

YES Prep Public Schools, Inc.

Financial Statements
and Single Audit Reports
for the year ended June 30, 2020

YES Prep Public Schools, Inc.

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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 statements of financial position as of June 30, 2020 and 2019 and the related statements of activities, of functional expenses, 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 financial position of YES Prep as of June 30, 2020 and 2019 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 22 through 37 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2020 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise YES Prep's basic financial statements. The budget variance explanations on pages 38 through 39 are presented for purposes of additional analysis as required by the Texas Education Agency and are not a required part of the basic financial statements. The budget variance explanations have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020 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 10, 2020

YES Prep Public Schools, Inc.

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents (<i>Notes 4 and 7</i>)	\$ 49,169,264	\$ 34,381,817
Contributions receivable (<i>Note 5</i>):		
Government grants	18,534,955	22,532,329
Other contributions receivable	4,009,916	1,050,740
Accounts receivable	2,369,048	229,041
Beneficial interest in charitable trust	250,000	250,000
Prepaid expenses and other assets	<u>869,625</u>	<u>1,777,815</u>
Total current assets	75,202,808	60,221,742
Other contributions receivable, net (<i>Note 5</i>)	1,502,586	697,335
Beneficial interest in charitable trust	1,339,876	1,505,501
Note receivable (<i>Note 6</i>)		10,422,800
Cash restricted for capital projects (<i>Note 4</i>)		1,800,639
Bond sinking fund investments (<i>Note 7</i>)	23,813,133	20,755,552
Property and equipment, net (<i>Note 8</i>)	<u>175,785,309</u>	<u>153,547,303</u>
TOTAL ASSETS	<u>\$ 277,643,712</u>	<u>\$ 248,950,872</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 931,317	\$ 3,552,524
Accrued payroll expenses	9,425,609	9,234,179
Construction payable	1,692,166	2,162,455
Accrued interest	1,041,866	988,482
Current portion of bonds payable (<i>Note 9</i>)	1,546,667	1,546,667
Current portion of notes payable (<i>Note 9</i>)	<u>3,411,697</u>	<u>4,233,751</u>
Total current liabilities	18,049,322	21,718,058
Bonds payable, net (<i>Note 9</i>)	64,790,006	66,222,702
Notes payable, net (<i>Note 9</i>)	<u>45,815,014</u>	<u>45,350,609</u>
Total liabilities	<u>128,654,342</u>	<u>133,291,369</u>
Minority interest in YES Prep Holdings, Inc.		<u>2,594</u>
Commitments and contingencies (<i>Note 11</i>)		
Net assets:		
Without donor restrictions	100,467,547	82,517,956
With donor restrictions (<i>Note 10</i>)	<u>48,521,823</u>	<u>33,138,953</u>
Total net assets	<u>148,989,370</u>	<u>115,656,909</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 277,643,712</u>	<u>\$ 248,950,872</u>

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions:			
Government grants <i>(Note 12)</i>		\$ 136,127,015	\$ 136,127,015
Other contributions	\$ 3,718,542	21,882,276	25,600,818
Program service fees	18,152,573		18,152,573
Special events	2,667,007		2,667,007
Cost of direct donor benefits	(200,459)		(200,459)
Interest income	989,932		989,932
Other	160,956		160,956
Total operating revenue	25,488,551	158,009,291	183,497,842
Net assets released from restrictions:			
Program expenditures	138,551,421	(138,551,421)	
Capital expenditures	4,065,000	(4,065,000)	
Expiration of time restrictions	10,000	(10,000)	
Total	168,114,972	15,382,870	183,497,842
OPERATING EXPENSES:			
Program expenses:			
Instructional program	122,327,792		122,327,792
Auxiliary services	16,027,740		16,027,740
Total program expenses	138,355,532		138,355,532
General and administrative	13,685,278		13,685,278
Fundraising	1,131,805		1,131,805
Total operating expenses	153,172,615		153,172,615
Changes in net assets before gain on New Markets			
Tax Credit transaction	14,942,357	15,382,870	30,325,227
Gain on New Markets Tax Credit transaction <i>(Note 6)</i>	3,007,234		3,007,234
CHANGES IN NET ASSETS			
Net assets, beginning of year	82,517,956	33,138,953	115,656,909
Net assets, end of year	\$ 100,467,547	\$ 48,521,823	\$ 148,989,370

