The Arbor School of
Central Florida, Inc.

Financial Statements

July 31, 2022 and 2021

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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, 2022, 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, 2022, 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.

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 2021 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2021, 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 14, 2022

The Arbor School of Central Florida, Inc.

STATEMENTS OF FINANCIAL POSITION

July 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 212,279	$ 289,769
Investments	200,267	200,000
Accounts receivable	43,768	40,014
Total current assets	456,314	529,783
Fixed assets, net	37,392	6,423
Total assets	$ 493,706	$ 536,206
LIABILITIES AND NET ASSETS		
CURRENT LIABILITES		
Accounts payable	$ 11,572	$ 5,968
Accrued payroll and benefits	13,049	14,140
Deferred revenue	16,796	11,000
Current portion of note payable	3,590	4,873
Total current liabilities	45,007	35,981
Notes payable, less current portion	13,343	702
Total liabilities	58,350	36,683
NET ASSETS		
Without donor restrictions	435,356	499,523
Total net assets	435,356	499,523
Total liabilities and net assets	$ 493,706	$ 536,206

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

Years Ended July 31, 2022 and 2021

	2022	2021
REVENUE AND SUPPORT		
Tuition and fees:		
John McKay scholarships	$ 1,092,294	$ 972,044
Tuition	461,896	342,850
Family Empowerment scholarships	531,911	422,421
School financial aid	712,775	527,496
Grants	-	44,268
Program income	115,499	61,290
Total tuition and fees	2,914,375	2,370,369
PPP debt forgiveness	-	531,750
Other	21,308	23,051
In-kind contributions (non-financial assets)	-	11,220
Fundraising	3,895	804
Total revenue and support	2,939,578	2,937,194
EXPENSES		
Program services:		
Academic support	1,297,288	995,520
Student support	1,347,486	1,017,485
Supporting services:		
Management and general	277,099	255,570
Fundraising	81,872	59,841
Total expenses	3,003,745	2,328,416
Change in net assets	(64,167)	608,778
Net assets (deficit) at beginning of year	499,523	(109,255)
Net assets at end of year	$ 435,356	$ 499,523

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, 2022
(with summarized financial information for the year ended July 31, 2021)

	Program Services		Supporting Services			
	Academic Support	Student Support	Management and General	Fundraising	2022 Total	2021 Total
Payroll	$ 1,279,874	$ 234,343	$ 216,317	$ 72,105	$ 1,802,639	1,382,000
School financial aid	-	712,775	-	-	712,775	527,496
Rent and utilities	-	150,160	16,685	-	166,845	130,464
Insurance	-	69,692	7,744	-	77,436	55,017
Contract services	-	48,114	9,855	-	57,969	49,684
Supplies	-	50,563	2,661	-	53,224	39,483
Other expense	-	38,832	4,315	-	43,147	38,221
Advertising	-	29,386	-	1,547	30,933	4,668
Bad debt expense	-	-	18,435	-	18,435	55,052
Textbooks and subscriptions	17,414	-	-	-	17,414	14,300
Fundraising expense	-	-	-	8,220	8,220	3,767
Telephone	-	7,290	384	-	7,674	7,554
Depreciation	-	6,331	703	-	7,034	9,490
In-kind (non-financial)	-	-	-	-	-	11,220
	$ 1,297,288	$ 1,347,486	$ 277,099	$ 81,872	$ 3,003,745	$ 2,328,416

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

The Arbor School of Central Florida, Inc.

STATEMENTS OF CASH FLOWS

Years Ended July 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (64,167)	$ 608,778
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities:		
Depreciation	7,034	9,490
Bad debt expense	18,435	55,052
Unrealized gain on investments	(267)	-
Debt forgiveness	-	(531,750)
(Increase) decrease in assets:		
Accounts receivable	(22,189)	(40,977)
Increase (decrease) in liabilities:		
Accounts payable	5,604	(11,256)
Accrued payroll and benefits	(1,091)	(21,557)
Deferred revenue	5,796	7,000
Net cash (used in) provided by operating activities	(50,845)	74,780
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(200,000)
Purchase of fixed assets	(38,003)	-
Net cash used in investing activities	(38,003)	(200,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on line of credit	45,000	-
Payments on line of credit	(45,000)	-
Proceeds from Paycheck Protection Program	-	279,850
Proceeds on notes payable	19,235	-
Payments on notes payable	(7,877)	(5,892)
Net cash provided by financing activities	11,358	273,958
Net (decrease) increase in cash and cash equivalents	(77,490)	148,738
Cash and cash equivalents, beginning of year	289,769	141,031
Cash and cash equivalents, end of year	$ 212,279	$ 289,769
Supplemental Disclosure		
Cash paid for interest	$ 396	$ 308

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. <u>Basis of Accounting</u>

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. <u>Basis of Presentation</u>

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. 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.

