The New Key School, Inc. dba Key School and Training Center

Financial Statements
July 31, 2023
(with Summarized Comparative Totals for July 31, 2022)

SFC
Certified Public Accountants

The New Key School, Inc. dba Key School and Training Center
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Independent Auditors' Report

To the Board of Directors of
The New Key School, Inc. dba Key School and Training Center

Opinion

We have audited the accompanying financial statements of The New Key School, Inc. dba Key School and Training Center (a nonprofit organization) (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 its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit 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 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 GAAP, 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.

Auditors' Responsibilities for the Audit of 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, including omissions, 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 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

The financial statements of the School as of and for the year ended July 31, 2022, were audited by other auditors whose report dated February 16, 2023, expressed an unmodified opinion on those statements. 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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 16, 2024

The New Key School, Inc. dba Key School and Training Center
Statement of Financial Position
July 31, 2023
(with comparative totals for 2022)

	2023	2022 Comparative Totals
Assets		
Current assets:		
Cash and cash equivalents	$ 2,173,714	$ 1,837,831
Accounts receivable, net	8,805	18,984
Unconditional promises to give, net	33,750	122,191
Prepaid expenses	55,197	87,378
Total current assets	2,271,466	2,066,384
Noncurrent assets:		
Property and equipment, net	9,175,224	9,154,509
Goodwill	410,288	410,288
Total noncurrent assets	9,585,512	9,564,797
Total assets	$ 11,856,978	$ 11,631,181
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 59,774	$ 66,542
Deferred revenue	765,145	233,855
Notes payable	-	95,000
Total liabilities	824,919	395,397
Net assets:		
Without donor restrictions:	10,780,761	10,867,971
With donor restrictions	251,298	367,813
Total net assets	11,032,059	11,235,784
Total liabilities and net assets	$ 11,856,978	$ 11,631,181

See notes to financial statements.

The New Key School, Inc. dba Key School and Training Center
Statement of Activities
Year Ended July 31, 2023
(with comparative totals for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Totals
Revenue and support:				
Tuition and fees, net of financial aid, scholarships and discounts of $163,510 for 2023	$ 2,364,454	$ -	$ 2,364,454	$ 1,934,887
Contributions of financial assets	362,583	316,368	678,951	1,162,759
Contributions of nonfinancial assets	14,402	-	14,402	46,307
Other program service revenue	93,278	-	93,278	17,507
Government grant	123,298	-	123,298	404,298
Other income	112,040	-	112,040	3,000
Interest income	18,976	-	18,976	1,860
Net assets released from restriction	432,883	(432,883)	-	-
Total revenue and support	3,521,914	(116,515)	3,405,399	3,570,618
Operating expenses:				
Program services	2,883,525	-	2,883,525	2,559,108
Management and general	435,706	-	435,706	358,263
Fundraising	289,893	-	289,893	211,186
Total operating expenses	3,609,124	-	3,609,124	3,128,557
Change in net assets from operations	(87,210)	(116,515)	(203,725)	442,061
Non-operating income (loss):				
Loss on sale of property	-	-	-	(68,364)
Change in net assets	(87,210)	(116,515)	(203,725)	373,697
Net assets, beginning of year	10,867,971	367,813	11,235,784	10,862,087
Net assets, end of year	$ 10,780,761	$ 251,298	$ 11,032,059	$ 11,235,784

See notes to financial statements.

The New Key School, Inc. dba Key School and Training Center
Statement of Functional Expenses
Year Ended July 31, 2023
(with comparative totals for 2022)

	2023				2022
	Program Services	Management and General	Fundraising	Total	Comparative Totals
Salaries and related benefits	$ 1,923,184	$ 181,006	$ 158,380	$ 2,262,570	$ 1,987,397
Advertising	46,629	3,323	2,567	52,519	25,070
Bank fees	6,167	2,327	653	9,147	14,143
Classroom materials	29,096	-	-	29,096	30,315
Curriculum development	102,159	-	-	102,159	37,981
Depreciation	227,946	21,454	18,772	268,172	237,973
Direct student services	1,176	-	-	1,176	3,197
Equipment and maintenance	249,934	23,523	20,583	294,040	132,474
Equipment and technology	18,747	5,506	969	25,222	9,399
Insurance	23,750	2,235	1,956	27,941	29,039
Membership dues and subscriptions	490	2,037	894	3,421	5,452
Miscellaneous	2,092	43,914	16,799	62,805	62,743
Miscellaneous educational	42,146	-	-	42,146	6,222
Occupancy	51,943	4,424	3,871	60,238	81,333
Printing, publications and artwork	7,541	9,108	706	17,355	24,939
Professional development and planning	46,519	12,047	8,257	66,823	22,845
Professional fees	4,984	110,354	32,500	147,838	215,036
Student dietary	10,184	1,080	-	11,264	2,121
Supplies and postage	71,796	11,761	21,634	105,191	158,277
Taxes	-	-	-	-	20,910
Telephone	16,414	1,545	1,352	19,311	21,388
Travel	628	62	-	690	303
Total expenses	$ 2,883,525	$ 435,706	$ 289,893	$ 3,609,124	$ 3,128,557

See notes to financial statements.

