# The Arbor School of Central Florida, Inc.

**Financial Statements**

**July 31, 2023 and 2022**

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# INDEPENDENT AUDITOR'S REPORT

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

## Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 the School as of July 31, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

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

## Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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.

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School'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.

**Report on Summarized Comparative Information**

We have previously audited The Arbor School of Central Florida, Inc.'s 2022 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss, Krusick & Associates, LLC*

Winter Park, Florida
October 20, 2023

**The Arbor School of Central Florida, Inc.**

**STATEMENTS OF FINANCIAL POSITION**

**July 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 560,744 | $ 212,279 |
| Investments | 143,013 | 200,267 |
| Accounts receivable | 20,975 | 43,768 |
| Total current assets | 724,732 | 456,314 |
| Operating lease ROU asset | 95,671 | - |
| Fixed assets, net | 28,820 | 37,392 |
| Total assets | $ 849,223 | $ 493,706 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITES** | | |
| Accounts payable | $ 9,629 | $ 11,572 |
| Accrued payroll and benefits | 52,612 | 13,049 |
| Operating lease liability | 40,456 | - |
| Deferred revenue | 13,530 | 16,796 |
| Current portion of note payable | 3,774 | 3,590 |
| Total current liabilities | 120,001 | 45,007 |
| Non-current operating lease liability | 55,215 | - |
| Notes payable, less current portion | 9,561 | 13,343 |
| Total liabilities | 184,777 | 58,350 |
| **NET ASSETS** | | |
| Without donor restrictions | 558,346 | 435,356 |
| With donor restrictions | 106,100 | - |
| Total net assets | 664,446 | 435,356 |
| Total liabilities and net assets | $ 849,223 | $ 493,706 |

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

**The Arbor School of Central Florida, Inc.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

**Year Ended July 31, 2023**
**(with summarized financial information for the year ended July 31, 2022)**

| | Without Donor Restrictions | Donor Restrictions | 2023 Total | 2022 Total |
|---|---|---|---|---|
| **REVENUE AND SUPPORT** | | | | |
| Tuition and fees: | | | | |
| Family Empowerment scholarships | $ 1,640,366 | $ - | $ 1,640,366 | $ 531,911 |
| John McKay scholarships | - | - | - | 1,092,294 |
| Tuition | 387,382 | - | 387,382 | 461,896 |
| School financial aid | 357,449 | - | 357,449 | 712,775 |
| Grants | 530,005 | - | 530,005 | - |
| Program income | 151,034 | - | 151,034 | 115,499 |
| Total tuition and fees | 3,066,236 | - | 3,066,236 | 2,914,375 |
| Investment income | 2,063 | - | 2,063 | - |
| Other | 39,344 | | 39,344 | 21,308 |
| Donations | 781 | 106,100 | 106,881 | - |
| Fundraising | 22,995 | - | 22,995 | 3,895 |
| Total revenue and support | 3,131,419 | 106,100 | 3,237,519 | 2,939,578 |
| **EXPENSES** | | | | |
| Program services: | | | | |
| Academic support | 1,451,336 | - | 1,451,336 | 1,297,288 |
| Student support | 1,153,227 | - | 1,153,227 | 1,347,486 |
| Supporting services: | | | | |
| Management and general | 314,783 | - | 314,783 | 277,099 |
| Fundraising | 89,083 | - | 89,083 | 81,872 |
| Total expenses | 3,008,429 | - | 3,008,429 | 3,003,745 |
| Changes in net assets | 122,990 | 106,100 | 229,090 | (64,167) |
| Net assets at beginning of year | 435,356 | - | 435,356 | 499,523 |
| Net assets at end of year | $ 558,346 | $ 106,100 | $ 664,446 | $ 435,356 |

