

YELLOWSTONE ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Yellowstone Academy, Inc.
Houston, Texas

We have audited the accompanying statements of assets and net assets - modified cash basis of Yellowstone Academy, Inc., a non-profit organization, as of June 30, 2018 and 2017, and the related statements of revenues and expenses and changes in net assets - modified cash basis for the years 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 the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 risk 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 assets and net assets of Yellowstone Academy, Inc. at June 30, 2018 and 2017, and the revenues and expenses and changes in net assets for the years then ended, in accordance with the basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of operating expenses are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Harpa & Pearson Company, P.C.

Houston, Texas
January 17, 2019

YELLOWSTONE ACADEMY, INC.
STATEMENTS OF ASSETS AND NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
Cash and cash equivalents - unrestricted	\$ 663,382	\$ 613,137
Cash and cash equivalents - restricted	<u>169,121</u>	<u>-</u>
Total cash	832,503	613,137
Other current assets	<u>478</u>	<u>453</u>
	<u>\$ 832,981</u>	<u>\$ 613,590</u>
NET ASSETS		
Unrestricted	\$ 162,060	\$ 141,529
Temporarily restricted	<u>670,921</u>	<u>472,061</u>
	<u>\$ 832,981</u>	<u>\$ 613,590</u>

See accompanying notes.

YELLOWSTONE ACADEMY, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2018

	2018		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,043,494	\$ 2,083,951	\$ 4,127,445
Tuition and fees	26,887	-	26,887
Rent	27,400	-	27,400
Interest, dividends and other	10,699	-	10,699
Shared services	77,582	-	77,582
Special events, less direct donor benefits of \$203,561	1,615,006	-	1,615,006
Net assets released from restrictions	<u>1,885,091</u>	<u>(1,885,091)</u>	<u>-</u>
 Total Support and Revenue	 <u>5,686,159</u>	 <u>198,860</u>	 <u>5,885,019</u>
EXPENSES			
Operating Expenses			
Program expenses	3,911,988	-	3,911,988
Management and general expenses	909,740	-	909,740
Fundraising expense	<u>409,314</u>	<u>-</u>	<u>409,314</u>
 Total Operating Expenses	 5,231,042	 -	 5,231,042
Capital improvements	433,061	-	433,061
Commitment fee payments	<u>1,525</u>	<u>-</u>	<u>1,525</u>
 Total Expenses	 <u>5,665,628</u>	 <u>-</u>	 <u>5,665,628</u>
 CHANGE IN NET ASSETS	 20,531	 198,860	 219,391
 NET ASSETS, BEGINNING OF YEAR	 <u>141,529</u>	 <u>472,061</u>	 <u>613,590</u>
 NET ASSETS, END OF YEAR	 <u>\$ 162,060</u>	 <u>\$ 670,921</u>	 <u>\$ 832,981</u>

YELLOWSTONE ACADEMY, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,279,038	\$ 1,643,162	\$ 3,922,200
Tuition and fees	61,334	-	61,334
Rent	30,250	-	30,250
Interest, dividends and other	17,054	-	17,054
Special events, less direct donor benefits of \$207,320	781,133	710,797	1,491,930
Net assets released from restrictions	<u>2,211,432</u>	<u>(2,211,432)</u>	<u>-</u>
 Total Support and Revenue	 <u>5,380,241</u>	 <u>142,527</u>	 <u>5,522,768</u>
EXPENSES			
Operating Expenses			
Program expenses	3,613,253	-	3,613,253
Management and general expenses	1,001,894	-	1,001,894
Fundraising expense	<u>417,584</u>	<u>-</u>	<u>417,584</u>
 Total Operating Expenses	 5,032,731	 -	 5,032,731
Capital improvements	439,331	-	439,331
Capital loan repayment	25,000	-	25,000
Interest and commitment fee payments	<u>3,610</u>	<u>-</u>	<u>3,610</u>
 Total Expenses	 <u>5,500,672</u>	 <u>-</u>	 <u>5,500,672</u>
 CHANGE IN NET ASSETS	 (120,431)	 142,527	 22,096
 NET ASSETS, BEGINNING OF YEAR	 <u>261,960</u>	 <u>329,534</u>	 <u>591,494</u>
 NET ASSETS, END OF YEAR	 <u>\$ 141,529</u>	 <u>\$ 472,061</u>	 <u>\$ 613,590</u>

See accompanying notes.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Yellowstone Academy, Inc. (Yellowstone) was incorporated as a not-for-profit organization in August 2001 for the purpose of establishing a high quality private Christian Academy exclusively serving low-income children in Houston's inner city. Yellowstone opened its doors in August 2002 offering classes for three and four year old students. Currently, Yellowstone has expanded its program through the eighth grade, serving 327 students.

