KIDS EXCEL EL PASO, INC.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED AUGUST 31, 2021

KIDS EXCEL EL PASO, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2021

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GIBSON RUDDOCK PATTERSON LLC
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kids Excel El Paso, Inc.

We have audited the accompanying financial statements of Kids Excel El Paso, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities, 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.

Auditor's 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 auditor's 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 Kids Excel El Paso, Inc. as of August 31, 2021, 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.

Gibson Ruddock Patterson LLC

El Paso, Texas
December 14, 2022

KIDS EXCEL EL PASO, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2021

ASSETS	
Current Assets	
Cash and cash equivalents	$ 26,631
Contributions receivable	4,545
Unconditional promises to give, short-term	70,833
Prepaid expenses	2,739
Total current assets	104,748
Unconditional promises to give, long-term	60,000
Property and equipment, net	870,557
Deposits	150
Total assets	$ 1,035,455
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 14,632
Accrued liabilities	46,784
Deferred revenue	16,000
Current portion - long-term debt	32,265
Total current liabilities	109,681
Non-current Liabilities	
Long-term debt, net of current portion	487,581
Forgivable Paycheck Protection Program Loan	161,191
Total non-current liabilities	648,772
Total liabilities	758,453
Net Assets	
Without donor restrictions	146,169
With donor restrictions	130,833
Total net assets	277,002
Total liabilities and net assets	$ 1,035,455

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

KIDS EXCEL EL PASO, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	$ 180,547	$ 130,833	$ 311,380
Contracts with school districts	97,490	-	97,490
Federal and State grants	22,906	-	22,906
In-kind contributions	1,500	-	1,500
Special event revenue	-	-	-
Less: Costs of direct benefits to donors	-	-	-
Net special event revenue	-	-	-
Dividends and interest	1,931	-	1,931
Net assets released from restrictions	140,725	(140,725)	-
Total revenue, support, and gains	445,099	(9,892)	435,207
Expenses			
Program services	520,505	-	520,505
Supporting			
Management and general	126,145	-	126,145
Fundraising	24,621	-	24,621
Total expenses	671,271	-	671,271
Change in net assets	(226,172)	(9,892)	(236,064)
Net assets beginning of the year, restated	372,341	140,725	513,066
Net assets, end of year	$ 146,169	$ 130,833	$ 277,002

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

KIDS EXCEL EL PASO, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2021

	Program Services	Supporting: Management and General	Supporting: Fundraising	Total
Payroll and related expenses:				
Salaries	$ 372,031	$ 80,057	$ 18,837	$ 470,925
Employee benefits	17,436	3,752	883	22,071
Payroll taxes	29,051	6,251	1,471	36,773
Total payroll and related expenses	418,518	90,060	21,191	529,769
Bad debt	-	-	166	166
Bank charges and fees	-	2,019	-	2,019
Dues and subscriptions	-	162	-	162
Insurance	8,191	3,511	-	11,702
Information technology	3,993	705	-	4,698
Interest	30,644	7,278	383	38,305
Meetings	881	881	-	1,762
Occupancy	8,099	1,924	101	10,124
Office expenses	16,541	7,634	1,272	25,447
Professional fees	5,055	5,177	460	10,692
Program supplies & services	2,643	-	-	2,643
Promotional	2,935	209	1,048	4,192
Repairs and maintenance	2,891	1,556	-	4,447
Total expenses before depreciation	500,391	121,116	24,621	646,128
Depreciation	20,114	5,029	-	25,143
Total functional expenses	$ 520,505	$ 126,145	$ 24,621	$ 671,271

