

NORTHSTAR ACADEMY, INC.
RICHMOND, VIRGINIA

FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

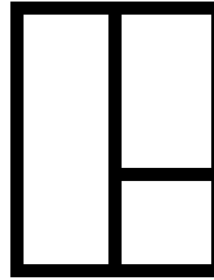
NORTHSTAR ACADEMY, INC.
FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Northstar Academy, Inc.
Richmond, Virginia

We have audited the accompanying financial statements of Northstar Academy, Inc. which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities, cash flows, and functional expenses 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 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 audits. We conducted our audits 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 of 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 Northstar Academy, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rame & Associates, P.C.

Certified Public Accountants
Richmond, Virginia
November 6, 2018

NORTHSTAR ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,769,023	\$ 1,973,535
Investments: certificate of deposit	277,959	-
Tuition receivable, net	232,961	135,182
Contributions receivable	62,500	102,165
Prepaid expenses	24,515	20,177
Deposit	-	49,585
Other current assets	10,200	9,900
Total current assets	2,377,158	2,290,544
Long-term assets		
Investments: certificate of deposit	213,821	211,135
Contributions receivable	30,000	-
Security deposit	6,440	9,366
Property and equipment, net	1,346,387	1,214,304
Total long-term assets	1,596,648	1,434,805
Intangible assets, net	3,939	11,216
Total assets	\$ 3,977,745	\$ 3,736,565
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,523	\$ 31,967
Accrued compensation	225,533	210,438
Accrued payroll tax	34,865	35,016
Deferred tuition revenue	48,320	66,425
Other payables	10,867	4,930
Total current liabilities	327,108	348,776
Long-term liabilities		
Accrued expenses	20,000	20,000
Total long-term liabilities	20,000	20,000
Total liabilities	347,108	368,776
Net assets		
Unrestricted	3,178,386	2,878,389
Temporarily restricted	452,251	489,400
Total net assets	3,630,637	3,367,789
Total liabilities and net assets	\$ 3,977,745	\$ 3,736,565

SEE NOTES TO FINANCIAL STATEMENTS

NORTHSTAR ACADEMY, INC.**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support			
Tuition and fees	\$ 2,851,921	\$ -	\$ 2,851,921
Less discounts and scholarships	<u>(187,034)</u>	<u>-</u>	<u>(187,034)</u>
Net tuition and fees	2,664,887	-	2,664,887
Contributions	458,281	224,616	682,897
Special events, net of \$58,027 costs	63,397	-	63,397
Books and consumables	15,208	-	15,208
Individual counseling	27,095	-	27,095
Other sources	9,984	-	9,984
Lunches	14,115	-	14,115
Interest and finance charge income	7,399	-	7,399
Rental income	3,160	-	3,160
Gain on disposal of assets	151	-	151
Recovery of bad debts written off	1,597	-	1,597
Net assets released from restrictions	<u>261,765</u>	<u>(261,765)</u>	<u>-</u>
Total revenue and other support	<u>3,527,039</u>	<u>(37,149)</u>	<u>3,489,890</u>
Expenses and losses			
Expenses			
Program services	2,698,113	-	2,698,113
Support services			
General administration	297,561	-	297,561
Fundraising	<u>221,387</u>	<u>-</u>	<u>221,387</u>
Total support services	<u>518,948</u>	<u>-</u>	<u>518,948</u>
Total expenses	<u>3,217,061</u>	<u>-</u>	<u>3,217,061</u>
Losses			
Loss on disposal of assets	<u>9,981</u>	<u>-</u>	<u>9,981</u>
Total expenses and losses	<u>3,227,042</u>	<u>-</u>	<u>3,227,042</u>
Change in net assets	299,997	(37,149)	262,848
Net assets at beginning of the year	<u>2,878,389</u>	<u>489,400</u>	<u>3,367,789</u>
Net assets at end of year	<u>\$ 3,178,386</u>	<u>\$ 452,251</u>	<u>\$ 3,630,637</u>

