

YELLOWSTONE ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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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, 2020 and 2019, and the related statements of revenues and expenses and changes in net assets - modified cash basis and functional expenses – 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, 2020 and 2019, 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 dark ink that reads "Harper & Pearson Company, P.C." in a cursive style.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
November 19, 2020

YELLOWSTONE ACADEMY, INC.
STATEMENTS OF ASSETS AND NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
Cash and cash equivalents - unrestricted	\$ 764,718	\$ 322,501
Cash and cash equivalents - restricted	<u>4,862,899</u>	<u>2,095,139</u>
Total cash	5,627,617	2,417,640
Other current assets	<u>1,089</u>	<u>1,089</u>
	<u>\$ 5,628,706</u>	<u>\$ 2,418,729</u>
 NET ASSETS 		
Without donor restrictions	\$ 751,214	\$ 279,914
With donor restrictions	<u>4,877,492</u>	<u>2,138,815</u>
	<u>\$ 5,628,706</u>	<u>\$ 2,418,729</u>

See accompanying notes.

YELLOWSTONE ACADEMY, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,683,982	\$ 3,482,337	\$ 6,166,319
Loan proceeds	664,600	-	664,600
Federal meals revenue	128,443	-	128,443
Tuition and fees	18,519	-	18,519
Rent	13,600	-	13,600
Interest, dividends and other	63,727	-	63,727
Shared services	466,943	-	466,943
Special events	865,291	-	865,291
Net assets released from restrictions	<u>743,660</u>	<u>(743,660)</u>	<u>-</u>
 Total Support and Revenue	 <u>5,648,765</u>	 <u>2,738,677</u>	 <u>8,387,442</u>
EXPENSES			
Operating Expenses			
Program expenses	3,206,117	-	3,206,117
Management and general expenses	876,761	-	876,761
Fundraising expense	390,694	-	390,694
Director donor benefit costs	<u>101,498</u>	<u>-</u>	<u>101,498</u>
 Total Operating Expenses	 <u>4,575,070</u>	 <u>-</u>	 <u>4,575,070</u>
 Capital Improvements	 599,333	 -	 599,333
Debt Repayment and Interest	<u>3,062</u>	<u>-</u>	<u>3,062</u>
 Total Expenses	 <u>5,177,465</u>	 <u>-</u>	 <u>5,177,465</u>
 CHANGE IN NET ASSETS	 471,300	 2,738,677	 3,209,977
 NET ASSETS, BEGINNING OF YEAR	 <u>279,914</u>	 <u>2,138,815</u>	 <u>2,418,729</u>
 NET ASSETS, END OF YEAR	 <u>\$ 751,214</u>	 <u>\$ 4,877,492</u>	 <u>\$ 5,628,706</u>

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
Direct donor benefits	<u>191,934</u>	<u>-</u>	<u>191,934</u>
 Total Operating Expenses	 4,841,744	 -	 4,841,744
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>

See accompanying notes.

YELLOWSTONE ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2020

	2020			
	Program	Management and General	Fundraising	Total
Public Relations	\$ 2,733	\$ 7,678	\$ 11,982	\$ 22,393
Event Costs	-	-	14,350	14,350
Professional Fees	41,400	81,651	1,444	124,495
Office Expense	14,251	51,312	32,635	98,198
Insurance	69,088	14,283	2,410	85,781
Technology	104,311	21,052	993	126,356
Occupancy	298,581	38,191	10,416	347,188
Personnel	2,307,260	662,405	316,464	3,286,129
Programs Athletics/Co-Curricular	2,894	-	-	2,894
Academy Resources & Curriculum	24,289	-	-	24,289
Student Meals	129,741	-	-	129,741
Student Transportation	107,859	-	-	107,859
Student Support Services	103,710	-	-	103,710
Board Expenses	-	189	-	189
	<u>3,206,117</u>	<u>876,761</u>	<u>390,694</u>	<u>4,473,572</u>
Capital Expenditures	516,575	65,024	17,734	599,333
Debt Repayment and Interest	-	3,062	-	3,062
Direct Donor Benefits	-	-	-	101,498
Total	<u>\$ 3,722,692</u>	<u>\$ 944,847</u>	<u>\$ 408,428</u>	<u>\$ 5,177,465</u>

YELLOWSTONE ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
YEAR 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
	<u>3,421,770</u>	<u>781,792</u>	<u>446,248</u>	<u>4,649,810</u>
Capital Expenditures	542,331	106,112	19,370	667,813
Debt Repayment and Interest	-	254,970	-	254,970
Direct Donor Benefits	-	-	-	191,934
Total	<u>\$ 3,964,101</u>	<u>\$ 1,142,874</u>	<u>\$ 465,618</u>	<u>\$ 5,764,527</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 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 \$5,377,000 at June 30, 2020); 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 2020 and 2019, approximately 28% of total contributions and special events revenues are from two and one donor(s), respectively.