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

**The Arbor School of Central Florida, Inc.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**Year Ended July 31, 2023**
**(with summarized financial information for the year ended July 31, 2022)**

| | Program Services | | Supporting Services | | | |
|---|---|---|---|---|---|---|
| | Academic Support | Student Support | Management and General | Fundraising | 2023 Total | 2022 Total |
| Payroll | $ 1,412,975 | $ 258,714 | $ 238,813 | $ 79,603 | $ 1,990,105 | $ 1,802,639 |
| School financial aid | - | 357,449 | - | - | 357,449 | 712,775 |
| Rent and utilities | - | 153,958 | 17,107 | - | 171,065 | 166,845 |
| Contract services | - | 95,904 | 19,643 | - | 115,547 | 57,969 |
| Supplies | - | 104,147 | 5,481 | - | 109,628 | 53,224 |
| Insurance | - | 88,278 | 9,809 | - | 98,087 | 77,436 |
| Other expense | - | 66,018 | 7,335 | - | 73,353 | 43,147 |
| Textbooks and subscriptions | 38,361 | - | - | - | 38,361 | 17,414 |
| Bad debt expense | - | - | 15,193 | - | 15,193 | 18,435 |
| Advertising | - | 10,680 | - | 562 | 11,242 | 30,933 |
| Telephone | - | 10,364 | 545 | - | 10,909 | 7,674 |
| Fundraising expense | - | - | - | 8,918 | 8,918 | 8,220 |
| Depreciation | - | 7,715 | 857 | - | 8,572 | 7,034 |
| | $ 1,451,336 | $ 1,153,227 | $ 314,783 | $ 89,083 | $ 3,008,429 | $ 3,003,745 |

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

**The Arbor School of Central Florida, Inc.**

**STATEMENTS OF CASH FLOWS**

**Year Ended July 31, 2023**

| | 2023 | 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in net assets | $ 229,090 | $ (64,167) |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation | 8,572 | 7,034 |
| Bad debt expense | 15,193 | 18,435 |
| Unrealized loss (gain) on investments, net | (76) | (267) |
| (Increase) decrease in assets: | | |
| Accounts receivable | 7,600 | (22,189) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (1,943) | 5,604 |
| Accrued payroll and benefits | 39,563 | (1,091) |
| Deferred revenue | (3,266) | 5,796 |
| Net cash provided by (used in) operating activities | 294,733 | (50,845) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investments | (337,937) | - |
| Proceeds from sale of investments | 395,267 | - |
| Purchase of fixed assets | - | (38,003) |
| Net cash provided by (used in) investing activities | 57,330 | (38,003) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds on line of credit | - | 45,000 |
| Payments on line of credit | - | (45,000) |
| Proceeds on notes payable | - | 19,235 |
| Payments on notes payable | (3,598) | (7,877) |
| Net cash (used in) provided by financing activities | (3,598) | 11,358 |
| Net increase (decrease) in cash and cash equivalents | 348,465 | (77,490) |
| Cash and cash equivalents, beginning of year | 212,279 | 289,769 |
| Cash and cash equivalents, end of year | $ 560,744 | $ 212,279 |
| **SUPPLEMENTAL DISCLOSURE** | | |
| Cash paid for interest | $ 541 | $ 396 |
| **SIGNIFICANT NON-CASH TRANSACTIONS - OPERATING LEASE** | | |
| ROU asset - implementation | $ 135,326 | $ - |
| Lease liability - implementation | (135,326) | - |
| ROU Asset - non cash rent | (2,345) | - |
| Lease liability - non cash rent | 2,345 | - |

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 may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

*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. However, if a restriction is fulfilled in the same time period in which the gifts of cash or other assets are received, the School reports the support as net assets without donor restrictions.

Some net assets with donor restrictions may 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.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Financial Instruments and Credit Risk

Financial instruments that potentially subject the School to concentrations of credit risk consist primarily of cash and short-term investments. The School maintains its cash and investments in banks which participate in the Federally Deposit Insurance Corporation (FDIC) Program. Balances are insured up to $250,000 per institution. At times, the account balances exceed the FDIC limit. However, the School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and investments.

8. Reclassifications

Certain reclassifications have been made to fiscal 2022 amounts based on fiscal 2023 presentation.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. 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. A full-time employee earns 12 days of PTO per school year and is allowed to carry over a maximum of 22 unused hours to the next school year. A part-time employee earns, on average, 12 hours of PTO per school year, and is allowed to carry over a maximum of 3 unused days to the next school year.

10. 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.

11. 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 $0 of donated services and equipment (in-kind non-financial revenue and expenses) for the years ended July 31, 2023 and 2022, respectively. In addition, management estimates that volunteers not meeting the above criteria donate considerable hours to the School's academic programs on an ongoing basis.