SEE NOTES TO FINANCIAL STATEMENTS

NORTHSTAR ACADEMY, INC.**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support			
Tuition and fees	\$ 2,713,122	\$ -	\$ 2,713,122
Less discounts and scholarships	(143,888)	-	(143,888)
Net tuition and fees	2,569,234	-	2,569,234
Contributions	621,260	227,265	848,525
Special events, net of \$53,064 costs	89,201	-	89,201
Books and consumables	13,520	-	13,520
Individual counseling	25,480	-	25,480
Other sources	8,265	-	8,265
Lunches	15,700	-	15,700
Interest and finance charge income	5,539	-	5,539
Rental income	3,370	-	3,370
Recovery of bad debts written off	2,731	-	2,731
Net assets released from restrictions	187,685	(187,685)	-
Total revenue and other support	<u>3,541,985</u>	<u>39,580</u>	<u>3,581,565</u>
Expenses and losses			
Expenses			
Program services	2,514,755	-	2,514,755
Support services			
General administration	316,176	-	316,176
Fundraising	214,592	-	214,592
Total support services	<u>530,768</u>	<u>-</u>	<u>530,768</u>
Total expenses	<u>3,045,523</u>	<u>-</u>	<u>3,045,523</u>
Losses			
Loss on disposal of assets	4,412	-	4,412
Total expenses and losses	<u>3,049,935</u>	<u>-</u>	<u>3,049,935</u>
Change in net assets	492,050	39,580	531,630
Net assets at beginning of the year	<u>2,386,339</u>	<u>449,820</u>	<u>2,836,159</u>
Net assets at end of year	<u>\$ 2,878,389</u>	<u>\$ 489,400</u>	<u>\$ 3,367,789</u>

SEE NOTES TO FINANCIAL STATEMENTS

NORTHSTAR ACADEMY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

Cash flows from operating activities		
Change in net assets		\$ 262,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 143,819	
Gain on disposal of assets	(151)	
Loss on disposal of assets	9,981	
Non-cash donations	(113,319)	
Reinvested interest on certificate of deposit	(4,504)	
(Increase) decrease in operating assets		
Tuition receivable, net	(97,779)	
Contributions receivable	9,665	
Prepaid expenses	(4,338)	
Deposit	49,585	
Other current assets	(300)	
Security deposit	2,926	
Increase (decrease) in operating liabilities		
Accounts payable	(24,444)	
Accrued compensation	15,095	
Accrued payroll tax	(151)	
Deferred tuition revenue	(18,105)	
Other payables	5,937	(26,083)
Net cash provided by operating activities		236,765
Cash flows from investing activities		
Purchases of property and equipment	(278,551)	
Purchases of investments	(276,141)	
Sale of donated stock	111,165	
Sale of assets	2,250	
Net cash used by investing activities		(441,277)
Net decrease in cash and cash equivalents		(204,512)
Cash and cash equivalents at beginning of year		1,973,535
Cash and cash equivalents at end of year		<u>\$ 1,769,023</u>

Supplemental cash flow information:

- No cash paid for interest during the year.
- No cash paid for income taxes during the year.

NORTHSTAR ACADEMY, INC.**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2017

Cash flows from operating activities		
Change in net assets		\$ 531,630
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 126,984	
Loss on disposal of intangible asset	197	
Reinvested interest on certificate of deposit	(2,551)	
(Increase) decrease in operating assets		
Tuition receivable, net	102,933	
Contributions receivable	(70,103)	
Prepaid expenses	118	
Deposit	(49,585)	
Other current assets	8,049	
Increase (decrease) in operating liabilities		
Accounts payable	(75,401)	
Accrued compensation	23,867	
Accrued payroll tax	2,773	
Deferred tuition revenue	1,975	
Other payables	91	
		<u>69,347</u>
Net cash provided by operating activities		600,977
Cash flows from investing activities		
Purchases of property and equipment	(154,396)	
Purchases of intangible assets	<u>(5,021)</u>	
Net cash used by investing activities		(159,417)
Cash flows from financing activities		
Payment of long-term note payable	<u>(107,948)</u>	
Net cash used by financing activities		<u>(107,948)</u>
Net increase in cash and cash equivalents		333,612
Cash and cash equivalents at beginning of year		<u>1,639,923</u>
Cash and cash equivalents at end of year		<u><u>\$ 1,973,535</u></u>

Supplemental cash flow information:

Cash paid during the year for interest was \$2,170.

