

YELLOWSTONE ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, and the related statements of revenues and expenses and changes in net assets - modified cash basis for the years then ended and functional expenses - modified cash basis for the year ended June 30, 2019 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, 2019 and 2018, 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.

A handwritten signature in cursive script that reads "Harper & Pearson Company, P.C.".

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
March 5, 2020

YELLOWSTONE ACADEMY, INC.
STATEMENTS OF ASSETS AND NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash and cash equivalents - unrestricted	\$ 322,501	\$ 663,382
Cash and cash equivalents - restricted	<u>2,095,139</u>	<u>169,121</u>
Total cash	2,417,640	832,503
Other current assets	<u>1,089</u>	<u>478</u>
	<u>\$ 2,418,729</u>	<u>\$ 832,981</u>
NET ASSETS		
Without donor restrictions	\$ 279,914	\$ 162,060
With donor restrictions	<u>2,138,815</u>	<u>670,921</u>
	<u>\$ 2,418,729</u>	<u>\$ 832,981</u>

See accompanying notes.

YELLOWSTONE ACADEMY, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,943,203	3,209,528	\$ 5,152,731
Borrowings on line of credit	250,000	-	250,000
Federal meals revenue	145,663	-	145,663
Tuition and fees	44,198	-	44,198
Rent	19,400	-	19,400
Interest, dividends and other	6,191	-	6,191
Shared services	425,793	-	425,793
Special events	1,306,299	-	1,306,299
Net assets released from restrictions	<u>1,741,634</u>	<u>(1,741,634)</u>	<u>-</u>
 Total Support and Revenue	 <u>5,882,381</u>	 <u>1,467,894</u>	 <u>7,350,275</u>
EXPENSES			
Operating Expenses			
Program expenses	3,421,770	-	3,421,770
Management and general expenses	781,792	-	781,792
Fundraising expense	446,248	-	446,248
Director donor benefit costs	<u>191,934</u>	<u>-</u>	<u>191,934</u>
 Total Operating Expenses	 <u>4,841,744</u>	 <u>-</u>	 <u>4,841,744</u>
 Capital Improvements	 667,813	 -	 667,813
Debt Repayment and Interest	<u>254,970</u>	<u>-</u>	<u>254,970</u>
 Total Expenses	 <u>5,764,527</u>	 <u>-</u>	 <u>5,764,527</u>
 CHANGE IN NET ASSETS	 117,854	 1,467,894	 1,585,748
 NET ASSETS, BEGINNING OF YEAR	 <u>162,060</u>	 <u>670,921</u>	 <u>832,981</u>
 NET ASSETS, END OF YEAR	 <u>\$ 279,914</u>	 <u>\$ 2,138,815</u>	 <u>\$ 2,418,729</u>

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

	2018		
	Without Donor Restrictions	With Donor Restrictions	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	1,818,567	-	1,818,567
Net assets released from restrictions	<u>1,885,091</u>	<u>(1,885,091)</u>	<u>-</u>
 Total Support and Revenue	 <u>5,889,720</u>	 <u>198,860</u>	 <u>6,088,580</u>
EXPENSES			
Operating Expenses			
Program expenses	3,911,988	-	3,911,988
Management and general expenses	909,740	-	909,740
Fundraising expense	409,314	-	409,314
Direct donor benefits	<u>203,561</u>	<u>-</u>	<u>203,561</u>
 Total Operating Expenses	 5,434,603	 -	 5,434,603
Capital Improvements	433,061	-	433,061
Interest and Commitment Fee Payments	<u>1,525</u>	<u>-</u>	<u>1,525</u>
 Total Expenses	 <u>5,869,189</u>	 <u>-</u>	 <u>5,869,189</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>

See accompanying notes.