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions:			
Government grants (<i>Note 12</i>)		\$ 127,688,940	\$ 127,688,940
Other contributions	\$ 848,752	7,161,514	8,010,266
Program service fees	15,429,122		15,429,122
Special events	2,339,526		2,339,526
Cost of direct donor benefits	(222,996)		(222,996)
Interest income	1,391,248		1,391,248
Other	41,519		41,519
	<hr/>	<hr/>	<hr/>
Total operating revenue	19,827,171	134,850,454	154,677,625
Net assets released from restrictions:			
Program expenditures	123,124,860	(123,124,860)	
Capital expenditures	3,193,232	(3,193,232)	
Expiration of time restrictions	60,000	(60,000)	
	<hr/>	<hr/>	<hr/>
Total	146,205,263	8,472,362	154,677,625
OPERATING EXPENSES:			
Program expenses:			
Instructional program	111,856,711		111,856,711
Auxiliary services	17,341,264		17,341,264
	<hr/>		<hr/>
Total program expenses	129,197,975		129,197,975
General and administrative	11,489,941		11,489,941
Fundraising	871,965		871,965
	<hr/>		<hr/>
Total operating expenses	141,559,881		141,559,881
CHANGES IN NET ASSETS			
	4,645,382	8,472,362	13,117,744
Net assets, beginning of year	<hr/>	<hr/>	<hr/>
	77,872,574	24,666,591	102,539,165
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 82,517,956	\$ 33,138,953	\$ 115,656,909

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2020

	<u>INSTRUCTIONAL PROGRAM</u>	<u>AUXILIARY SERVICES</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related costs	\$ 91,261,970	\$ 3,297,938	\$ 94,559,908	\$ 10,799,456	\$ 716,816	\$ 106,076,180
Materials and supplies	10,265,998	1,024,707	11,290,705	628,875	103,722	12,023,302
Depreciation	5,688,632	409,116	6,097,748	274,236	20,456	6,392,440
Professional fees and other contracted services	3,536,246	1,396,079	4,932,325	877,575	213,985	6,023,885
Contracted transportation services	164,428	5,519,736	5,684,164	2,006		5,686,170
Maintenance and repairs	4,504,610	324,003	4,828,613	217,157	16,198	5,061,968
Contracted food services	163,706	3,428,259	3,591,965	83,283	30,399	3,705,647
Utilities and occupancy	2,414,141	192,758	2,606,899	120,439	7,929	2,735,267
Interest, debt service and bank fees	2,392,373	172,055	2,564,428	115,331	8,603	2,688,362
Travel	924,840	206,083	1,130,923	211,168	9,536	1,351,627
Insurance	685,292	54,663	739,955	242,110	2,464	984,529
Other	<u>325,556</u>	<u>2,343</u>	<u>327,899</u>	<u>113,642</u>	<u>1,697</u>	<u>443,238</u>
Total expenses	<u>\$ 122,327,792</u>	<u>\$ 16,027,740</u>	<u>\$ 138,355,532</u>	<u>\$ 13,685,278</u>	<u>\$ 1,131,805</u>	153,172,615
Cost of direct donor benefits						<u>200,459</u>
Total						<u>\$ 153,373,074</u>

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Functional Expenses for the year ended June 30, 2019

	INSTRUCTIONAL PROGRAM	AUXILIARY SERVICES	TOTAL PROGRAM EXPENSES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
Salaries and related costs	\$ 83,104,039	\$ 3,081,288	\$ 86,185,327	\$ 8,722,495	\$ 487,506	\$ 95,395,328
Materials and supplies	7,525,159	945,292	8,470,451	499,516	51,501	9,021,468
Depreciation	5,392,937	354,426	5,747,363	260,394	19,891	6,027,648
Professional fees and other contracted services	2,801,442	1,238,307	4,039,749	1,025,389	222,486	5,287,624
Contracted transportation services	563,830	7,005,764	7,569,594	11,584	5	7,581,183
Maintenance and repairs	4,541,047	320,499	4,861,546	218,182	16,749	5,096,477
Contracted food services	211,197	3,570,324	3,781,521	106,604	37,724	3,925,849
Utilities and occupancy	2,844,756	272,468	3,117,224	131,666	12,216	3,261,106
Interest, debt service and bank fees	1,952,528	128,321	2,080,849	94,277	7,201	2,182,327
Travel	1,830,785	378,626	2,209,411	270,441	12,984	2,492,836
Insurance	691,037	45,415	736,452	79,713	2,549	818,714
Other	397,954	534	398,488	69,680	1,153	469,321
Total expenses	<u>\$ 111,856,711</u>	<u>\$ 17,341,264</u>	<u>\$ 129,197,975</u>	<u>\$ 11,489,941</u>	<u>\$ 871,965</u>	141,559,881
Cost of direct donor benefits						<u>222,996</u>
Total						<u>\$ 141,782,877</u>