9. 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.

10. 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 and $11,220 of donated services and equipment (in-kind non-financial revenue and expenses) for the years ended July 31, 2022 and 2021, 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.

11. 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 $712,775 and $527,496 for the years ended July 31, 2022 and 2021, 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.

12. 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 $18,435 and $55,052 for the years ended July 31, 2022 and 2021, respectively, as certain accounts were deemed uncollectible and written-off. No allowance was considered necessary at July 31, 2022 and 2021.

13. 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 $16,796 and $11,000 received for fiscal 2022 and 2021 were deferred to the years ended 2023 and 2022, respectively.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended July 31, 2022 and 2021, was $30,933 and $4,668, respectively.

15. 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.

16. 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.

17. 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)

17. Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued 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, 2021. The School is evaluating the potential effects ASU 2016-02 will have on its financial statements

18. 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 14, 2022.

NOTE C – INVESTMENTS

Investments consist of a 6-month, 0.07% interest bearing, bank certificate of deposit with a maturity date of October 2, 2022. 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, 2022			
	Level 1	Level 2	Level 3	Total
Certificate of deposit	$ -	$ 200,267	$ -	$ 200,267

	Fair Value Measurements as of July 31, 2021			
	Level 1	Level 2	Level 3	Total
Certificate of deposit	$ -	$ 200,000	$ -	$ 200,000

Unrealized gain on investments for the fiscal year ended July 31, 2022 consists of interest income of $267 and is included in other on the statements of activities and changes in net assets.

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, 2022 and 2021 was $0.

NOTE E – FIXED ASSETS

Fixed assets consisted of the following at July 31:

	2022	2021
Machinery and equipment	$ 90,174	$ 52,171
Furniture and fixtures	14,459	14,459
Total fixed assets	104,633	66,630
Less: accumulated depreciation	(67,241)	(60,207)
Net fixed assets	$ 37,392	$ 6,423

Depreciation expense for the year ended July 31, 2022 and 2021, was $7,034 and $9,490, respectively.

NOTE F – NOTES PAYABLE

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

	2022	2021
Note payable, Fairwinds National Bank, $363 payable monthly, including interest at 5%, maturing November 2026, collateralized by equipment.	$ 16,933	$ -
Note payable, Seacoast National Bank, $419 payable monthly, including interest at 3.49%, maturing November 2022, collateralized by equipment.	-	5,575
	16,933	5,575
Less current portion:	(3,590)	(4,873)
	$ 13,343	$ 702

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

2023	$ 3,590
2024	3,774
2025	3,967
2026	4,170
2027	1,432
Total	$ 16,933

NOTE G – PAYCHECK PROTECTION PROGRAM LOAN

On March 27, 2020, the Coronavirus Aid Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. Under the CARES Act, the Paycheck Protection Program was established to provide assistance to small businesses with resources needed to maintain payroll and cover applicable overhead. On April 17, 2020 and January 22, 2021, the School, through a financial institution, was approved for and received loans in the amount of $251,900 and $279,850, respectively, under this program. The proceeds of these loans were primarily used for payroll, leases, and utility costs. In January and February 2021, the loans were forgiven and are reflected as PPP debt forgiveness in the 2021 financial statements.

NOTE H – 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 fiscal 2022 and $60,000 for fiscal 2021.

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 $45,500 for fiscal 2022 and $28,000 for fiscal 2021.

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 $108,408 and $89,546 for fiscal 2022 and fiscal 2021, respectively, and is included in rent and utilities on the statement of functional expenses.

Future minimum lease payments are the following for the fiscal years ending July 31:

2023	$ 102,000
2024	102,000
2025	42,000
2026	17,500
Total	$ 263,500

NOTE I – 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 J – 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	$ 212,279
Investments	200,267
Accounts receivable	43,768
Total financial assets available within one year	456,314
Amounts unavailable for general expenditure within one year due to:	
Accounts payable and accrued expenses	(24,621)
Deferred revenue	(16,796)
Current portion of long-term debt	(3,590)
Lease payments	(102,000)
Total amounts of expenditures due within one year	(147,007)
Total financial assets available within one year	$ 309,307

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.

NOTE K – RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the School's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation.