,368
Digital Access	316	-
Infantile Spasm Awareness	-	50,555
Telehealth	-	48,527
Neuro Developmental Disorders Endowment	134,075	133,951
Total	<u>\$ 3,125,994</u>	<u>\$ 2,842,273</u>

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NOTE 10 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:

	2021	2020
Research Grants	\$ 207,000	\$ 208,000
Operational Grant	218,500	201,000
Children's Health Improvement through Computerized Automation (CHICA)	500,000	710,959
Child-Adult Transition Program	270,000	387,500
Annual Education Initiative (Symposium)	177,500	86,000
Sudden Unexpected Death in Epilepsy (SUDEP)	42,500	-
Patient Education	304,241	-
Peer Support	50,826	51,170
Harnett Infantile Spasms Awareness Grant	1,000	1,000
Digital Access	107,130	-
Infantile Spasm Awareness	80,555	199,018
Telehealth	83,527	26,474
Emergency Response	-	308,405
Navigating the New Normal	-	25,000
Neuro Developmental Disorders Endowment	4,850	4,850
Total	<u>\$ 2,047,629</u>	<u>\$ 2,209,376</u>

NOTE 11 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.

**CHILD NEUROLOGY FOUNDATION
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NOTE 11 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, 2019	\$ -	\$ 130,017	\$ 130,017
Investment Income	-	8,784	8,784
Contributions	-	-	-
Appropriation of Endowment Funds	-	(4,850)	(4,850)
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	<u>\$ -</u>	<u>\$ 134,075</u>	<u>\$ 134,075</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, 2021 and 2020, no such deficiencies were noted.

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NOTE 12 CONCENTRATIONS

At December 31, 2021, 80% of the net pledges receivable balance was from two donors and approximately 37% of the contribution revenue was from three donors. At December 31, 2020, approximately 90% of net pledges receivable was from three donors and 43% of contribution revenue was from two donors.

NOTE 13 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:

Other Information:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating cash flows from operating leases	\$	-
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$	104,516
Weighted Average Remaining Lease Term - Operating Leases		2.9 Years
Weighted Average Discount Rate - Operating Leases		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, 2021, is as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2022	\$ 34,200
2023	35,226
2024	<u>36,283</u>
Undiscounted Cash Flows	105,709
Less: Imputed Interest	<u>(1,188)</u>
Total Present Value	<u><u>\$ 104,521</u></u>

**CHILD NEUROLOGY FOUNDATION
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NOTE 14 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, 2021 and 2020, the level of liquidity was as follows.

	<u>2021</u>	<u>2020</u>
Cash, Cash Equivalents, and Short-Term Investments	\$ 2,375,833	\$ 2,319,451
Accounts Receivable (to be Received within 12 Months)	1,298,043	597,474
Funds Held by Others (Available within 12 Months)	-	133,951
Investments, Endowment (Available within 12 Months)	134,075	-
Assets with Donor Restrictions	<u>(1,436,177)</u>	<u>(1,486,390)</u>
Total Liquid Assets	<u>\$ 2,371,774</u>	<u>\$ 1,564,486</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 target is calculated as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
50% of Three-Year Average Expense Budgets	\$ 1,638,199	\$ 1,359,560
25% of Three-Year Average Operating Revenue	836,379	693,051
Uninsured Losses	250,000	250,000
Total	<u>\$ 2,724,578</u>	<u>\$ 2,302,611</u>

The unrestricted net assets balance was approximately \$448,000 and \$364,000 for the years ended December 31, 2021 and 2020, respectively.

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