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 33,332,461	\$ 13,117,744
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for expansion of facilities	(17,200,000)	(5,223,765)
Depreciation	6,392,440	6,027,648
Gain on New Markets Tax Credit transaction	(3,007,234)	
Amortization of bonds and notes payable issuance costs	326,676	309,869
Changes in operating assets and liabilities:		
Receivables	(419,559)	1,232,554
Prepaid expenses and other assets	908,190	(752,533)
Beneficial interest in charitable trust	165,625	168,761
Accounts payable and accrued expenses	(2,432,371)	733,522
Accrued interest	<u>53,384</u>	<u>149,143</u>
Net cash provided by operating activities	<u>18,119,612</u>	<u>15,762,943</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(29,100,735)</u>	<u>(28,739,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond sinking fund investments	(3,057,581)	(3,236,162)
Capitalized bonds and notes payable issuance costs	(52,263)	(413,218)
Proceeds from bonds and notes payable	17,415,389	13,179,514
Principal repayments of bonds and notes payable	(6,050,113)	(3,652,854)
Proceeds from contributions restricted for expansion of facilities	<u>15,712,499</u>	<u>4,757,097</u>
Net cash provided by financing activities	<u>23,967,931</u>	<u>10,634,377</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,986,808	(2,341,909)
Cash and cash equivalents, beginning of year	<u>36,182,456</u>	<u>38,524,365</u>
Cash and cash equivalents, end of year	<u>\$ 49,169,264</u>	<u>\$ 36,182,456</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 49,169,264	\$ 34,381,817
Cash restricted for capital projects	<u> </u>	<u>1,800,639</u>
Total cash and cash equivalents	<u>\$ 49,169,264</u>	<u>\$ 36,182,456</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$2,057,800	\$1,816,062

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Notes to Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates sixteen Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 14,000 students from 6th through 12th grade. Additionally, YES Prep operates two schools within Spring Branch Independent School District and two schools 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 leased the buildings to YES Prep and held New Markets Tax Credit (NMTC) debt incurred to improve the buildings. YES Prep owned 99% of Facilities with the remaining 1% interest owned by YES Prep Holdings, Inc., a Texas non-profit corporation that was not under the control of YES Prep. The 1% interest owned by YES Prep Holdings, Inc. is reported as a minority interest on the statements of financial position of YES Prep. In September 2019, the NMTC transactions were unwound and Facilities transferred the buildings to YES Prep without consideration (see Notes 6 and 9). In December 2019, a Certificate of Termination for Facilities was filed with the State of Texas Secretary of State.

Basis of consolidation – These financial statements as of and for the year ended December 31, 2019 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.

Government grants and other contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions and government grants revenue. An allowance for uncollectible receivables 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 balances.

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.

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 and equipment. YES Prep capitalizes additions and improvements that have a cost of more than \$5,000.

Debt issuance costs represent costs incurred related to the issuance of bonds and notes payable and are amortized over the repayment period of the related debt. Unamortized debt issuance costs are reported as a reduction to related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Government grants and other contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and grants received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before YES Prep is entitled to receive or retain funding. Conditional contributions and grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances and are recognized in the same manner when the conditions are 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 classified as restricted support.

Program service fees comprise revenue from contracts from YES Prep's Partnerships activity, teacher training services, and food service fees. Revenue is recognized when the services are provided to a customer in an amount that reflects the consideration YES Prep expects to be entitled to in exchange for those services. Payment is due monthly for all services. The nature of these services does not give rise to contract costs or any variable considerations, warranties or other related obligations.

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.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of buildings and improvements, maintenance and repairs, utility and occupancy costs and interest and debt service costs are allocated based on square footage.

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.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2021. YES Prep plans to adopt this ASU for fiscal year ending June 30, 2023. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

YES Prep adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU and all subsequently clarifying ASU’s replaced most existing revenue recognition guidance in generally accepted accounting principles. The ASU also required expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. YES Prep adopted the new standard effective July 1, 2018 using the full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under this ASU, and therefore, adoption of this ASU had no impact on total net assets or total changes in net assets in fiscal year 2019.

