The Arbor School of Central Florida, Inc.

Financial Statements

July 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Arbor School of Central Florida, Inc.
Winter Springs, Florida

We have audited the accompanying financial statements of The Arbor School of Central Florida, Inc. (the "School"), a nonprofit School, which comprise the statement of financial position as of July 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arbor School of Central Florida, Inc. as of July 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Moss, Krusick & Associates, LLC

Winter Park, Florida
November 12, 2019

The Arbor School of Central Florida, Inc.

STATEMENT OF FINANCIAL POSITION

July 31, 2019

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	3,356
Accounts receivable		71,521
Total current assets		74,877
Fixed assets, net		225,733
Total assets	$	300,610
LIABILITIES AND NET ASSETS		
CURRENT LIABILITES		
Bank line of credit	$	75,982
Accounts payable		20,201
Accrued payroll and benefits		32,736
Deferred revenue		1,100
Current portion of note payable		4,539
Total current liabilities		134,558
Note payable, less current portion		11,598
Total liabilities		146,156
Commitments		-
NET ASSETS		
Without donor restrictions		72,252
With donor restrictions		82,202
Total net assets		154,454
Total liabilities and net assets	$	300,610

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

The Arbor School of Central Florida, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended July 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Tuition and fees:			
John McKay scholarships	$ 908,493	$ -	$ 908,493
Tuition	314,776	-	314,776
Gardiner scholarships	277,515	-	277,515
School scholarships	491,950	-	491,950
Grants	3,350	-	3,350
Program income	76,875	-	76,875
Total tuition and fees	2,072,959	-	2,072,959
Other	9,641	-	9,641
In-Kind	3,500	-	3,500
Fundraising	4,473	-	4,473
Net assets released from restrictions	-	-	-
Total revenue and support	2,090,573	-	2,090,573
EXPENSES			
Program services:			
Academic support	962,730	-	962,730
Student support	998,358	-	998,358
Supporting services:			
Management and general	194,559	-	194,559
Fundraising	60,642	-	60,642
Total expenses	2,216,289	-	2,216,289
Change in net assets	(125,716)	-	(125,716)
Net assets at beginning of year	197,968	82,202	280,170
Net assets at end of year	$ 72,252	$ 82,202	$ 154,454

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

The Arbor School of Central Florida, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended July 31, 2019

	Program Services		Supporting Services		
	Academic Support	Student Support	Management and General	Fundraising	Total
Payroll	$ 951,911	$ 174,294	$ 160,887	$ 53,629	$ 1,340,721
School scholarship	-	491,950	-	-	491,950
Utilities	-	65,904	7,323	-	73,227
Insurance	-	61,993	6,888	-	68,881
Depreciation	-	47,461	5,274	-	52,735
Music and art	-	30,243	-	-	30,243
In-kind	-	3,150	175	175	3,500
Contract services	-	23,730	4,860	-	28,590
Other expense	-	62,118	6,902	-	69,020
Supplies	-	22,150	1,166	-	23,316
Textbooks and subscriptions	10,819	-	-	-	10,819
Repairs and maintenance	-	8,302	923	-	9,225
Fundraising expense	-	-	-	6,627	6,627
Telephone	-	3,053	161	-	3,214
Advertising	-	4,010	-	211	4,221
	$ 962,730	$ 998,358	$ 194,559	$ 60,642	$ 2,216,289

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

The Arbor School of Central Florida, Inc.

STATEMENT OF CASH FLOWS

Year Ended July 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(125,716)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation		52,735
Bad debt expense		7,829
Changes in operating assets and liabilities:		
Increase in accounts receivable		(37,620)
Increase in accounts payable		14,272
Decrease in deferred revenue		(1,400)
Increase in accrued payroll and benefits		9,901
Net cash used by operating activities		(79,999)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		(49)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit		16,185
Payments on note payable		(4,385)
Net cash provided in financing activities		11,800
Decrease in cash and cash equivalents		(68,248)
Cash and cash equivalents, beginning of year		71,604
Cash and cash equivalents, end of year	$	3,356
Supplemental Disclosure		
Cash paid for interest	$	774