In May 2004, Yellowstone received its accreditation through The Southern Association of Colleges and Schools (SACS). SACS is the leading accreditation agency serving the 11 states in the Southeastern United States. SACS provides accreditation to public and private Schools from pre-kindergarten through the university level. The accreditation process must be repeated every five years. Yellowstone's latest accreditation approval was granted in March 2014.

Basis of Accounting - The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Income is recognized when received and expenses are recognized when paid. Modifications to the cash basis of accounting exist for the recording of other assets and for the recording of in-kind contributions and their related expenses.

Basis of Presentation - Yellowstone reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These net assets classifications are described as follows:

Unrestricted Net Assets – not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets – subject to donor-imposed stipulations that may be fulfilled by actions of Yellowstone to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – subject to donor-imposed stipulations that they be retained and invested permanently by Yellowstone. Yellowstone currently has no permanently restricted net assets.

Management's Estimates - Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from estimates that were used.

Concentrations of Credit Risk - Financial instruments which subject Yellowstone to concentrations of credit risk consist principally of cash and cash equivalents. Yellowstone places its cash and cash equivalents with high credit quality financial institutions. Deposits with these financial institutions may exceed the amount of federal deposit insurance provided on such deposits (approximately \$580,000 at June 30, 2018); however, these deposits typically may be redeemed upon demand and therefore bear minimal risk.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Cash and Cash Equivalents - Cash and cash equivalents include demand deposits and money market accounts, including cash restricted by donors for long-term purposes.

Fixed Assets - It is Yellowstone's policy to expense all purchases and donations of property when acquired. Donations of property and equipment are recognized at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, Yellowstone reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Contributions - Contributions are recognized when collected. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues and expenses as assets released from restrictions. During fiscal 2018 and 2017, approximately 26% and 21% of total contributions and special events revenues are from five and four donors, respectively.

Donated Securities - Yellowstone periodically receives donations of securities, which are recorded at their fair value on the date of the donation. Yellowstone's policy is to immediately sell donated securities minimizing gains and/or losses realized on the donated securities.

In-Kind Contributions - Donated assets, materials and use of facilities are recognized at fair value as contributions and expense when received from the donor. Yellowstone uses volunteers in all of its various programs. Contributions of services which would typically need to be purchased are recognized either when services received create or enhance nonfinancial assets or are provided by individuals possessing specialized skills. During the years ended June 30, 2018 and 2017, Yellowstone recorded in-kind contributions for goods and services such as student healthcare, staff development and background checks totaling \$74,279 and \$113,248, respectively.

Income Taxes - Yellowstone is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as a private school. As of June 30, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from fiscal year 2015 forward (with limited exceptions). Tax penalties and interest, if any, would be recorded when paid and would be classified as management and general expense in the statements of revenues and expenses – modified cash basis.

Subsequent Events - Yellowstone has evaluated subsequent events through January 17, 2019, the date the financial statements were available to be issued. On September 18, 2018, Yellowstone borrowed \$250,000 on its line of credit and repaid the loan in full with interest on November 11, 2018. No other subsequent events occurred, which require adjustment or additional disclosure to the financial statements at June 30, 2018.

NOTE B EMPLOYEE BENEFITS

Yellowstone has a Simple IRA plan available to all employees to which it makes matching contributions up to 3% of a participating employee's salary. During fiscal 2018 and 2017, Yellowstone's matching contributions amounted to \$47,073 and \$40,461, respectively.

NOTE C SPECIAL EVENTS

Yellowstone hosts several special events each year. These events include the Young Friends of Yellowstone Polo Party and Spring Golf Tournament. Additionally, Yellowstone celebrated its fifteenth year with a new annual Spring event, Party in the Park. The goals of these events are to encourage volunteer interest, to solicit donations, and to increase awareness of Yellowstone's mission and programs to existing and potential donors.

NOTE D DEBT

In accordance with the modified cash basis of accounting, it is Yellowstone's policy to recognize proceeds on the issuance of debt as capital loan proceeds income when received and recognize all repayments of debt as an expense when disbursed.

Yellowstone has a line of credit with a bank which provides for maximum borrowings of \$1,200,000 through January 10, 2020. The agreement provides for interest on outstanding borrowings at the prime rate plus a commitment fee on the average daily unused portion of the commitment at the rate of 0.25% per annum. The loan is collateralized by the land and buildings. There was no outstanding balance at June 30, 2018 and 2017. Yellowstone paid interest and commitment fees amounting to \$1,525 and \$3,610 during fiscal years 2018 and 2017, respectively.