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

KIDS EXCEL EL PASO, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31, 2021

Cash flows from operating activities:		
Change in net assets	$	(236,064)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation		25,143
(Increase) decrease in operating assets:		
Contributions receivable		(2,133)
Unconditional promises to give, short-term		49,892
Unconditional promises to give, long-term		(40,000)
Prepaid expenses		1,963
Increase (decrease) in operating liabilities:		
Accounts payable		8,893
Accrued expenses		9,104
Deferred revenue		16,000
Net cash provided by (used for) operating activities		(167,202)
Cash flows from investing activities:		
Purchase of property and equipment		(18,746)
Net cash provided by (used for) investing activities		(18,746)
Cash flows from financing activities:		
Proceeds from forgivable loan		80,595
Payments on debt		(29,306)
Net cash provided by (used for) financing activities		51,289
Net change in cash and cash equivalents		(134,659)
Cash and cash equivalents at beginning of year		161,290
Cash and cash equivalents at end of year	$	26,631
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$	38,992

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities - Kids Excel El Paso, Inc. ("KEEP", the Organization, us, we, our) is a not-for-profit corporation incorporated on July 9, 2004, under the laws of the State of Texas. The mission of KEEP is to use its distinct dance programs to help children develop discipline, a standard of excellence, and self-confidence that will positively impact their education and all aspect of their lives - one dance step at a time. We fulfill our mission by providing in-school dance programs in the El Paso, Texas region to elementary aged children with a concentration on children who are economically disadvantaged.

Basis of Accounting Presentation - The accompanying financial statements have been prepared and presented on the accrual basis of accounting and conform with the accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when they are earned. Expenses are recognized when the related liability for payment is incurred.

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

> *Net Assets Without Donor Restrictions* - Net assets without donor restrictions represent resources available for use in general operations and not subject to donor (or certain grantor) restrictions.
>
> *Net Assets With Donor Restrictions* - Net assets with donor restrictions represent resources that are subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Operating revenues and expenses are directly related to providing art education services.

Disclosures about the Fair Value of Financial Instruments - Due to the short-term nature of the accounts, certain assets and liabilities such as cash, contributions receivable, unconditional promises to give, prepaid expenses, accounts payables, accrued liabilities, and deferred revenue are carried at values that we believe approximate fair value.

Management Estimates and Assumptions - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates, and those differences could be material.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restrict by donors/grantors for long term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects or other long-term purposes are excluded from this definition.

Financial Instruments and Credit Risk - We manage deposit concentration risk by placing cash with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, we have not experienced any losses in any of these accounts.

We maintain cash balances at financial institutions whose cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. We believe that no significant credit risk exists with respect to cash. At August 31, 2021, our cash balance with this bank did not exceed the FDIC insured limit of $250,000.

Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and organizations supportive of our mission.

Contracts Receivable - Contract receivable consist primarily of noninterest-bearing amounts due from government entities for services provided. We determine the allowance for uncollectible contracts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. As of August 31, 2021, all contracts were paid in full. Accordingly, there was no allowance for doubtful accounts related to contracts receivable.

Contributions Receivable - Contributions receivable are stated at net realizable value. We determined the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. During the year, contributions receivable are written off when deemed uncollectible which we believe approximates the allowance for doubtful accounts method. As of August 31, 2021, we consider all contributions receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded.

Unconditional Promises to Give - We record unconditional promises to give when we receive in writing, a promise to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value technique incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the state of activities. We determine the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review for subsequent collections. Unconditional promises to give are written off when deemed uncollectible. At August 31, 2021, we considered unconditional promises to give to be fully collectible. Accordingly, there was no allowance for doubtful accounts related to unconditional promises to give.

Conditional promises to give are not included as support until the conditions are substantially met.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - We record property and equipment additions with a useful life greater than one year and over $1,000 at cost, or if donated, at the fair value on the date of donation. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Contributions of property and equipment or cash restricted for acquisition of property and equipment are reported as net assets with donor restrictions, if the donor has restricted the use of the property or equipment to a particular program. If the donor specifies a length of time over which the property or equipment must be used, the restrictions expire evenly over the required period. Absent that type of restriction for use, we consider the restriction met when the assets are placed in service. When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets with donor restrictions to net assets without donor restrictions.

Property and equipment acquired by us are considered to be owned by us. However, federal and state funding sources may maintain equitable interest in the property purchase with grant monies as well as the right to determine the use of any proceeds from the sale of these assets.