The New Key School, Inc. dba Key School and Training Center
Statement of Cash Flows
Year Ended July 31, 2023
(with comparative totals for 2022)

	2023	2022 Comparative Totals
Cash flows from operating activities:		
Change in net assets	$ (203,725)	$ 373,697
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	268,172	237,973
Loss on sale of property	-	68,364
Discount on unconditional promises to give	(1,186)	-
Changes in operating assets and liabilities:		
Accounts receivable	10,179	32,913
Unconditional promises to give	89,627	86,083
Prepaid expenses	32,181	(51,265)
Accounts payable and accrued liabilities	(6,768)	(1,071,523)
Deferred revenue	531,290	(3,459)
Net cash provided (used) by operating activities	719,770	(327,217)
Cash flows from investing activities:		
Purchases of property and equipment	(288,887)	(1,438,428)
Net cash used by investing activities	(288,887)	(1,438,428)
Cash flows from financing activities:		
Payments of notes payable	(95,000)	-
Net cash used by financing activities	(95,000)	-
Change in cash and cash equivalents	335,883	(1,765,645)
Cash and cash equivalents, beginning of year	1,837,831	3,603,476
Cash and cash equivalents, end of year	$ 2,173,714	$ 1,837,831

See notes to financial statements.

1. Organization

The New Key School, Inc. dba Key School and Training Center (School) was incorporated in 2005 as a Texas not-for-profit (NFP) organization. The School utilizes specialized curriculum, teaching methodologies and other proprietary information to provide ongoing education to students in kindergarten through 12th grade that have exhibited signs of learning differences or learning disabilities.

The School obtains its support from tuition, fees and donations from the general public.

The Training Center is an additional program designed to offer community educational workshops in the area of learning differences. The Training Center also delivers the Key Dyslexia Therapy Training program that offers in-depth, multi-sensory structured training for educators interested in working with children or adults having dyslexia or related disorders.

2. Summary of Significant Policies

Basis of Accounting

The School prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Summarized Comparative Totals

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended July 31, 2022, from which the summarized information was derived.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of trustees.

Net assets with donor restrictions - Net assets subject to donor and grantor-imposed restrictions that will be met by actions of the School and/or the passage of time.

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 of directors approved spending policy. As of July 31, 2023, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and unconditional promises to give. The School maintains cash balances at various financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to $250,000. At July 31, 2023, the School's uninsured balances totaled $1,897,163. Management has placed these funds with high credit quality financial institutions to minimize risk. The School has not experienced any losses on such assets.

Accounts receivable consist primarily of billings for tuition and education related fees and are stated at the amount the School expects to collect on outstanding balances. The School continually evaluates the collectability of accounts receivable and maintains allowances for potential losses if considered necessary. At July 31, 2023, allowance for bad debt totaled $1,475.

Unconditional promises to give are unsecured and are due from various donors. The School continually evaluates the collectability of unconditional promises to give and maintains allowances for potential losses if considered necessary. At July 31, 2023, no allowance was considered necessary. Unconditional promises to give are due within one year. At July 31, 2023, 100% of pledges receivable were due from three donors.

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a remaining maturity of three months or less to be cash and cash equivalents.

Property and Equipment

Property and equipment purchased by the School are recorded at cost or if acquired by gift, fair market value at the date of the gift. The School follows the practice of capitalizing all expenditures for property and equipment in excess of $5,000; the fair value of donated property and equipment is similarly capitalized. Depreciation is calculated using the straight-line method based upon the estimated useful lives of the assets.

Maintenance, repairs and replacements which do not improve or extend the lives of the respective assets are charged to operations when incurred.

Impairment of Long-Lived Assets

Management of the School periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. Fair value is determined based on the estimated future cash outflows. No such loss was recognized during the year ended July 31, 2023.

Goodwill

The initial identification and evaluation of goodwill and the determination of estimated useful lives at the time of acquisition involves the use of management judgments and estimates. Management evaluates the recoverability of goodwill periodically by taking into account events of circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. The fair value of the School's goodwill is estimated and compared to its carrying value.

Revenue Recognition

Revenue is primarily derived from tuition and fees. Tuition and fees are recognized as revenue over time in the period which the academic services are rendered. Tuition and fees received in advance of services rendered are recorded as deferred revenue.

Revenue is reported at the amount of consideration which the School expects to be entitled in exchange for providing academic services. The School determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students.

