YES Prep Public Schools, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

YES Prep Public Schools, Inc.

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
YES Prep Public Schools, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of YES Prep Public Schools, Inc. (YES Prep), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities and of cash flows 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits 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 auditors' 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 consolidated financial position of YES Prep as of June 30, 2017 and 2016 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.

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Change in Accounting Principle

As described in Note 2, YES Prep adopted Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* and restated its financial statements for June 30, 2016 to retrospectively apply the ASU. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017 on our consideration of YES Prep's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of YES Prep's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering YES Prep's internal control over financial reporting and compliance.

Blazek & Vetterling

November 15, 2017

YES Prep Public Schools, Inc.

Consolidated Statements of Financial Position as of June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents *(Note 3)*	$ 26,263,959	$ 25,251,162
Receivables:		
Government agencies	17,717,993	15,030,313
Pledges restricted for capital expansion *(Note 4)*	964,000	534,000
Operating pledges *(Note 4)*	171,000	350,000
Bequests		1,000,000
Other	795,707	1,934,583
Prepaid expenses and other assets	395,801	2,005,233
Total current assets	46,308,460	46,105,291
Operating pledges receivable, net *(Note 4)*	50,000	100,000
Beneficial interest in charitable trust	2,136,762	2,236,762
Note receivable *(Note 5)*	10,422,800	10,422,800
Cash restricted for capital projects	5,730,739	3,814,381
Bond sinking funds *(Note 7)*	14,389,425	11,369,121
Pledges receivable restricted for capital expansion *(Note 4)*	420,000	849,000
Property and equipment, net *(Note 6)*	112,524,822	100,542,311
TOTAL ASSETS	$ 191,983,008	$ 175,439,666
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,633,890	$ 3,106,706
Accrued payroll expenses	7,430,998	7,338,133
Construction payable	3,145,962	1,108,133
Accrued interest	795,389	749,193
Deferred revenue		3,123
Current portion of notes payable *(Note 7)*	1,960,010	2,190,756
Current portion of bonds payable *(Note 7)*	602,000	
Total current liabilities	17,568,249	14,496,044
Bonds payable, net *(Note 7)*	56,234,881	48,552,086
Notes payable, net *(Note 7)*	28,807,169	30,704,469
Total liabilities	102,610,299	93,752,599
Minority interest in YES Prep Holdings, Inc.	12,815	12,815
Commitments *(Note 9)*		
Net assets:		
Unrestricted	72,049,832	64,336,599
Temporarily restricted *(Note 8)*	17,310,062	17,337,653
Total net assets	89,359,894	81,674,252
TOTAL LIABILITIES AND NET ASSETS	$ 191,983,008	$ 175,439,666

See accompanying notes to consolidated financial statements.

YES Prep Public Schools, Inc.

Consolidated Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Government grants *(Note 10)*		$ 103,850,294	$ 103,850,294
Contributions	$ 449,111	7,217,565	7,666,676
Program service fees	12,017,587		12,017,587
Special events	1,691,130		1,691,130
Cost of direct donor benefits	(148,647)		(148,647)
Interest *(Note 7)*	686,683		686,683
Other	34,292		34,292
Total operating revenue	14,730,156	111,067,859	125,798,015
Net assets released from restrictions:			
Program expenditures	104,626,450	(104,626,450)	
Capital expenditures	6,369,000	(6,369,000)	
Expiration of time restrictions	100,000	(100,000)	
Total	125,825,606	(27,591)	125,798,015
OPERATING EXPENSES:			
Program expenses:			
Instructional program	92,422,595		92,422,595
Auxiliary services	15,343,610		15,343,610
Total program expenses	107,766,205		107,766,205
General and administrative	9,427,248		9,427,248
Fundraising	918,920		918,920
Total operating expenses	118,112,373		118,112,373
CHANGES IN NET ASSETS	7,713,233	(27,591)	7,685,642
Net assets, beginning of year	64,336,599	17,337,653	81,674,252
Net assets, end of year	$ 72,049,832	$ 17,310,062	$ 89,359,894

See accompanying notes to consolidated financial statements.

YES Prep Public Schools, Inc.

Consolidated Statement of Activities for the year ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Government grants *(Note 10)*		$ 93,500,558	$ 93,500,558
Contributions	$ 2,273,243	2,825,432	5,098,675
Program service fees	10,157,213		10,157,213
Special events	1,179,659		1,179,659
Cost of direct donor benefits	(140,691)		(140,691)
Interest *(Note 7)*	545,039		545,039
Other	33,781		33,781
Total operating revenue	14,048,244	96,325,990	110,374,234
Net assets released from restrictions:			
Program expenditures	91,496,113	(91,496,113)	
Capital expenditures	3,206,185	(3,206,185)	
Expiration of time restrictions	100,000	(100,000)	
Total	108,850,542	1,523,692	110,374,234
OPERATING EXPENSES:			
Program expenses:			
Instructional program	80,140,274		80,140,274
Auxiliary services	13,200,339		13,200,339
Total program expenses	93,340,613		93,340,613
General and administrative	9,979,213		9,979,213
Fundraising	1,510,420		1,510,420
Total operating expenses	104,830,246		104,830,246
CHANGES IN NET ASSETS	4,020,296	1,523,692	5,543,988
Net assets, beginning of year	60,316,303	15,813,961	76,130,264
Net assets, end of year	$ 64,336,599	$ 17,337,653	$ 81,674,252

See accompanying notes to consolidated financial statements.

YES Prep Public Schools, Inc.

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 7,685,642	$ 5,543,988
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for expansion of facilities	(6,179,000)	(2,000,000)
Loss on valuation of pledges		755,000
Depreciation	4,591,788	4,618,730
Amortization of bond issuance costs	131,449	122,395
Forgiveness of debt		(200,000)
Changes in operating assets and liabilities:		
Receivables	(319,804)	(850,013)
Prepaid expenses and other assets	1,609,432	(1,628,328)
Beneficial interest in charitable trust	100,000	(82,587)
Accounts payable and accrued expenses	620,049	1,634,251
Accrued interest	46,196	82,914
Deferred revenue	(3,123)	(125,439)
Net cash provided by operating activities	8,282,629	7,870,911
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,035,323)	(919,162)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond sinking funds	(3,020,304)	(2,919,506)
Change in cash restricted for capital projects	(1,916,358)	(3,660,560)
Capitalized bond issuance costs	(212,002)	(156,281)
Proceeds from bonds and notes payable	528,853	7,500,000
Principal repayments of bonds and notes payable	(2,792,698)	(4,971,389)
Proceeds from contributions restricted for expansion of facilities	6,178,000	3,161,667
Net cash used by financing activities	(1,234,509)	(1,046,069)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,012,797	5,905,680
Cash and cash equivalents, beginning of year	25,251,162	19,345,482
Cash and cash equivalents, end of year	$ 26,263,959	$ 25,251,162

Supplemental disclosure of cash flow information:		
Interest payments	$1,343,676	$1,249,119
Property and equipment acquired with bond proceeds	$8,501,147	$11,370,208

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates twelve Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 10,300 students from 6th through 12th grade. Additionally, YES Prep operates two schools within Spring Branch Independent School District and one school within Aldine Independent School District on a contract basis. These partnerships (Partnerships) are conducted outside of YES Prep's charter.

YES Prep Facilities, LLC (Facilities) was created in 2013 to operate buildings on YES Prep's Fifth Ward and Northside campuses and to construct improvements on those buildings. Facilities leases the buildings to YES Prep. Facilities holds New Markets Tax Credit debt incurred to improve the buildings. YES Prep owns 99% of Facilities. The remaining 1% interest is owned by YES Prep Holdings, Inc., a Texas non-profit corporation that is not under the control of YES Prep. The 1% interest owned by YES Prep Holdings, Inc. is reported as a minority interest on the consolidated statements of financial position of YES Prep.

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of YES Prep Public Schools, Inc. and Facilities (collectively YES Prep). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – YES Prep is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. An allowance for uncollectible pledges receivable is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of pledges receivable balances each period.

Beneficial interest in charitable trust – YES Prep is the beneficiary of an irrevocable charitable trust that is reported at the fair value of the underlying assets. The purpose of the gift is to provide college scholarships to YES Prep graduates who attend out-of-state colleges. The inputs used to measure fair value are considered to fall within Level 3 of the fair value hierarchy.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. YES Prep recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements and 2 to 12 years for furniture, equipment and vehicles. YES Prep capitalizes additions and improvements that have a cost of more than $5,000.