Analysis for Impairment - We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended August 31, 2021.

Accrued Leave - Employees of KEEP receive paid vacation, paid sick days, and personal days off, depending on length of service and other factors. However, upon termination the employee will be only paid for vacation leave. The vacation accrual can be reasonably estimated, and accordingly, a liability for the year ended August 31, 2021 has been recorded in the accompanying financial statements in the amount of $21,940, and is included in accrued liabilities.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition - Our revenue comes primarily from contributions, grants, and contracts with school districts.

Contributions - We recognize contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-imposed restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restriction. Contributions received with donor imposed restrictions that are met in the same year in which the contributions are received are classified as support without donor restrictions.

Grants - Grants can be either contributions or exchange transactions. Grants that are exchange transactions recognize revenue when the expenses are incurred, service delivery has been made, or when matches have been made in accordance with the related agreement.

Contracts with School Districts (Program fees) - We recognize revenue from contracts with school districts during the year in which the related services are provided to the campuses. Revenue is recognized when control of the promised services (dance program) is provided to the campus, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. The performance obligation of delivering the dance program is simultaneously received and consumed by the campus and is satisfied over a period of time. Payment is made by the districts upon completion of the selected dance program based upon pre-established campus rates. The revenue is recognized using the five-step approach required by ASC Topic 606 as follows:

- Identification of the contract with a customer
- Identification of the performance obligation in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied.

Donated Materials, Equipment, and Services - Donated services, which are defined as donations of services that would have to be purchased in order for us to operate if not donated, are recorded as revenue and expense in the Statement of Activities in the period received. For the year ended August 31, 2021, legal services were donated in the amount of $1,500. In-kind contributions (contributed goods) are recorded at their estimated fair value at the date of receipt. In addition, volunteers contribute significant amounts of time to our program, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. See Note 9.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expense Allocation - The costs of program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of the expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefitted based upon direct charges and historical data of expense allocations.

Advertising Costs - We expenses all advertising costs as incurred; however, there were no advertising costs for the year ended August 31, 2021.

Income Tax - Kids Excel El Paso, Inc. is organized as a Texas nonprofit corporation and has been recognized by the IRS as exempt for federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), and qualify for the charitable contribution deduction, and has been determined not to be a private foundation. We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, we are subject to income tax on any net income that is derived from business activities that are unrelated to our exempt purposes. We have determined that we are not subject to unrelated business income tax and have not filed an Exempt Organization Business Tax return (Form 990-T) with the IRS for the year ended August 31, 2021. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

Our tax returns are subject to examination by federal taxing authorities. The tax laws, rules and regulations governing these returns are complex, technical, and subject to varying interpretations. If an examination required us to make adjustments, the profits or losses would be adjusted accordingly. No examination is currently in process. The IRS Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending August 31, 2018, 2019 and 2020 are subject to examination by the IRS, generally for three years after they were filed.

Uncertain Tax Positions - We have adopted FASB ASC 740-10-25, Accounting for Uncertainty of Income Taxes. The accounting standards on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, an organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status for an organization and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Our evaluation as of August 31, 2021 revealed no uncertain tax positions that would have a material impact on the financial statements, and therefore, there were no unrecognized tax benefits identified or recorded as liabilities for the year ended August 31, 2021. We do not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Our financial statements reflect the application of ASC 606 guidance. No cumulative-effect adjustment in net assets was recorded because adoption of ASU 2014-09 did not impact our reported historical revenue and resulted in expanded disclosures only, as required by the standard.

2. LIQUIDITY AND AVAILABILITY

Financial Assets:		
Cash and cash equivalents	$	26,631
Contributions receivable		4,545
Unconditional promises to give - ST		70,833
Financial assets available to meet cash needs for general expenditures within one year	$	102,009

In addition to the above available funds, we have already contracted with three school districts totaling $180,000 for fiscal year 2021-2022. These three amounts approximate 22% of the 2021-2022 operating budget.