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

NOTE A – NATURE OF ACTIVITIES

The Arbor School of Central Florida, Inc. (the School) began operations in 2002, and incorporated as a nonprofit School on July 2, 2010, under the laws of the State of Florida. The School operates a private K – 12th grade school in the Central Florida area. The School's mission is to provide a leading-edge, academically sound, and therapeutically-based learning approach for special needs students to help every child achieve their full potential in life. The School offers a sensory-based curriculum ideal for students with high functioning autism, learning disabilities such as dyslexia, and other unique disabilities.

Operation of the School is directed by a voluntary board whose members receive no compensation for their services.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

2. Basis of Presentation

The accompanying financial statements and accompanying schedules have been prepared on the accrual basis of accounting. The School reports information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. For example, the Board may designate a portion of net assets without donor restrictions as a quasi-endowment (an amount to be treated by management as if it were part of the donor restricted endowment) for the purpose of securing the School's long-term financial viability.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed restrictions, time and/or purpose restrictions.

The School reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation (continued)

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the School to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

See Note G for more information on the composition of net assets with donor restrictions.

3. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the School considers all unrestricted, highly liquid investments with maturity dates of three months or less at the date of purchase to be cash equivalents.

4. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

5. Fixed Assets

The School records (i.e., capitalizes) fixed asset acquisitions at cost. Donated fixed assets are recorded at fair value at the date of donation. It is the School's policy to capitalize fixed asset additions in excess of $10,000. Lesser amounts are expensed. Depreciation of fixed assets is provided over the estimated useful lives of the respective assets on a straight-line method over the following estimated useful lives:

Furniture and fixtures	7-10	years
Leasehold improvements	3-20	years
Machinery and equipment	5-10	years

6. Income Taxes

The School is a not-for-profit Florida corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and from state income taxes pursuant to Florida law. Therefore, no income tax provision is required in the accompanying financial statements. The School is not classified as a private foundation. Contributions to the School are qualified as deductions for charitable contributions.

Management has analyzed the School's various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported, and no accruals for tax liabilities are necessary. Therefore, no reserves for uncertain income tax positions have been recorded.

7. Accrued Paid Time Off

Accrued payroll and benefits include accrued paid time off (PTO), which is charged as an expense in the period it is earned. An employee earns 10 days of PTO per school year, and is allowed to carry over a maximum of 21 unused hours to the next school year.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

9. Donated Equipment and Services

Donated equipment is reflected as contributions in the accompanying financial statements at its fair value at the date of receipt. Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, and would need to be purchased if not provided by donation. The School has recognized $3,500 of donated services for the year ended July 31, 2019. In addition, management estimates that volunteers not meeting the above criteria donate considerable hours to the School's academic programs on an ongoing basis.

10. Tuition, Scholarships and Financial Aid

Tuition and fees consist primarily of private payments and scholarships. The majority of students receive scholarships through The John McKay Scholarship Program for Students with Disabilities, which provides students with special needs the opportunity to attend a private school; or The Gardiner Scholarship Program, which is a State of Florida approved nonprofit scholarship funding program created to benefit eligible children. The School also offers a school scholarship program which totaled $491,950 for the year ended July 31, 2019, which represents full and partial scholarships to students. This scholarship amount is presented in the financial statements as both revenue and expense.

11. Accounts Receivable

Accounts receivable consists of tuition, fees, and after care costs. Receivables are stated at the amount management expects to realize from outstanding balances. $7,829 was deemed uncollectible at July 31, 2019.

12. Revenue Recognition and Deferred Revenue

The School recognizes tuition and fee revenue in the period in which the related educational instruction is performed. Advance tuition and fees of $1,100 received for fiscal 2020 were deferred as of July 31, 2019.

13. Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended July 31, 2019, was $4,221.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (Topic 958). The ASU amends the current reporting model for Nonprofits and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The new guidance was effective beginning in 2018 and the School changed its presentation of net assets classes, and expanded the footnote disclosures in these financial statements as required by ASU 2016-14.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when contract performance obligations are met. The standard is effective for fiscal years beginning after December 15, 2018. The School is currently evaluating the impact of adopting the new revenue standard on its financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases, that requires lessees to put most leases on their balance sheets and recognize expenses on their income statements in a manner similar to today’s capital lease accounting. For lessors, the guidance modifies the classification criteria for accounting for sales-type and direct financing leases. The new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The School is evaluating the potential effects ASU 2016-02 will have on its financial statements.

15. Subsequent Events

Management has evaluated the effect subsequent events would have on the financial statements through the date these financial statements were issued or available to be issued on November 12, 2019.

NOTE C – FIXED ASSETS

Fixed assets consisted of the following at July 31, 2019:

Leasehold improvements	$ 370,151
Machinery and equipment	52,171
Furniture and fixtures	17,655
Total fixed assets	439,977
Less: accumulated depreciation	(214,244)
Net fixed assets	$ 225,733

Depreciation expense for the year ended July 31, 2019, was $52,735.

NOTE D – BANK LINE OF CREDIT

The School has a line of credit with Seacoast National Bank in the amount of $100,000 for the purpose of monthly cash flow that was renewed in December 2018 and matures in November 2021. The line accrues interest at a rate of 5.323%, with interest only, payable monthly. The line is secured by the School's real property. The outstanding balance on the line at July 31, 2019 was $75,982.

NOTE E – NOTE PAYABLE

Long-term note payable at July 31, 2019 consisted of the following:

Note payable, Seacoast National Bank, $419 payable monthly, including interest at 3.49%, maturing November 2022, collateralized by equipment.	$ 16,137
Less current portion:	(4,539)
	$ 11,241

Annual maturities of note payable for years succeeding July 31, 2019 are as follows:

2020	$ 4,705
2021	4,873
2022	1,663
	$ 11,241

NOTE F – OPERATING LEASES

The School leases portable units for classroom space under a non-cancellable operating lease agreement, which expired on January 12, 2019. The School commenced a new lease with the Tuskawilla Methodist Church under a cost sharing agreement, which began August 1, 2019 and expires on July 31, 2024. The School agreed to a monthly rate of $5,000 to lease portions of the church campus. The future minimum lease commitments for the School total $0 at July 31, 2019. In addition, the School leases various school facilities and a storage unit under month-to-month agreements ranging from $124 to $2,600, per month. Rent expense totaled $38,410 for the year ended July 31, 2019.

NOTE G – NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions at July 31, 2019, were as follows:

Use and time restrictions:		
Malone Family Foundation	$	78,180
Malone Family Grant – 2nd Initiative		4,022
	$	82,202

NOTE H – FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include utilities and depreciation, which are allocated on a square footage basis, as well as payroll, school scholarships, supplies, textbooks and subscriptions, advertising, repairs and maintenance, music and art, telephone, other expenses, insurance, and contract services, which are allocated on the basis of estimates of time and effort.

NOTE I – LIQUIDITY AND AVAILABILITY OF RESOURCES

The School's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

Cash and cash equivalents	$ 3,356
Accounts receivable	71,521
Total financial assets available within one year	74,877
Amounts unavailable for general expenditure:	
Within one year due to:	
Bank line of credit	(75,982)
Accounts payable and accrued expenses	(52,937)
Deferred revenue	(1,100)
Current portion of long-term debt	(4,539)
Total amounts of expenditures due within One year	(134,558)
Donor restricted net assets	(82,202)
Total financial assets (deficit) available within one year	$ (141,883)

As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. During the year ended July 31, 2019, the School's enrollment decreased by nine students to 95 students total, which factored into the financial deficit noted above. For the 2019-2020 school year, the School had an increase in enrollment to approximately 100 students which should increase cash flows by over $50,000. In addition, the School projects therapy payroll will decrease by approximately $100,000 during the current year through cost cutting measures. Also, it has approximately $24,000 available under its line of credit which could be accessed if the need arises.