Net asset classification – Contributions, interest income and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and interest income restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Grants and contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are included in contribution revenue when the conditions are substantially met.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, YES Prep reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Program service fees are recognized in the period in which services are provided.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent financial accounting pronouncement – In August 2016, Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements. YES Prep will adopt this ASU effective for the fiscal year ended June 30, 2019.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

In 2017, YES Prep retrospectively adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. As a result of this adoption, $1,684,054 of capitalized debt issuance costs at June 30, 2016 that had been presented as an asset, were reclassified and netted against the related debt.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2017	2016
Demand deposits	$ 9,920,981	$ 7,991,651
TexPool and TexSTAR investment pools	16,342,978	17,259,511
Total cash and cash equivalents	$ 26,263,959	$ 25,251,162

YES Prep has deposits in the The Texas Short Term Reserve Program Cash Reserve Fund (TexSTAR) and TexPool, Texas Local Government Investment Pools. TexSTAR conforms with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR uses the fair value method to report net position and to compute share prices.

TexPool operates in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940 and fully complies with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. This investment pool uses amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the position in TexPool is the same value as the number of shares owned.

Bank deposits exceed the federally insured limit per depositor per institution and were not collateralized by a security agreement with a bank as of June 30, 2017.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2017	2016
Pledges receivable	$ 1,605,000	$ 2,588,000
Allowance for uncollectible pledges		(755,000)
Pledges receivable, net	$ 1,605,000	$ 1,833,000

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Due within one year	$ 1,135,000
Due in one to five years	470,000
Total pledges receivable	$ 1,605,000

Concentration – At June 30, 2017, 79% of pledges receivable were due from three donors. In 2017, three donors provided 35% of contribution revenue.

In 2014 and 2015, YES Prep received conditional pledges totaling $13,100,000 from two foundations with payment contingent upon opening new schools. At June 30, 2017, the amount outstanding on these two gifts totaled $5,000,000. YES Prep recognized $3,800,000 and $600,000 of contributions related to these pledges in 2017 and 2016, respectively. In 2015, YES Prep received a $2,500,000 conditional pledge from the Charter School Growth Fund. The payments are contingent upon meeting certain milestones and conditions. At June 30, 2017, the amount outstanding on this gift totaled $1,000,000. YES Prep recognized $500,000 of contributions related to this pledge in 2017 and 2016.

NOTE 5 – NOTE RECEIVABLE

In 2012, YES Prep loaned $10,422,800 to COCRF Investor XIV, LLC (COCRF Investor). The loan matures on November 1, 2042 and bears interest at 1.31%, which is paid quarterly. The loan is interest only for the first seven years, until October 2019. Simultaneous to YES Prep making the loan, Capital One Bank, NA (the Bank) invested $3,577,200 in COCRF Investor, which in turn placed these combined funds as equity in the form of a Qualified Equity Investment under section 45D of the Internal Revenue Code of 1986, as amended, into COCRF SubCDE XIV, LLC (COCRF CDE) and New Markets Investment 71, LLC (NMI 71). The loan from YES Prep to COCRF Investor is secured by COCRF Investor’s interests in COCRF CDE and NMI 71. COCRF CDE and NMI 71 made loans to Facilities in the form of New Markets Tax Credit Qualified Low-Income Community Investments under Section 45D of the Internal Revenue Code of 1986, as amended, for the construction of YES Prep Fifth Ward and YES Prep Northside. Interest totaling $136,641 was earned on the note for the years ended June 30, 2017 and 2016.

Put and Call Options

The Bank holds a put option on its investment in COCRF Investor, whereby it may sell its ownership to YES Prep at a prearranged price ($178,860) during the six-month period commencing October 11, 2019 (Put Option Period).

YES Prep holds a call option on the Bank’s investment, whereby it may purchase the Bank’s interest in COCRF Investor if the Put Option Period expires and the Bank does not exercise its put option. The call option may be exercised during the six months immediately following the expiration of the Put Option Period. If YES Prep exercises its call option, the Bank is obligated to sell its investment interest in COCRF Investor to YES Prep at the then determined market value of the Bank’s interest in COCRF Investor.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	2017	2016
Land	$ 12,669,107	$ 8,984,944
Buildings and improvements	117,659,921	108,412,796
Furniture and equipment	7,778,506	7,261,727
Construction in progress	4,889,792	1,763,560
Total property and equipment, at cost	142,997,326	126,423,027
Accumulated depreciation	(30,472,504)	(25,880,716)
Property and equipment, net	$ 112,524,822	$ 100,542,311

NOTE 7 – BONDS AND NOTES PAYABLE

In March 2010, YES Prep entered into a Master Trust Indenture (MTI) for the purpose of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on YES Prep's revenue, as well as on certain real property of YES Prep. YES Prep is required to maintain 1.2 times debt coverage at each quarter-end while MTI debt is still outstanding. With the exception of the New Markets Tax Credit and the Charter School Growth Fund loans, all bonds and notes held by YES Prep exist under, and are subject to, the MTI.