Furthermore, we monitor cash flow and liquidity through budget analysis and timely grant reporting to ensure funds are available as needed.

(Continued)

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at August 31, 2021 consisted of the following:

Promises to give	$	130,833
Less current portion		(70,833)
Promises to give, long-term	$	60,000
Amounts due in:		
Less than one year	$	70,833
1-5 years		60,000
Total	$	130,833

4. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2021 consisted of the following:

		Asset Cost	Estimated Useful Life (Years)
Furniture, fixtures, and equipment	$	81,155	3 - 10
Building		673,900	40
Building improvements - roof		73,160	20
Land		230,000	
Total		1,058,215	
Less accumulated depreciation		(187,658)	
Total	$	870,557	

Depreciation expenses for the year ended August 31, 2021 was $25,143.

The building and land are subject to two liens. See Note 5.

(Continued)

5. LONG TERM DEBT

During the year ended August 31, 2015, we purchased a building and obtained a $450,000 promissory note to finance the purchase from a financial institution. The promissory note is secured by a lien on the real property and any improvements. The note carries a fixed interest rate for five years. After that, a recalculated fixed interest rate will be established in accordance with the terms of the note for the remainder of the note which matures in January 2025. The note is secured by the building.

The balances as of August 31, 2021 for this note consisted of the following:

Promissory Note - current interest rate at 5.75% with an original maturity date of January 2025	$	354,376
Less current portion		(18,041)
Ending balance, net of current portion	$	336,335

The annual requirements for this note are as follows:

Year Ended August 31,		Principal		Interest		Total Requirements
2022	$	18,041	$	19,893	$	37,934
2023		19,106		18,828		37,934
2024		20,234		17,700		37,934
2025		296,995		7,026		304,021
Total	$	354,376	$	63,447	$	417,823

During the year ended August 31, 2019, we obtained a $190,000 promissory note from RCM Investments which is secured by a second lien on KEEP's real property and building. The interest rate is 10% and the note matures in August 2029.

The balances as of August 31, 2021 for this note consisted of the following:

Promissory Note - interest rate at 10% with an original maturity date of August 2029	$	165,470
Less current portion		(14,224)
Ending balance, net of current portion	$	151,246

(Continued)

5. LONG TERM DEBT (Continued)

The annual requirements for this note are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2022	$ 14,224	$ 15,906	$ 30,130
2023	15,713	14,417	30,130
2024	17,358	12,772	30,130
2025	19,176	10,954	30,130
2026	21,184	8,946	30,130
2027 - 2029	77,815	12,576	90,391
Total	$ 165,470	$ 75,571	$ 241,041

The combined long-term debt requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2022	$ 32,265	$ 35,799	$ 68,064
2023	34,819	33,245	68,064
2024	37,592	30,472	68,064
2025	316,171	17,980	334,151
2026	21,184	8,946	30,130
2027 - 2029	77,815	12,576	90,391
Total	$ 519,846	$ 139,018	$ 658,864

6. FORGIVABLE PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, we applied and received loan proceeds in the amount of $80,596 under the Paycheck Protection Program (PPP) from the Small Business Administration. The loan may be forgiven if certain restrictions are met. If the loan or a portion of the loan is not forgiven, it would be payable monthly over two years at an interest rate of 1% with a deferral of payments for the first six months. In March 2021, we applied and received additional loan proceeds in the amount of $80,595 under the Paycheck Protection Program. We have met the requirements for loan forgiveness and both loans were forgiven in fiscal year 2022.

(Continued)

7. NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to passage of time	$ 130,833
Total	$ 130,833

Net assets in the amount of $140,725 were released during fiscal year 2021 by incurring expenses satisfying the restricted purpose.

8. CONCENTRATION OF REVENUE AND SUPPORT

For the year ended August 31, 2021, KEEP received 14%, of its total revenue and support through a contract with El Paso Independent School District. Additionally, KEEP received 21% of its total revenue and support from one board member in 2020-2021.