No cash paid for income taxes during the year.

NORTHSTAR ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services			Supporting Services		
	Career Academy	Northstar Academy	Total	Management and General	Fundraising	Total
Salaries and related expenses	\$ 491,553	\$ 1,539,645	\$ 2,031,198	\$ 237,670	\$ 183,183	\$ 2,452,051
Educational expenses	20,083	30,200	50,283	-	-	50,283
Lunches	477	47,381	47,858	-	-	47,858
Professional fees	1,746	35,317	37,063	25,228	7,700	69,991
Training and conferences	14,442	24,455	38,897	2,803	650	42,350
Technology	10,611	49,464	60,075	176	4,434	64,685
Occupancy expenses	81,292	89,625	170,917	14,049	4,653	189,619
Marketing and student recruitment	4,983	29,858	34,841	88	10,673	45,602
Office expenses	16,238	45,567	61,805	3,574	395	65,774
Depreciation and amortization	59,846	71,377	131,223	8,397	4,199	143,819
Other expenses	12,863	21,090	33,953	5,576	5,500	45,029
Total expenses	\$ 714,134	\$ 1,983,979	\$ 2,698,113	\$ 297,561	\$ 221,387	\$ 3,217,061

SEE NOTES TO FINANCIAL STATEMENTS

NORTHSTAR ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services			Supporting Services		
	Career Academy	Northstar Academy	Total	Management and General	Fundraising	Total
Salaries and related expenses	\$ 466,056	\$ 1,343,409	\$ 1,809,465	\$ 216,485	\$ 173,443	\$ 2,199,393
Educational expenses	20,053	57,419	77,472	-	-	77,472
Lunches	334	51,603	51,937	-	-	51,937
Professional fees	60	36,088	36,148	51,617	4,995	92,760
Training and conferences	18,734	25,624	44,358	1,846	760	46,964
Technology	13,387	68,860	82,247	1,599	10,225	94,071
Occupancy expenses	61,650	97,750	159,400	12,282	5,357	177,039
Marketing and student recruitment	12,172	14,712	26,884	-	10,460	37,344
Office expenses	22,891	53,378	76,269	2,663	367	79,299
Depreciation and amortization	44,948	69,865	114,813	8,114	4,057	126,984
Other expenses	8,180	27,582	35,762	21,570	4,928	62,260
Total expenses	\$ 668,465	\$ 1,846,290	\$ 2,514,755	\$ 316,176	\$ 214,592	\$ 3,045,523

SEE NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Northstar Academy, Inc. (the Academy) is a not-for-profit organization that operates a school for children in Central Virginia with broad learning challenges. The Academy operates in Henrico County, Virginia and accepts students from surrounding counties and cities. The Academy is funded through tuition fees for service, contributions and corporate grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Accounting:** The financial statements of the Academy have been prepared in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues are recognized when earned and expenses are recognized when incurred.
- B. **Basis of Presentation:** The Academy 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.

Unrestricted net assets include resources that can be used currently for the general operations of the Academy.

Temporarily restricted net assets are net assets subject to donor imposed stipulations that may, or will be met, either by actions of the Academy and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.

Permanently restricted net assets include contributions restricted by donor designation that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Academy.

- C. **Cash and Cash Equivalents:** Cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.
- D. **Certificates of Deposit:** Certificates of deposit held for investment that are not debt securities are included in investments, and are measured at cost rather than at fair value. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as “short-term investments.” Certificates of deposit with remaining maturities greater than one year are classified as “long-term investments.”

NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

- E. **Tuition Receivable:** Tuition receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to tuition receivable. Because of the inherent uncertainties in estimating the allowance for uncollectible tuition, it is at least reasonably possible that the estimates used will change within the near term.
- F. **Property and Equipment:** Property and equipment are stated at cost if purchased and at fair value if donated. The Academy capitalizes additions of property and equipment in excess of \$1,000 cost or fair value, if donated. Depreciation or amortization is provided over the estimated useful lives of the respective assets on a straight-line basis. It is at least reasonably possible that estimates of remaining useful lives will change in the near term. Routine repairs and maintenance are expensed as incurred.
- G. **Intangible Assets:** Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. It is at least reasonably possible that estimates of remaining useful lives will change in the near term.
- H. **Deposits:** This balance refers to a capital improvement partially paid for during the year but on which construction had not started as of the end of the fiscal year June 30, 2017 and had completed by June 30, 2018.
- I. **Contributions:** All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.

Unconditional promises to give are recorded when pledged.

Conditional promises to give are recognized when the required conditions are substantially met. A conditional promise is considered unconditional if the possibility that the condition will not be met is remote.

The Academy records promises to give as the amounts pledged. Generally accepted accounting principles require that promises to give not expected to be received within one year of the date of the financial statements be recorded as the present value of the expected future cash flows; however the effect of recording the

NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

amount pledged is not materially different from the amount that would have been recorded using the present value.

The Academy has elected to record bad debts on pledged contributions receivable using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however the effect of using the direct write-off method is not materially different from the amount that would have been obtained under the allowance method. It is the Academy's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected.

- J. **Deferred Revenue:** Deferred revenue for unrestricted operations results from the Academy recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school year are deferred until the instruction commences.
- K. **Advertising Costs:** The Academy capitalizes videos intended for marketing and advertising use, and amortizes those assets over their expected useful lives. The Academy expenses all other advertising costs when incurred.
- L. **Income Taxes:** The Academy is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private Foundation. However, income from certain activities not directly related to the Academy's tax-exempt purpose could be subject to taxation as unrelated business income.
- M. **Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISK

As of June 30, 2018, the Academy's balances of cash and cash equivalents were made up of the following:

Cash at banks	\$ 1,510,242
Cash on hand	300
Money market accounts at banks	<u>258,481</u>
Total cash and cash equivalents	<u>\$ 1,769,023</u>

Deposits at four banks are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2018 the Academy's balances in bank deposits and certificates of deposit exceeded FDIC limits by \$1,260,503.

NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017, the Academy's balances of cash and cash equivalents were made up of the following:

Cash at banks	\$ 1,716,079
Cash on hand	300
Money market accounts at banks	<u>257,156</u>
Total cash and cash equivalents	<u>\$ 1,973,535</u>

4. INVESTMENTS

The Academy's investments at June 30, 2018 consisted of a short term CD valued at \$277,959 and a long term CD valued at \$213,821. These CDs were included in the Academy's FDIC limit calculation.

The Academy's investments at June 30, 2017 consisted of a long term CD valued at \$211,135. This CD was included in the Academy's FDIC limit calculation.

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Tuition receivable is presented on the financial statements net of the allowance for doubtful accounts. The balance of the allowance for doubtful accounts was \$3,445 for each of the years ended June 30, 2018 and 2017.

6. CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable at June 30, 2018 consisted of a \$37,500 five year pledge and two one year pledges totaling \$55,000, payable as follows:

Due within one year	\$ 62,500
Due within two to five years	<u>30,000</u>
Total contributions receivable	<u>\$ 92,500</u>

Unconditional contributions receivable at June 30, 2017 consisted of the remaining \$7,500 portion of a \$75,000 pledge, the remaining \$25,000 portion of a \$50,000 pledge, and two pledges for \$69,665, payable as follows:

Due within one year	<u>\$ 102,165</u>
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NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT

Major categories of property and equipment as of June 30, 2018, including their accumulated depreciation and depreciable lives were as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Lives</u>
Land	\$ 255,685	\$ -	Indefinite
Furniture and equipment	332,539	213,336	5-10 years
Vehicles	162,822	93,022	5 years
Leasehold Improvements	87,789	31,643	5 years
Building and improvements	<u>1,372,270</u>	<u>526,717</u>	7-39 years
Total	<u>\$ 2,211,105</u>	<u>\$ 864,718</u>	

Major categories of property and equipment as of June 30, 2017, including their accumulated depreciation and depreciable lives were as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Lives</u>
Land	\$ 255,685	\$ -	Indefinite
Furniture and equipment	318,017	162,266	5-10 years
Vehicles	103,275	76,713	5 years
Leasehold Improvements	86,329	14,225	5 years
Building and improvements	<u>1,188,247</u>	<u>484,045</u>	7-39 years
Total	<u>\$ 1,951,553</u>	<u>\$ 737,249</u>	

Depreciation expense was \$136,542 and \$113,232 for the years ended June 30, 2018 and 2017 respectively.

8. INTANGIBLE ASSETS

As of June 30, 2018 the Academy's intangible assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Lives</u>
Website redesign	\$ 17,766	\$ 17,766	5 Years
Tagline development	5,200	5,200	5 Years
Marketing video	16,725	16,725	3 Years
Career Academy website	5,275	4,103	3 Years
Software	<u>13,303</u>	<u>10,536</u>	3-5 Years
	<u>\$ 58,269</u>	<u>\$ 54,330</u>	

NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017 the Academy's intangible assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Lives</u>
Website redesign	\$ 17,766	\$ 15,693	5 Years
Tagline development	5,200	4,593	5 Years
Marketing video	16,725	16,725	3 Years
Career Academy website	5,275	2,345	3 Years
Software	<u>13,303</u>	<u>7,697</u>	3-5 Years
	<u>\$ 58,269</u>	<u>\$ 47,053</u>	

Amortization expense was \$7,277 and \$13,752 for the years ended June 30, 2018 and 2017 respectively.

9. CONTRIBUTION REVENUE

Contributions to the Academy during the year ended June 30, 2018 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Annual giving	\$ 458,281	\$ -	\$ 458,281
Scholarship fund	-	37,500	37,500
Computer lab	-	34,616	34,616
Teacher training	-	15,000	15,000
Career academy	-	<u>137,500</u>	<u>137,500</u>
	<u>\$ 458,281</u>	<u>\$ 224,616</u>	<u>\$ 682,897</u>

Contributions to the Academy during the year ended June 30, 2017 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Annual giving	\$ 538,583	\$ -	\$ 538,583
Scholarship fund	45,177	-	45,177
Augmentative and Alternative Communication	-	10,000	10,000
Playground	-	80,000	80,000
Kiln	-	2,600	2,600
Career academy	<u>37,500</u>	<u>134,665</u>	<u>172,165</u>
	<u>\$ 621,260</u>	<u>\$ 227,265</u>	<u>\$ 848,525</u>

NORTHSTAR ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

10. OPERATING LEASES

The Academy leases computer equipment under several operating leases as well as office and teaching space under a 5 year lease. The following is a schedule by years of future minimum lease payments:

Year ending June 30	
2019	\$ 47,781
2020	47,550
2021	48,695
2022	<u>16,359</u>
Total minimum lease payments	<u>\$ 160,385</u>

Total lease expense was \$61,677 and \$65,699 for the years ended June 30, 2018 and 2017 respectively.

11. NOTE PAYABLE

In February of 2011, the Academy refinanced its long-term debt which consisted of a note payable obtained in 2001 to purchase its building. The original balance of the new loan was \$300,000. The Academy paid off the remaining balance of \$107,948 during the year ended June 30, 2017. Interest expense for the year ending June 30, 2017 was \$2,170 respectively.

12. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2018:

Scholarships	\$ 37,500
Computer lab	34,616
Teacher training	15,000
Augmentative and Alternate Communication	37,635
Capital campaign	225,000
Career academy	<u>102,500</u>
Total temporarily restricted net assets	<u>\$ 452,251</u>

Temporarily restricted net assets were available for the following purposes as of June 30, 2017:

Scholarships	\$ 7,500
Kiln	2,600
Playground	80,000
Augmentative and Alternate Communication	39,635
Capital campaign	225,000
Career academy	<u>134,665</u>
Total temporarily restricted net assets	<u>\$ 489,400</u>

13. ADVERTISING COSTS

The Academy's advertising costs were \$14,739 and \$7,065 for years ended June 30, 2017 and 2018 respectively.

14. FINANCIAL AID

The Academy provides financial aid in the form of scholarships and tuition discounts for early registration. The amount of scholarships provided by the Academy is determined by a committee of the Academy's Board of Directors based on financial need of the family and information from an independent service that assesses the amount that a family can afford. For the year ended June 30, 2018 the amount of scholarships awarded was \$157,010 and the amount of reduction for early registration was \$30,024. For the year ended June 30, 2017 the amount of scholarships awarded was \$94,547 and the amount of reduction for early registration was \$42,948.

The Academy is a participant in the scholarship program that is overseen by the Great Aspirations Scholarship Program, Inc.(GRASP), an independent not-for-profit organization that provides financial aid for students in need. The academy solicits contributions to GRASP that are designated by the donor to be used for Northstar Academy, Inc. students who meet specific financial need criteria. GRASP makes financial aid awards to the Academy upon the presentation of evidence that the need criteria for the qualifying students has been met. Donor-directed payments received from GRASP for financial aid totaled \$14,780 and \$6,394 for the years ended June 30, 2018 and 2017 respectively. These amounts are included in the gross tuition reported on the financial statements.

15. NONCASH CONTRIBUTIONS

A substantial number of volunteers have donated significant amounts of their time to the Academy and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services under generally accepted accounting principles.

16. CONCENTRATION OF CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2018 consist of a five-year pledge making up 41%, and two one-year pledges making up 59% of contributions receivable.

Contributions receivable as of June 30, 2017 consist of the remaining one year of a ten-year pledge making up 7%, the remaining portion of a two-year pledge making up 24% and two one-year pledges making up 69% of contributions receivable.

17. CONCENTRATION OF CREDIT RISK OF STUDENT RECEIVABLES

Financial instruments that potentially subject the Academy to credit risk include student accounts receivable. The Academy extends unsecured credit plans to parents or guardians of students. Student accounts receivable represent amounts due for tuition and fees from parents or guardians of students. Amounts are past due when not paid by the end of the following month. Student accounts receivable past due more than ninety days were \$1,011 as of June 30, 2018, and zero as of June 30, 2017.

18. CONCENTRATION OF REVENUE

Tuition and fees from two school jurisdictions make up 14% and 11% of net tuition and fees revenue in the year ended June 30, 2018.

Tuition and fees from two school jurisdictions make up 18% and 12% of net tuition and fees revenue in the year ended June 30, 2017.

19. EMPLOYEE RETIREMENT PLAN

The Academy provides retirement benefits to its employees through a defined contribution plan covering all full-time employees with one year of eligible experience. Starting in the year ended June 30, 2018 the Academy made matching contributions of up to 4% of eligible employees' salary to the plan. Participants may elect to make contributions to the plan up to the maximum prescribed by law. Total retirement expense was \$39,575 and \$0 for the years ended June 30, 2018 and 2017, respectively.

20. RELATED PARTIES

The Academy purchases insurance policies through an agent who is the spouse of the former Head of School of the Academy, who retired June 30, 2017. Premiums paid during the year ended June 30, 2018 and June 30, 2017 were \$219,268 and \$159,471 respectively. The Academy's use of this insurance agency predates the marriage of the Head of School.

The Academy leases computer equipment under operating leases from a company the president of which is former a member of the Academy's Board of Directors. Amounts paid to this company during the years ended June 30, 2018 and June 30, 2017 were \$17,093 and \$35,219 respectively.

21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2018, the date which the financial statements were available to be issued.