YES Prep also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. YES Prep adopted the new standard retrospectively effective July 1, 2018. Adoption of this ASU had no impact on total net assets or changes in net assets for fiscal year 2019.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 49,169,264	\$ 36,182,456
Receivables, net	26,416,505	24,509,445
Beneficial interest in charitable trust	1,589,876	1,755,501
Bond sinking fund investments	<u>23,813,133</u>	<u>20,755,552</u>
Total financial assets	100,988,778	83,202,954
Less financial assets not available for general expenditure:		
Bond sinking fund investments	(23,813,133)	(20,755,552)
Cash and cash equivalents and contributions restricted and designated for long-term purposes	(3,143,114)	(5,179,762)
Beneficial interest in charitable trust, net of current portion	(1,339,876)	(1,505,501)
Restricted by donors for use in future periods or for future projects, net of expected amount to be satisfied in coming year	<u>(831,750)</u>	<u>(14,000)</u>
Total financial assets available for general expenditure	<u>\$ 71,860,905</u>	<u>\$ 55,748,139</u>

YES Prep relies on state and federal grants and program fees from agreements with local public school districts to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, YES Prep considers all expenditures related to its ongoing activities of instructional program and auxiliary services, excluding capital and debt repayments, as well as the conduct of services undertaken to support these activities, to be general expenditures. See Note 9 for bond sinking fund requirements.

As part of YES Prep’s liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. To help manage unanticipated liquidity needs, YES Prep has committed lines of credit of \$5 million for operation purposes, of which \$0 has been drawn upon at June 30, 2020.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2020</u>	<u>2019</u>
Demand deposits	\$ 1,749,838	\$ 7,050,241
Money market fund	2,014,111	
TexPool, TexSTAR and LOGIC investment pools	<u>45,405,315</u>	<u>29,132,215</u>
Total cash and cash equivalents	<u>\$ 49,169,264</u>	<u>\$ 36,182,456</u>

Bank deposits exceed the federally insured limit per depositor per institution and approximately \$1.5 million was not collateralized by a security agreement with a bank at June 30, 2020.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2020</u>	<u>2019</u>
Government agencies	\$ 18,534,955	\$ 22,532,329
Other contributions receivable	2,808,333	531,407
Contributions receivable restricted for capital expansion	<u>2,704,169</u>	<u>1,216,668</u>
Operating contributions receivable	<u>\$ 24,047,457</u>	<u>\$ 24,280,404</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

Due within one year	\$ 22,544,871
Due in one to five years	<u>1,502,586</u>
Total contributions receivable	<u>\$ 24,047,457</u>

Approximately 46% and 35% of contributions were from two donors for the years ended June 30, 2020 and 2019, respectively.

In 2020, YES Prep received a \$6,250,000 contribution from the Charter School Growth Fund, \$5,000,000 of which is contingent upon meeting certain milestones and conditions. This amount will be recognized as revenue as conditions are satisfied.

NOTE 6 – NOTE RECEIVABLE

In 2012, YES Prep loaned \$10,422,800 to COCRF Investor XIV, LLC (COCRF Investor). The loan was to mature on November 1, 2042 and bore interest at 1.31%, which was paid quarterly. The loan was 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 was 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 each of the years ended June 30, 2020 and 2019.

Put and Call Options

The Bank held a put option on its investment in COCRF Investor, whereby it could sell its ownership to YES Prep at a prearranged price (\$178,860) during the six-month period commencing October 11, 2019 (the Put Option Period). In August 2019, the Bank notified YES Prep of its intent to exercise its put option in October 2019 and thereafter sold its interest to YES Prep at the prearranged price. Subsequently, in related transactions, loans by COCRF CDE and NMI 71 were transferred to COCRF Investor. YES Prep, as the 100% owner of COCRF Investor, cancelled the note receivable and related notes payable. YES Prep recognized a \$3,007,234 gain on these transactions.