9. IN-KIND CONTRIBUTIONS

In-kind contributions as of August 31, 2021 was $1,500, and consisted of legal services. This amount is reported as professional fees under management and general on the statement of functional expenses.

10. LEASES

The Organization leases a copier which requires monthly payments of $310 through August 15, 2022 with the option to purchase the leased equipment at fair market value at the end of the lease term. The future minimum lease payments are as follows:

Year Ended August 31,	Amount
2022	$ 3,723
Total future minimum lease payments	$ 3,723

Lease expenses for the copier for the year ended August 31, 2021 was $5,161, and is included in office expense.

(Continued)

11. COMMITMENTS AND CONTINGENCIES

We participate in numerous state and local grants which are subject to additional audit and review by the granting agencies. These grants have complex compliance requirements and should federal, state or local audits discover areas of material noncompliance, those funds may be subject to refund if so determined by the grantor. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. In our opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

12. LITIGATION

During the normal course of business KEEP may be subject to various claims and litigation. As of August 31, 2021, we are not aware of any claim or potential claim that would have a material adverse effect on the financial statements.

13. RELATED PARTY TRANSACTIONS

During fiscal year 2015, we obtained financing for the purchase of a building in the amount of $450,000. A board member of KEEP is employed as an executive by the financial institution that funded the loan; however, the board member abstained from voting on the transaction. At August 31, 2021, the balance on the promissary note was $354,376. In addition, we use the same financial institution for our checking account.

At August 31, 2021, included in unconditional promises to give is $110,000, due from current and former Board members.

14. ECONOMIC OUTLOOK

The development and implementation of the virtual school program during the COVID-19 pandemic year has allowed Kids Excel to preserve its partnerships with the school districts which is vital to its financial performance. With the easing of COVID-19 restrictions, schools are returning to in-school programing in the upcoming fiscal/school year. Kids Excel will also return to in-school programming. School contract revenue is expected to return to pre-COVID levels. Kids Excel also expects to increase program prices in the next 2 years by 10% to 15% as prices have remained fixed for greater than 10 years. Naturally the return to standard program length will also result in an increase in payroll costs as the standard programs are longer than the virtual program offered during the COVID-19 pandemic shutdown. The end of year Plaza Performance and Gala is also expected to return as city and state COVID-19 restrictions are lifted.

(Continued)

15. NET ASSETS RESTATED

The beginning net assets and unconditional promises to give were increased by $20,725 as it was determined that a pledge made in fiscal year 2020 was not recognized in the proper period. Due to the pandemic, we were not aware of the pledge until after the fiscal year. The adjustment resulted in a restated beginning net assets with donor restrictions balance of $140,725 and a restated unconditional promises to give of $120,725.

16. SUBSEQUENT EVENTS

We have evaluated subsequent events through December 14, 2022, which is the date the financial statements were available to be issued.

17. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) - *Effective Dates for Certain Entities* delayed this standard's effective date. The requirements of this ASU will be effective for periods beginning after December 15, 2021. This ASU requires that a lease liability and related right-of-use asset representing the lessee's right to use or control the asset be recorded on the statement of financial position for certain leases that previously were classified as operating leases. We are evaluating the impact this standard will have on our financial reporting.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The requirements of this ASU will be effective for periods beginning after December 15, 2022. The new guidance provides financial statement users with improved information about expected credit losses on financial instruments and other commitments to extend credit. We are evaluating the impact this standard will have on our financial reporting.

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 Nonfinancial Assets.* The requirements of this ASU will be effective for periods beginning after June 15, 2021. The new guidance clarifies the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the Not-for-Profit entity. We are evaluating the impact this standard will have on our financial reporting.

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842) Discount Rate for Lessees that are Not Public Business Entities.* The requirements of this ASU will be effective for periods beginning after December 15, 2021. The new guidance allows lessees that are not public business entities to apply to existing risk-free discount rate expedient by class of underlying asset rather than to all leases. We are evaluating the impact this standard will have on our financial reporting.