12. 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 Family Empowerment 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 $357,449 and $712,775 for the years ended July 31, 2023 and 2022, respectively, which represents full and partial scholarships to students. This scholarship amount is presented in the financial statements as both revenue and expense and titled School Financial Aid.

13. 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. Bad debt expense was $15,193 and $18,435 for the years ended July 31, 2023 and 2022, respectively, as certain accounts were deemed uncollectible and written-off. No allowance was considered necessary at July 31, 2023 and 2022.

14. 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 $13,530 and $16,796 received for fiscal 2023 and 2022 were deferred to the years ended 2024 and 2023, respectively.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended July 31, 2023 and 2022, was $11,242 and $30,933, respectively.

16. Revenue and Support Recognition

The School follows FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606), which 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 School also follows ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASC 958-605), which clarifies how transactions should be accounted for as contributions (nonreciprocal transactions) or exchange transactions and whether a contribution is conditional.

The School receives a majority of its revenue from tuition through private pay, and from McKay, Family Empowerment, and Step-Up for Students scholarships. The School recognizes revenue once it is earned in accordance with the tuition and scholarship agreement.

Contributions received are recorded as with donor and without donor restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are generally recognized as revenue when received or designated at a point in time and when any barriers to recognition have been overcome. Contributions received generally do not have a right of return. Gains and losses earned on investments are recognized upon changes in investment value.

17. Fair Value of Investments

U.S. GAAP for fair value measurements establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted market prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.

The carrying amounts of the School's financial assets and liabilities, such as cash and cash equivalents, investments, accounts receivable and payable, and note payable approximates their fair values because of the short maturity or market interest rates of these instruments.

18. Recent Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets*, which requires the monitoring and tracking of gifts in kind by asset category, while also noting any donor-imposed restrictions. The School adopted ASU No. 2020-07 effective August 1, 2021. The adoption has no significant impact on the School's financial statements.

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## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

19. Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842), 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 School adopted the lease standard August 1, 2022, using the optional transition method which applies the provisions of the standard at the effective date without adjusting the prior period. See Note G for a summary of the School's lease assets and liabilities.

20. 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 October 20, 2023.

## NOTE C – INVESTMENTS

Investments consist of two treasury bills with maturity dates of August 1 and 24, 2023. The fair value was determined by the bank. Upon maturity, the funds were transferred to the School's operating bank account. The following table presents the School's fair value hierarchy for those assets measured at fair value on a recurring basis as of July 31:

| | Fair Value Measurements as of July 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| U.S. treasury securities | $ 143,013 | $ - | $ - | $ 143,013 |
| Total investments | $ 143,013 | $ - | $ - | $ 143,013 |

| | Fair Value Measurements as of July 31, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Certificates of deposit | $ - | $ 200,267 | $ - | $ 200,267 |
| Total investments | $ - | $ 200,267 | $ - | $ 200,267 |

Investment income of $2,063 and $267 for the years ended July 31, 2023 and 2022, respectively, consists primarily of interest income.

## 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 November 2021 and matures in December 2024. The line accrues interest at a rate of 8.25%, with interest only, payable monthly. The line is secured by the School's real property. The outstanding balance on the line at July 31, 2023 and 2022 was $0.

## NOTE E – FIXED ASSETS

Fixed assets consisted of the following at July 31:

| | 2023 | 2022 |
|---|---|---|
| Machinery and equipment | $ 90,174 | $ 90,174 |
| Furniture and fixtures | 14,459 | 14,459 |
| Total fixed assets | 104,633 | 104,633 |
| Less: accumulated depreciation | (75,813) | (67,241) |
| Net fixed assets | $ 28,820 | $ 37,392 |

Depreciation expense for the year ended July 31, 2023 and 2022, was $8,572 and $7,034, respectively.

## NOTE F – NOTES PAYABLE

Long-term notes payable at July 31 consisted of the following:

| | 2023 | 2022 |
|---|---|---|
| Note payable, Fairwinds National Bank, $363 payable monthly, including interest at 5%, maturing November 2026, collateralized by equipment. | $ 13,335 | $ 16,933 |
| Less current portion: | (3,774) | (3,590) |
| | $ 9,561 | $ 13,335 |

Maturities of note payable for years succeeding July 31, 2023 are as follows:

| | |
|---|---|
| 2024 | $ 3,774 |
| 2025 | 3,967 |
| 2026 | 4,170 |
| 2027 | 1,424 |
| Total | $ 13,335 |

## NOTE G – OPERATING LEASES

The School commenced a 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 lease expense related to the Tuskawilla facility totaled $60,000 for each fiscal years 2023 and 2022. As the lease will be terminated in October 2023, it was not capitalized under ASC 842 as it is short-term.