NOTE 7 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets reported at fair value at June 30, 2020 consist of the following:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Cash equivalents held as investments:				
Pooled funds held in TexPool, LOGIC and TexSTAR	\$ 45,405,315			\$ 45,405,315
Repurchase agreements for bond sinking fund		\$ 23,813,133		23,813,133
Beneficial interest in charitable trust			\$ 1,589,876	1,589,876
Total assets reported at fair value	<u>\$ 45,405,315</u>	<u>\$ 23,813,133</u>	<u>\$ 1,589,876</u>	<u>\$ 70,808,324</u>

Assets reported at fair value at June 30, 2019 consist of the following:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Cash equivalents held as investments:				
Pooled funds held in TexPool, LOGIC and TexSTAR	\$ 29,132,215			\$ 29,132,215
Repurchase agreements for bond sinking fund		\$ 20,755,552		20,755,552
Beneficial interest in charitable trust	<u> </u>	<u> </u>	\$ 1,755,501	<u>1,755,501</u>
Total assets reported at fair value	<u>\$ 29,132,215</u>	<u>\$ 20,755,552</u>	<u>\$ 1,755,501</u>	<u>\$ 51,643,268</u>

Valuation methods used for assets measured at fair value are as follows:

- *TexPool* and *LOGIC* operate in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940, and fully comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These investment pools primarily include short-term marketable securities and use amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the positions in *TexPool* and *LOGIC* are the same value as the number of shares owned.
- *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* is a cash reserve fund that invests in low risk securities; it uses the fair value method to report net position and to compute share prices.
- *Repurchase agreements* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Beneficial interest in charitable trust* is valued at the fair value of the underlying investments, as provided by the trustee.

YES Prep's beneficial interest in charitable trust is valued at the fair value of the underlying investments, as provided by the trustee.

Changes in the fair value of Level 3 assets consist of the following:

Balance at June 30, 2018	\$ 1,924,262
Distribution	(250,000)
Change in fair value	<u>81,239</u>
Balance at June 30, 2019	1,755,501
Distribution	(250,000)
Change in fair value	<u>84,375</u>
Balance at June 30, 2020	<u>\$ 1,589,876</u>

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the YES Prep believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 18,397,478	\$ 15,608,352
Buildings and improvements	170,064,620	156,538,070
Furniture and equipment	11,162,986	10,113,537
Construction in progress	<u>23,993,658</u>	<u>12,728,337</u>
Total property and equipment, at cost	223,618,742	194,988,296
Accumulated depreciation	<u>(47,833,433)</u>	<u>(41,440,993)</u>
Property and equipment, net	<u>\$ 175,785,309</u>	<u>\$ 153,547,303</u>

YES Prep has buildings and improvements with an approximate net book value of \$23 million that have been purchased with Texas Education Agency funds. Texas statutes state that property purchased with funds received by a charter school holder is considered to be public property for all purposes under state law and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 9 – BONDS AND NOTES PAYABLE

In March 2010, YES Prep entered into a Master Trust Indenture (the 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:

	<u>2020</u>	<u>2019</u>
Qualified Zone Academy Bond, Taxable Series 2010Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$114,044 and \$141,668 in 2020 and 2019, respectively. 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.	\$ 15,885,956	\$ 15,858,332
Qualified Zone Academy Bond, Taxable Series 2015Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$251,832 and \$271,015 in 2020 and 2019, respectively. 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.	14,748,168	14,728,985

<p>Qualified Zone Academy Bond, Taxable Series 2017Z-1, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$127,058 and \$137,832 in 2020 and 2019, respectively. The investor earns 4.11% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. Principal payments are due annually through maturity on April 1, 2026. The proceeds were used to rehabilitate or repair specified campus facilities and are secured by real estate.</p>	11,208,942	12,142,795
<p>Qualified Zone Academy Bond, Taxable Series 2011Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$87,100 and \$101,224 in 2020 and 2019, respectively. The investor earns 5.18% in annual tax credits as part of a federal tax credit bond program and YES Prep pays 2.21% 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.</p>	8,664,500	8,650,376
<p>Qualified Zone Academy Bond, Taxable Series 2017Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$155,518 and \$178,938 in 2020 and 2019, respectively. The investor earns 4.57% in annual tax credits as part of a federal tax credit bond program and YES Prep pays no interest. The bond is due April 1, 2031. The proceeds were used to construct, rehabilitate, or repair specified campus facilities and are secured by real estate.</p>	6,466,482	7,045,062
<p>Qualified School Construction Bond, Taxable Series 2010Q, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$46,031 and \$52,454 in 2020 and 2019, respectively. 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.</p>	6,053,969	6,047,546
<p>Qualified Zone Academy Bond, Taxable Series 2012Z, issued by the City of Houston Higher Education Finance Corporation, net of unamortized debt issuance costs of \$91,344 and \$103,727 in 2020 and 2019, respectively. 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.</p>	<u>3,308,656</u>	<u>3,296,273</u>
<p>Bonds payable, net</p>	<u>\$ 66,336,673</u>	<u>\$ 67,769,369</u>

Interest on the bonds payable totaled approximately \$834,000 and \$816,000 at June 30, 2020 and 2019, respectively.