Bonds payable consist of the following:

	2017	2016
Qualified Zone Academy Bond, Taxable Series 2010Z, issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.73% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.	$ 16,000,000	$ 16,000,000
Qualified Zone Academy Bond, Taxable Series 2015Z, issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.87% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2030. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.	15,000,000	15,000,000
Qualified Zone Academy Bond, Taxable Series 2011Z, issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.18% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1.5% supplemental interest semi-annually. The bond is due April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.	8,751,600	8,751,600
Qualified Zone Academy Bond, Taxable Series 2017Z, issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.57% in annual tax credits as part of a federal tax credit bond program, and YES Prep pays 0% supplemental interest semi-annually. The bond is due April 1, 2031. The proceeds are being used to construct, rehabilitate, or repair specified campus facilities and are secured by real estate.	8,428,000	
Qualified School Construction Bond, Taxable Series 2010Q, issued by the City of Houston Higher Education Finance Corporation. The investor earns 5.82% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2% supplemental interest semi-annually. The bond is due April 1, 2025. The proceeds were used to construct specified campus facilities and are secured by real estate.	6,100,000	6,100,000

Qualified Zone Academy Bond, Taxable Series 2012Z, issued by the City of Houston Higher Education Finance Corporation. The investor earns 4.49% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 1% supplemental interest semi-annually. The bond is due April 1, 2027. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.	3,400,000	3,400,000
Total	57,679,600	49,251,600
Unamortized debt issuance costs	(842,719)	(699,514)
Total bonds payable	$ 56,836,881	$ 48,552,086

Interest expense on the bonds payable totaled approximately $757,000.

Maturities of bonds payable, including interest, at June 30, 2017 are as follows:

	PRINCIPAL	INTEREST	TOTAL
2018	$ 602,000	$ 757,274	$ 1,359,274
2019	602,000	757,274	1,359,274
2020	602,000	757,274	1,359,274
2021	602,000	757,274	1,359,274
2022	602,000	757,274	1,359,274
Thereafter	54,669,600	3,789,052	58,458,652
Total	$ 57,679,600	$ 7,575,422	$ 65,255,022

YES Prep entered into two repurchase agreements to fund the repayment of bonds as specified in the agreement upon maturity. YES Prep makes equal annual deposits into these accounts over the 15-year term of the underlying bonds, and earns interest at rates varying between 2.18% and 4.259%. The combination of the annual deposits and interest earned on the accounts will provide the full amount due upon maturity of the covered bonds.

YES Prep's minimum cash commitments under the repurchase agreements are as follows:

2018	$ 2,558,713
2019	2,558,713
2020	2,558,713
2021	2,558,713
2022	2,558,713
Thereafter	11,863,790
Total	$ 24,657,355

Notes payable consist of the following:

	2017	2016
Note payable to New Markets Investment 71, LLC, issued in October 2012. Interest at 1% is paid quarterly. Principal payments begin on October 9, 2019 and are paid quarterly through maturity on November 1, 2042. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan is secured by real estate.	$ 8,665,000	$ 8,665,000
Series 2013 loan agreement for $9,740,000 with a bank issued by Dickinson Education Finance Corporation. The loan bears interest at 3.25% and payments are due in semi-annual installments through April 1, 2028. The proceeds were used to retire existing debt and to provide funding for expansions at YES Prep Southwest and YES Prep Fifth Ward. The loan is secured by real estate.	7,796,505	8,375,920
Series 2015 loan agreement for $7,000,000 with a bank issued by Dickinson Education Finance Corporation. Interest at 2.93%. Paid in semi-annual installments through April 1, 2030. The proceeds were used to renovate the YES Prep North Forest campus and to construct YES Prep System Office. The loan is secured by real estate and revenue streams.	6,066,667	6,533,334
Note payable to COCRF SubCDE XIV, LLC, issued in October 2012. Interest at 1% per annum is paid quarterly. Principal payments begin on December 23, 2019 and are paid quarterly through maturity at November 1, 2042. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan is secured by real estate.	5,000,000	5,000,000
Loan agreement for $2,300,000 with Charter School Growth Fund dated April 2015. Interest is at 0%. Principal payments are due in annual installments from June 2015 to June 2020. The loan is unsecured.	1,500,000	2,250,000
Loan agreement for $2,500,000 with Charter School Growth Fund amended December 2014. Interest at 1%. Principal payments are due in annual installments in June 2020 and June 2021. The loan is unsecured.	1,045,000	1,045,000
Loan agreement for $1,000,000 with Charter School Growth Fund dated December 2014. Interest at 1%. Principal payments are due in annual installments in June 2021 and June 2022, with interest due in June 2022. The loan is unsecured.	1,000,000	1,000,000
Loan agreement with a bank for $7,890,935 dated June 2012. Interest and principal due monthly through maturity on June 8, 2019. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate.	415,964	810,511
Loan agreement for $200,000 with Charter School Growth Fund dated July 2013. Interest at 1%. Loan matures on June 30, 2019, with interest due at that time. The loan is unsecured.	200,000	200,000
Total	31,689,136	33,879,765
Unamortized debt issuance costs	(921,957)	(984,540)
Total notes payable	$ 30,767,179	$ 32,895,225