YELLOWSTONE ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2019

	2019			
	Program	Management and General	Fundraising	Total
Public Relations	\$ 654	\$ 11,118	\$ 22,153	\$ 33,925
Event Costs	-	141	23,526	23,667
Professional Fees	-	46,838	30,000	76,838
Office Expense	55,696	40,811	30,579	127,086
Insurance	82,873	18,382	2,544	103,799
Technology	71,539	19,075	1,193	91,807
Occupancy	335,053	66,183	12,409	413,645
Personnel	2,346,660	576,296	323,844	3,246,800
Programs Athletics/Co-Curricular	12,643	-	-	12,643
Academy Resources & Curriculum	25,955	232	-	26,187
Student Meals	213,438	-	-	213,438
Student Transportation	131,033	-	-	131,033
Student Support Services	146,226	-	-	146,226
Board Expenses	-	2,716	-	2,716
	3,421,770	781,792	446,248	4,649,810
Capital Expenditures	542,331	106,112	19,370	667,813
Debt Repayment and Interest	-	254,970	-	254,970
Direct Donor Benefits	-	-	-	191,934
	\$ 3,964,101	\$ 1,142,874	\$ 465,618	\$ 5,764,527
Total	\$ 3,964,101	\$ 1,142,874	\$ 465,618	\$ 5,764,527

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 is accredited 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 through June 30, 2024.

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 two classes of net assets: without donor restrictions and with donor restrictions. These net assets classifications are described as follows:

Without Donor Restrictions – not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

With Donor Restrictions – 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 or are to be retained and invested permanently.

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 \$2,167,000 at June 30, 2019); however, these deposits typically may be redeemed upon demand and therefore bear minimal risk.

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

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

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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenues and expenses as net assets released from restrictions. During fiscal 2019 and 2018, approximately 28% and 26% of total contributions and special events revenues are from one and five donor(s), 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, 2019 and 2018, Yellowstone recorded in-kind contributions for goods and services such as student healthcare, staff development and background checks totaling \$73,735 and \$74,279, respectively.

Shared Services Revenue - Shared services revenue results from an arrangement with Yellowstone College Prep whereby Yellowstone is reimbursed for certain expenses (See Note G).

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, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from fiscal year 2016 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.

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

Implementation of New Accounting Standard - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)" in August 2016. This ASU became effective for Yellowstone on July 1, 2018. The ASU amends the current reporting model for nonprofit organizations and enhances required disclosures. The major provisions of the standard applicable to Yellowstone include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an expanded analysis of expenses by function and disclose a summary of the allocation methods used to allocate costs, and (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources. There was no impact on previously reported net assets or changes in net assets.

Functional Expenses – Yellowstone records expenses directly to the applicable program or support function as much as possible. Salaries and benefits are charged directly based on individual employee departmental classification and/or schedule. Expenses related to occupancy and capital expenditures are allocated based on square footage. All other expenses which cannot be directly identified with a specific program or support function are allocated based on estimated usage percentages.

Reclassifications - Direct donor benefits expenses for the year ended June 30, 2018, which were previously netted against special events revenue, have been reclassified to expense on the statement of revenues and expenses and changes in net assets – modified cash basis.

Subsequent Events - Yellowstone has evaluated subsequent events through March 5, 2020, the date the financial statements were available to be issued. Except for the renewal of the line of credit discussed in Note D, no subsequent events occurred which require adjustment or additional disclosure to the financial statements at June 30, 2019.

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 2019 and 2018, Yellowstone's matching contributions amounted to \$38,578 and \$47,073, respectively.

NOTE C SPECIAL EVENTS

Yellowstone hosts several special events each year. These events include the Young Friends of Yellowstone Polo Party, Party in the Park, Friendsgiving Brunch, and Spring Golf Tournament. 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. 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. There was no outstanding balances at June 30, 2019 and 2018. Yellowstone paid interest and commitment fees amounting to \$4,970 and \$1,525 during fiscal years 2019 and 2018, 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 2019 and 2018, the lender has waived compliance with these terms of the agreement. Subsequent to year end, the loan was amended to extend the maturity date to January 10, 2022.