Maturities of bonds payable, including interest, at June 30, 2020 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$ 1,546,667	\$ 816,834	\$ 2,363,501
2022	1,546,667	816,834	2,363,501
2023	1,546,667	816,834	2,363,501
2024	1,546,667	816,834	2,363,501
2025	1,546,667	816,834	2,363,501
Thereafter	<u>59,476,265</u>	<u>812,688</u>	<u>60,288,953</u>
Total payments due	67,209,600	<u>\$ 4,896,858</u>	<u>\$ 72,106,458</u>
Unamortized debt issuance costs	<u>(872,927)</u>		
Total bonds payable, net	<u>\$ 66,336,673</u>		

As specified in the MTI, YES Prep entered into two repurchase agreements to fund the repayment of bonds 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:

2021	\$ 2,558,713
2022	2,558,713
2023	2,558,713
2024	2,558,713
2025	2,558,713
Thereafter	<u>5,025,662</u>
Total	<u>\$ 17,819,227</u>

Notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
Revolving line of credit agreement with a bank for \$35,000,000 dated July 2019. Interest is due semi-annually at a variable interest rate based on LIBOR while available, (replaced with the Federal Funds Rate when unavailable), plus 1.45%, net of unamortized debt issuance costs of \$34,311 in 2020. Principal is due upon maturity on April 1, 2022. The loan is secured by real estate.	\$ 17,381,079	
Loan agreement with a bank for \$13,440,000 dated December 2018. Interest and principal due annually through maturity on April 1, 2034 with an interest rate of 3.92%, net of unamortized debt issuance costs of \$357,408 and \$386,986 in 2020 and 2019, respectively. Proceeds were used for acquiring, constructing, and renovating buildings at YES Prep Hobby. The loan is secured by real estate.	11,186,265	\$ 13,053,015
Loan agreement with a bank for \$10,000,000 dated October 2017. Interest and principal due annually through maturity on April 1, 2032 with an interest rate of 2.93%, net of unamortized debt issuance costs of \$118,319 and \$131,794 in 2020 and 2019, respectively. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate.	8,041,681	8,628,206

Series 2013 loan agreement for \$9,740,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$115,813 and \$119,044 in 2020 and 2019, respectively. The loan bears interest at 3.95% 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.	5,923,557	6,510,779
Series 2015 loan agreement for \$7,000,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$117,538 and \$128,822 in 2020 and 2019, respectively. The loan bears interest at 2.93% and payments are due in semi-annual installments through April 1, 2030. The proceeds were used to renovate the YES Prep North Forest campus and to construct the YES Prep System Office. The loan is secured by real estate and revenue streams.	4,549,129	5,001,918
Loan agreement for \$2,500,000 with Charter School Growth Fund amended December 2014. Interest at 1%. Principal payments were due in annual installments in June 2020 and June 2021. Charter School Growth Fund extended the due dates of the annual installments to June 2021 and June 2022 to provide relief due to the COVID pandemic. 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 for \$100,000 with Charter School Growth Fund dated May 2019. Interest is at 1%. Loan matures on June 28, 2024, with interest due at that time. The loan is unsecured.	100,000	100,000
Note payable to New Markets Investment 71, LLC, issued in October 2012, net of unamortized debt issuance costs of \$211,518 in 2019. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan was secured by real estate and was forgiven as a result of unwinding the NMTC agreement (see Note 6).		8,453,442
Note payable to COCRF SubCDE XIV, LLC issued in October 2012, net of unamortized debt issuance costs of \$158,000 in 2019. Proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside. The loan was secured by real estate and was forgiven as a result of unwinding the NMTC agreement (see Note 6).		4,842,000
Loan agreement for \$2,300,000 with Charter School Growth Fund dated April 2015. Interest was at 0%. Principal payments were due in annual installments from June 2015 to June 2020 and matured on June 30, 2020. The loan was unsecured.		750,000
Loan agreement for \$200,000 with Charter School Growth Fund dated July 2013. Interest at 1%. Loan matured on June 30, 2019. The loan was unsecured.		200,000
Notes payable, net	<u>\$ 49,226,711</u>	<u>\$ 49,584,360</u>

Interest on the notes payable totaled approximately \$1,261,000 and \$1,148,000 for the years ended June 30, 2020 and 2019, respectively.