Interest expense on the notes payable totaled approximately $614,000.

Maturities of notes payable, including interest, at June 30, 2017 are as follows:

	PRINCIPAL	INTEREST	TOTAL
2018	$ 1,960,010	$ 586,020	$ 2,546,030
2019	1,806,774	547,370	2,354,144
2020	2,548,750	510,959	3,059,709
2021	2,662,273	469,872	3,132,145
2022	14,380,526	429,075	14,809,601
Thereafter	8,330,803	3,849,681	12,180,484
Total	$ 31,689,136	$ 6,392,977	$ 38,082,113

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
State funds for future educational expenses	$ 13,188,317	$ 12,722,323
College scholarships for YES Prep graduates	2,254,833	2,363,201
Redefining Possible Growth campaign	1,393,000	583,000
YES Prep future operations	221,000	200,000
Teacher Squared	89,839	119,129
College initiatives	69,502	
Teaching Excellence	54,343	
Innovation Fund	8,537	250,000
Teaching Excellence Center		1,000,000
Leading Excellence		100,000
Other	30,691	
Total temporarily restricted net assets	$ 17,310,062	$ 17,337,653

NOTE 9 – COMMITMENTS

Lease commitments – YES Prep leases certain equipment under noncancelable operating leases. Operating lease payments for the years ended June 30, 2017 and 2016 were approximately $871,000 and $938,000, respectively. Future minimum lease payments are due as follows:

2018	$ 601,710
2019	566,765
2020	46,316
Total	$ 1,214,791

Construction commitments – In 2015, YES Prep entered into several contracts totaling approximately $15.7 million for construction projects at certain schools and a home office. As of June 30, 2017, outstanding commitments totaled approximately $883,000.

NOTE 10 – GOVERNMENT GRANTS

YES Prep is the recipient of government grants from various federal, state and local agencies. Government grants include the following:

	2017	2016
State grants:		
Texas Education Agency Foundation School Program Act	$ 89,660,257	$ 82,060,154
Textbook and Kindergarten Materials	1,297,143	834,487
School Lunch Matching	24,958	22,465
Total state grants	90,982,358	82,917,106
Federal grants:		
U. S. Department of Education	8,633,019	7,022,849
U. S. Department of Agriculture	4,234,917	3,560,603
Total federal grants	12,867,936	10,583,452
Total government grants	$ 103,850,294	$ 93,500,558

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by YES Prep with the terms of the contracts. Management believes such disallowances, if any, would not be material to YES Prep's financial position or changes in net assets.

NOTE 11 – MULTIEMPLOYER PENSION PLAN

YES Prep's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by YES Prep, but are the liability of the State of Texas. For 2017, plan members contribute 7.7% of their annual covered salary, YES Prep contributes 6.8% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, YES Prep makes a 1.5% non-OASDI payment on all TRS eligible employees. YES Prep's contributions do not represent more than 5% of the pension plan's total contributions. YES Prep contributed $1,404,772 and $1,326,568 to the plan during fiscal years 2017 and 2016, respectively, equal to the required contribution for the year.

The risks of participating in a multiemployer, defined benefit plan is different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2016 and 2015 were $152.9 billion and $149.8 billion, respectively. Accumulated benefit obligations as of August 31, 2016 and 2015 were $171.8 billion and $163.9 billion, respectively. The plan was 79.70% funded at August 31, 2016 and 83.25% funded at August 31, 2015.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.