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and Improvements	\$ 905,424	\$ 905,424
Buildings and Improvements	6,603,928	6,004,543
Furniture and Equipment	729,964	620,421
Transportation Equipment	<u>393,961</u>	<u>393,961</u>
	<u>\$ 8,633,277</u>	<u>\$ 7,924,349</u>

NOTE F NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Special Projects:		
Family Relief - Hurricane Harvey	\$ 2,184	\$ 10,750
Operating Expenses:		
Student Programs	41,492	22,979
Campaigns:		
Bridge Technology	-	12,335
Bridge General Operations	-	445,052
Bridge Capital Improvements	-	169,121
Capital Improvements	2,064,455	-
Capital Other	<u>30,684</u>	<u>10,684</u>
	<u>\$ 2,138,815</u>	<u>\$ 670,921</u>

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.

During fiscal 2019, Yellowstone closed the Bridge Campaign and began a new \$22 million Capital Campaign comprised of \$18 million to finance land acquisition, renovations to the existing facility and the construction of a new facility, and \$4 million working capital.

Net assets with restrictions were released from restrictions for the following purposes during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Special Projects:		
Student Clubs	\$ -	\$ 4,614
Facilities	50,000	15,341
Family Relief - Hurricane Harvey	8,566	193,561
Operating Expenses:		
Student Programs	166,845	230,879
General Operations	-	5,000
Campaigns:		
Bridge Technology	47,194	73,165
Bridge General Operations	276,562	900,000
Bridge Capital Improvements	631,922	453,813
Bridge Charter School Legal and Consulting	-	8,718
Capital Improvements	60,545	-
Working Capital	<u>500,000</u>	<u>-</u>
	<u>\$ 1,741,634</u>	<u>\$ 1,885,091</u>

NOTE G RELATIONSHIP BETWEEN YELLOWSTONE ACADEMY AND YELLOWSTONE COLLEGE PREP

Recognizing the need for private school education for middle and high school students, in fiscal year 2018, the Board of Directors established a public/private model. Yellowstone continues to operate as a faith-based preK-4th grade elementary school and is 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 beginning in August 2018), and shared business services which began during fiscal 2018. Other expenses paid by Yellowstone on behalf of YCP are reimbursed by YCP and the reimbursements are not recorded as revenue.

During fiscal years ended June 30, 2019 and 2018, shared services revenue consists of the following:

	2019	2018
Administrative Personnel	\$ 90,894	\$ 70,054
Instructional Personnel	88,975	-
Rent	92,474	-
Transportation	153,450	-
Other	-	7,528
Total Revenue from Shared Services	\$ 425,793	\$ 77,582

NOTE H LIQUIDITY AND AVAILABILITY

Yellowstone manages its cash flows through the adherence of budgets created annually and reviewed quarterly. Yellowstone generally relies on program service fees, grants and contributions from donors to fund its on-going operations. In addition, the Capital Campaign includes up to \$500,000 of funds which may be released for working capital upon approval of the Finance Committee. Yellowstone has historically experienced a cyclical pattern of donations in conjunction with fundraising events. Yellowstone has a revolving line of credit with available borrowings of up to \$1,200,000. Pledges receivable which are not recorded in the financial statements prepared on the modified cash basis of accounting are also available to meet future operating expenses.

The following represents Yellowstone's financial assets as of June 30, 2019 available to meet general expenditures over the next twelve months.

	2019
Cash without restrictions	\$ 322,501
Current pledge receivables (unaudited)	595,082
Financial assets available to meet general expenditures over the next twelve months:	\$ 917,583

NOTE I COMMITMENTS

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. Yellowstone intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of Yellowstone. In management's opinion, disallowed claims, if any, would not have a material adverse effect on Yellowstone's financial position or results of operations.

On March 7, 2019, Yellowstone entered into an agreement with a project management service company for approximately \$340,000 for services relating to managing renovations and an addition to the existing facilities to include a two-story academic building with cafeteria/commons, fine arts and library spaces, traditional classroom space and specific classrooms for science/technology uses. As of June 30, 2019, \$29,300 has been paid by Yellowstone for these services.