The loan agreement requires Yellowstone's compiled financial statements to be presented in accordance with generally accepted accounting principles ("GAAP") no later than 120 days after the end of the fiscal year. For fiscal years 2018 and 2017, the lender has waived compliance with these terms of the agreement.

NOTE E PROPERTY, PLANT AND EQUIPMENT (UNAUDITED)

As discussed in Note A, in accordance with the modified cash method of accounting, Yellowstone expenses all purchases and donations of property and equipment when acquired. The following table summarizes the unaudited cost basis of property and equipment owned by Yellowstone at June 30, 2018 and 2017:

	2018	2017
Land and Improvements	\$ 905,424	\$ 905,424
Buildings and Improvements	6,004,543	5,571,482
Furniture and Equipment	620,421	620,421
Transportation Equipment	393,961	393,961
	\$ 7,924,349	\$ 7,491,288

YELLOWSTONE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE F TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Special Projects:		
Student Programs	\$ 4,655	\$ 11,822
Facilities	10,684	26,025
Family Relief - Hurricane Harvey	10,750	-
Operating Expenses:		
Student Programs	18,324	8,442
Bridge Campaign:		
Technology	12,335	45,500
General Operations	445,052	380,272
Capital Improvements	169,121	-
	\$ 670,921	\$ 472,061

During fiscal 2016, Yellowstone began the Bridge Campaign to raise funds for expanding the school to higher grade levels. Unless otherwise noted by the donor, all funds are restricted to general operations in accordance with the campaign budget.

Temporarily restricted net assets were released from restrictions for the following purposes during the years ended June 30:

	2018	2017
Special Projects:		
Student Programs	\$ 27,062	\$ 30,649
Student Clubs	4,614	2,143
Facilities	15,341	26,672
Family Relief - Hurricane Harvey	193,561	-
Operating Expenses:		
Student Programs	203,817	386,036
Development	-	95,000
General Operations	5,000	713,206
Bridge Campaign:		
Capital Improvements	453,813	160,841
Charter School Legal and Consulting	8,718	96,885
Technology	73,165	-
General Operations	900,000	700,000
	\$ 1,885,091	\$ 2,211,432

NOTE G RELATIONSHIP BETWEEN YELLOWSTONE ACADEMY AND YELLOWSTONE COLLEGE PREP

Recognizing the need for private school education for middle and high school students, the Board of Directors established a public/private model that is the first of its kind in the state of Texas. Yellowstone continues to operate as a faith-based preK-4th grade elementary school and is now co-located in the same building with Yellowstone College Prep (YCP), a public charter school that will grow to serve students 5th-12th grade.

After formation, an independent Board of Directors was established for YCP. Yellowstone and YCP entered into a shared services agreement approved by the Boards of both schools that defines the shared services. Shared services include rent for YCP occupancy and shared instructional staff (both to begin in August 2018), and shared business services which began during fiscal 2018.

During fiscal year ended June 30, 2018, shared services revenue consists of the following:

Superintendent/Head of Schools	\$ 54,379
Finance/HR/Student Recruitment	15,675
Other	<u>7,528</u>
Total Revenue from Shared Services	<u>\$ 77,582</u>

YELLOWSTONE ACADEMY, INC.
SUPPLEMENTAL SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

2018				
	Program	Management and General	Fundraising	Total
Personnel Costs	\$ 2,788,233	\$ 686,286	\$ 280,353	\$ 3,754,872
Student Curriculum and Programs	694,659	222	3,546	698,427
General Expenses	400,852	209,266	14,434	624,552
Strategic Planning/Capital Expenses	25,577	12,873	2,402	40,852
Development	2,667	1,093	108,579	112,339
 Total Operating Expenses	 \$ 3,911,988	 \$ 909,740	 \$ 409,314	 \$ 5,231,042

2017				
	Program	Management and General	Fundraising	Total
Personnel Costs	\$ 2,439,642	\$ 682,887	\$ 237,808	\$ 3,360,337
Student Curriculum and Programs	693,543	-	4,428	697,971
General Expenses	467,948	222,469	15,936	706,353
Strategic Planning/Capital Expenses	12,120	96,538	9	108,667
Development	-	-	159,403	159,403
 Total Operating Expenses	 \$ 3,613,253	 \$ 1,001,894	 \$ 417,584	 \$ 5,032,731