The School recognizes contributions when cash, securities, other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

The School receives contributions of nonfinancial assets in the normal course of business. Donated services meeting certain requirements (as defined by GAAP) are reported as contributions at the time the service is performed at the estimated fair value of such service. Donated goods are reported as contributions at their estimated fair value at the time of receipt. Contributions of nonfinancial assets are described in Note 9.

Advertising Costs

Advertising costs are expensed as incurred. For the year ended July 31, 2023, advertising costs were approximately $53,000.

Federal Income Tax

The School is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the School's exempt purposes is subject to tax under IRC Section 511. The School had no unrelated business income for the year ended July 31, 2023. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the School's tax return and recognition of a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the School, and has concluded that as of July 31, 2023, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Allocation of Functional Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the various functions benefited. 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. Salaries and personnel expenses are recorded based on actual segregation of personnel by function. Certain indirect expenses are allocated to various functions in accordance with the salaries and related personnel allocation. Distribution of all other expenses is based on actual usage or management's estimates of usage applicable to conducting various functional activities.

Estimates and Assumptions

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

Accounting Pronouncements Adopted

The School adopted ASU No. 2016-02, *Leases* (topic 842). The guidance in the ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The ASU also required expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2018-11, *Leases* (Topic 842) – *Targeted Improvements* – provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The School determined that the current lease obligations would not fall under the scope of the new lease standard and were not significant enough to be recorded in accordance with the standard.

Reclassification

Certain items in the 2022 financial statements have been reclassified to conform to current year classifications, specifically, contributions of nonfinancial assets in the statement of activities. Such reclassifications had no effect on previously reported changes in net assets.

3. Unconditional Promises to Give

Contributions to the School are recognized when the donor makes a promise to give that is, in substance, unconditional. These unconditional promises to give are expected to be collected in one year, are received from various sources and totaled $33,750 at July 31, 2023.

4. Property and Equipment

Property and equipment consist of the following at July 31, 2023:

Building	$ 8,474,563
Equipment	470,659
Furniture and fixtures	55,734
Land	800,000
Land improvements	117,906
Library books	10,251
Vehicles	46,307
	9,975,420
Accumulated depreciation	(800,196)
	$ 9,175,224

Depreciation expense for the year ended July 31, 2023 totaled $268,172.

5. Goodwill

In 2005, the School acquired various assets and assumed various liabilities of a predecessor organization, Key School, Inc. (Seller), by agreeing to a total purchase price of $600,000, to be paid in a combination of cash and notes payable upon the accomplishment of certain objectives by the Seller. At that time, the School recognized only the cash payments made according to the terms of the agreement, which resulted in $277,000 of assets being recorded and $33,000 of goodwill, representing the cost of deferred revenue recorded by the School.

In 2015, in connection with an amendment to the original agreement, the School recorded an additional note payable for the remaining unpaid balance of the agreed upon purchase price, resulting in recognition of additional goodwill of $377,288.

The School evaluates goodwill for impairment annually or when indicators of a potential impairment are present. There were no indications of impairment during the year ended July 31, 2023.

As of July 31, 2023, goodwill totaled $410,288.

6. Deferred Revenue

Deferred revenue consists of funds paid in advance for subsequent year tuition and fees. The following table provides information about significant changes in deferred revenue as of July 31, 2023:

Deferred revenue, beginning of year	$	233,855
Revenue recognized that was included in deferred revenue at the beginning of year		(233,855)
Increase in deferred revenue due to cash received during the year for subsequent year services		765,145
Deferred revenue, end of year	$	765,145

7. Net Assets With Donor Restrictions

Net assets with donor restrictions consists of the following at July 31, 2023:

Arts	$	4,000
Curriculum development		43,683
Equipment		5,833
Financial aid		8,058
Grants		6,933
Marketing and advertising		26,498
Music		1,640
Personnel		100,000
Research analyst		35,772
Technology		8,073
Training		10,808
	$	251,298

8. Related Party Transactions

The School received $215,431 in contributions from board members and employees during the year ended July 31, 2023.

The School paid for $135,755 in services from related parties for repairs during the year ended July 31, 2023.

9. Contributed Nonfinancial Assets

During the year ended July 31, 2023, the School received contributed goods totaling $14,402. The goods were utilized for fundraising during the year of receipt. Contributed goods are valued based on the fair market value of similar goods.

There were no donor restrictions on the contributions of nonfinancial assets received during the years ended July 31, 2023.

10. Liquidity and Availability of Resources

The School's financial assets available for general expenditure within one year of the statement of financial position date are as follows as of July 31, 2023:

Cash and cash equivalents	$ 2,173,714
Accounts receivable, net	8,805
Unconditional promises to give, net	33,750
	2,216,269
Less amounts not availabe for general expenditures within one year:	
Donor restricted	(251,298)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,964,971

The School manages its cash available to meet general expenditures following guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to pay liabilities as they come due.

11. Subsequent Events

The School has evaluated subsequent events through January 16, 2024, the date the financial statements were available to be issued and concluded that no additional disclosures are required.