Maturities of notes payable, including interest, at June 30, 2020 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$ 3,411,697	\$ 1,493,389	\$ 4,905,086
2022	20,846,964	1,410,124	22,257,088
2023	2,502,459	942,211	3,444,670
2024	2,678,976	856,368	3,535,344
2025	2,652,394	762,618	3,415,012
Thereafter	<u>17,877,610</u>	<u>2,900,270</u>	<u>20,777,880</u>
Total payments due	49,970,100	<u>\$ 8,364,980</u>	<u>\$ 58,335,080</u>
Unamortized debt issuance costs		<u>(743,389)</u>	
Total notes payable, net	<u>\$ 49,226,711</u>		

YES Prep also has a \$5 million line of credit with a bank with an interest rate of 2.40% as of June 30, 2020. No amounts were drawn from the line of credit during the current fiscal year.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
State resources for future educational activity	\$ 23,102,955	\$ 23,229,111
Leading Houston Forward campaign	18,164,000	5,029,000
College scholarships for YES Prep graduates	1,856,109	2,058,189
Innovation Fund	1,836,102	263,675
National School Lunch Program	1,317,434	1,286,292
YES Prep future operations	1,108,250	20,000
Student and family support	444,524	105,909
Teaching Excellence	410,888	956,650
Other	<u>281,561</u>	<u>190,127</u>
Total net assets with donor restrictions	<u>\$ 48,521,823</u>	<u>\$ 33,138,953</u>

NOTE 11 – COMMITMENTS

Lease commitments – YES Prep leases certain equipment under noncancelable operating leases. Operating lease payments for the years ended June 30, 2020 and 2019 were approximately \$1,946,000 and \$1,367,000, respectively. Future minimum lease payments are due as follows:

2021	\$ 1,372,210
2022	725,201
2023	133,541
2024	<u>16,532</u>
Total	<u>\$ 2,247,484</u>

Construction commitments – In 2019, YES Prep entered into contracts totaling approximately \$10.3 million for construction projects at certain schools. As of June 30, 2020, outstanding commitments totaled approximately \$3.2 million for the related contracts.

NOTE 12 – GOVERNMENT GRANTS

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

	<u>2020</u>	<u>2019</u>
State grants:		
Texas Education Agency Foundation School Program Act	\$ 119,815,261	\$ 110,795,298
Textbook and Kindergarten Materials	1,000,956	1,078,621
School Lunch Matching	<u> </u>	<u>27,094</u>
Total state grants	<u>120,816,217</u>	<u>111,901,013</u>
Federal grants:		
U. S. Department of Education	10,265,886	10,098,185
U. S. Department of Agriculture	4,852,214	4,921,839
U. S. Department of Homeland Security	<u>192,698</u>	<u>767,903</u>
Total federal grants	<u>15,310,798</u>	<u>15,787,927</u>
Total government grants	<u>\$ 136,127,015</u>	<u>\$ 127,688,940</u>

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 13 – 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 2020, 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 \$2,718,807 and \$2,268,208 to the plan during fiscal years 2020 and 2019, respectively, equal to the required contribution for each year.

The risks of participating in a multiemployer, defined benefit plan are 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, 2019 and 2018 were \$181.8 billion and \$176.9 billion, respectively. Accumulated benefit obligations as of August 31, 2019 and 2018 were \$209.9 billion and \$209.6 billion, respectively. The plan was 76.4% funded at August 31, 2019 and 76.9% funded at August 31, 2018.

NOTE 14 – SUBSEQUENT EVENTS

In July 2020, YES Prep issued Education Revenue Bonds Series 2020 in the amount of \$71,585,000 with a premium of \$9,163,215 issued by the City of Clifton's Higher Education Finance Corporation and guaranteed by the corpus of the TEA's Permanent School Fund. The bonds bear interest at rates ranging from 3% to 5% and are due in installments through April 1, 2050. The proceeds were used to pay the outstanding line of credit, including interest of \$19 million, as well as to fund construction. The bonds are secured by real property.

Management has evaluated subsequent events through November 10, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