The School commenced a lease for the Spring Villas facility with the Community Bank of Raymore Missouri, which began December 1, 2020 and expires on November 30, 2025. The School agreed to a monthly rate of $3,500 to lease the facility. The lease expense related to the Spring Villas facility totaled $42,000 and $45,500 for fiscal 2023 and 2022, respectively. The lease is the only lease required to be included on the statement of financial position under ASC 842. As a result of adopting ASC 842, the School recorded a lease right-of-use asset and lease liability of $135,326 as of August 1, 2022 for the net present value of future lease payments. The adoption had no impact to prior year statement of activity information, and because the lease is an operating lease, no impact on changes in net assets.

The School has elected to apply the short-term lease exception to all leases with a term of one year or less. As of July 31, 2023, the School had one short-term lease as stated above.

As of July 31, 2023, the right-of-use (ROU) asset had a balance of $95,671, as shown in non-current assets on the statement of financial position; the lease liability is included in current liabilities ($40,456) and long-term liabilities ($55,215). The lease asset and liability were calculated utilizing a risk-free discount rate (2%), according to the School's elected policy.

Additional information about the School's leases are as follows:

| | |
|---|---|
| Lease costs (included in rent): | |
| Operating lease cost | $ 39,655 |
| Total lease cost | $ 39,655 |
| Other information: | |
| Cash paid for amounts included in measuring operating lease liability: | |
| Operating cash flows from operating lease | $ 42,000 |
| Total cash paid for amounts included in measuring operating lease liability | $ 42,000 |

The difference of $2,345 between rent expense and rent paid is non cash rent.

In addition, the School leases various facilities and a storage unit under month-to-month agreements ranging from $124 to $2,600, per month. Total lease expense for all leases was $107,185 and $108,408 for fiscal 2023 and 2022, respectively, and is included in rent and utilities on the statement of functional expenses.

## NOTE G – OPERATING LEASES (continued)

Maturities of operating lease liabilities as of July 31 are as follows:

| | |
|---|---|
| 2024 | $ 42,000 |
| 2025 | 42,000 |
| 2026 | 14,000 |
| Total lease payments | 98,000 |
| Less: interest | (2,329) |
| Present value of lease liability | $ 95,671 |

## 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 – EMPLOYEE RETENTION TAX CREDIT (ERTC)

Under the provision of the CARES Act, the School's customers were eligible for refundable employee retention tax credit subject to certain criteria. The School recognized $489,620 of ERTC revenue during the year ended July 31, 2022, based on applications submitted to the Internal Revenue Service by its clients. The ERTC refund was received in fiscal 2023.

## NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at July 31, 2023 and the activity during 2022, are as follows:

| | July 31, 2022 | 2022 - 2023 Proceeds | 2022 - 2023 Released | July 31, 2023 |
|---|---|---|---|---|
| Capital Building Fund Donations | $ - | $ 106,100 | $ - | $ 106,100 |
| | $ - | $ 106,100 | $ - | $ 106,100 |

During fiscal year 2023, the School received donations totaling $106,100 to establish and facilitate a capital campaign for the use of a new building for the School. As of July 31, 2023, none of the donations have been expended and released from restrictions.

## NOTE K – 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 | $ 560,744 |
| Investments | 143,013 |
| Accounts receivable | 20,975 |
| Total financial assets available within one year | 724,732 |
| Amounts unavailable for general expenditure within one year due to: | |
| Accounts payable | (9,629) |
| Accrued payroll | (52,612) |
| Deferred revenue | (13,530) |
| Current portion of lease liability | (40,456) |
| Current portion of long-term debt | (3,774) |
| Donor restricted net assets | (106,100) |
| Total financial liabilities due within one year and donor restricted net assets | (226,101) |
| Total net financial assets available within one year | $ 498,631 |

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. Also, the School has approximately $100,000 available under its line of credit which could be accessed if the need arises.