Revenue Recognition - All support and revenue is recognized when cash is received.

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, 2020 and 2019, Yellowstone recorded in-kind contributions for goods and services such as student healthcare, staff development and background checks totaling \$62,369 and \$73,735, 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, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from fiscal year 2017 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)

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.

Subsequent Events - Yellowstone has evaluated subsequent events through November 19, 2020, the date the financial statements were available to be issued. As a result of the COVID-19 pandemic occurring before and continuing after June 30, 2020, economic uncertainties have arisen which are likely to have some negative impact to Yellowstone's operations. However, any related financial impact and duration cannot be reasonably estimated at this time. No subsequent events occurred which require adjustment or additional disclosure to the financial statements at June 30, 2020.

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 2020 and 2019, Yellowstone's matching contributions amounted to \$40,228 and \$38,578, respectively.

NOTE C SPECIAL EVENTS

Yellowstone hosts several special events each year. These events include the 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. Due to the COVID-19 pandemic that occurred during the year 2020, certain special events were cancelled or postponed until after year end.

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 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, 2022. 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 were no borrowings during fiscal 2020. During fiscal 2019, Yellowstone borrowed \$250,000 and repaid it within 60 days. There were no outstanding balances at June 30, 2020 and 2019. Yellowstone paid interest and commitment fees amounting to \$3,062 and \$4,970 during fiscal years 2020 and 2019, respectively.

NOTE D DEBT (CONTINUED)

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 2020 and 2019, the lender has waived compliance with these terms of the agreement.

On April 30, 2020, Yellowstone obtained a loan in the amount of \$664,600, pursuant to the Paycheck Protection Program (the "PPP"). The loan originally called for monthly payments of principal and interest at a rate of 1% per annum to begin November 30, 2020 with a final maturity date of April 30, 2022. Under the terms of the PPP, the principal balance of the loan is subject to partial or full forgiveness contingent on compliance with certain criteria. In June 2020, the PPP was amended to provide more flexibility in repayment terms and expanded opportunities for forgiveness. Management intends to file the application for forgiveness and believes they have met the criteria for forgiveness. If not forgiven, the loan may be prepaid by Yellowstone at any time prior to maturity with no prepayment penalties.

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:

	2020	2019
Land and Improvements	\$ 905,424	\$ 905,424
Buildings and Improvements	7,195,053	6,603,928
Furniture and Equipment	738,173	729,964
Transportation Equipment	393,961	393,961
	\$ 9,232,611	\$ 8,633,277

NOTE F NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Special Projects:		
Family Relief - Hurricane Harvey	\$ 1,369	\$ 2,184
Operating Expenses:		
Student Programs	13,224	41,492
Campaigns:		
Capital Improvements	4,852,215	2,064,455
Capital Other	10,684	30,684
	\$ 4,877,492	\$ 2,138,815

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 \$25 million Capital Campaign comprised of \$21 million to finance land acquisition, renovations to the existing facility and the construction of a new facility, and \$4 million working capital, of which \$500,000 has been drawn through June 30, 2020.

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

	2020	2019
Special Projects:		
Facilities	\$ -	\$ 50,000
Family Relief - Hurricane Harvey	815	8,566
Operating Expenses:		
Student Programs	92,272	166,845
Campaigns:		
Bridge Technology	-	47,194
Bridge General Operations	-	276,562
Bridge Capital Improvements	-	631,922
Capital Improvements	650,573	60,545
Working Capital	-	500,000
	\$ 743,660	\$ 1,741,634

YELLOWSTONE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 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, 2020 and 2019, shared services revenue consists of the following:

	<u>2020</u>	<u>2019</u>
Administrative Personnel	\$ 207,563	\$ 90,894
Instructional Personnel	19,194	88,975
Rent	122,984	92,474
Transportation	114,732	153,450
Other	<u>2,470</u>	<u>-</u>
Total Revenue from Shared Services	<u>\$ 466,943</u>	<u>\$ 425,793</u>

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 \$1,000,000 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. Contribution receivables 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, 2020 available to meet general expenditures over the next twelve months.

	<u>2020</u>	<u>2019</u>
Cash without restrictions	\$ 764,718	\$ 322,501
Current operating contributions receivable (unaudited)	<u>164,000</u>	<u>595,082</u>
Financial assets available to meet general expenditures over the next twelve months:	<u>\$ 928,718</u>	<u>\$ 917,583</u>

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, 2020, \$158,550 has been paid by Yellowstone for these services.