

YES Prep Public Schools, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2021 and 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, 2021 and 2020 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, 2021 and 2020 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2021 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 9, 2021

YES Prep Public Schools, Inc.

Statements of Financial Position as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents (<i>Notes 3 and 5</i>)	\$ 65,116,671	\$ 49,169,264
Contributions receivable (<i>Note 4</i>):		
Government grants	31,211,421	18,534,955
Other contributions receivable	515,333	4,009,916
Accounts receivable	806,844	2,369,048
Beneficial interest in charitable trust (<i>Note 5</i>)	250,000	250,000
Prepaid expenses and other assets	<u>1,183,788</u>	<u>869,625</u>
Total current assets	99,084,057	75,202,808
Other contributions receivable, net (<i>Note 4</i>)	951,750	1,502,586
Beneficial interest in charitable trust (<i>Note 5</i>)	1,126,376	1,339,876
Bond proceeds held in trust	26,787,655	
Bond sinking fund investments (<i>Notes 5 and 7</i>)	27,728,184	23,813,133
Property and equipment, net (<i>Note 6</i>)	<u>211,643,032</u>	<u>175,785,309</u>
TOTAL ASSETS	<u>\$ 367,321,054</u>	<u>\$ 277,643,712</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,601,797	\$ 931,317
Accrued payroll expenses	13,637,587	9,425,609
Construction payable	4,209,308	1,692,166
Accrued interest	1,611,500	1,041,866
Current portion of bonds payable (<i>Note 7</i>)	1,546,667	1,546,667
Current portion of notes payable (<i>Note 7</i>)	<u>3,431,575</u>	<u>3,411,697</u>
Total current liabilities	28,038,434	18,049,322
Bonds payable, net (<i>Note 7</i>)	140,974,492	64,790,006
Notes payable, net (<i>Note 7</i>)	<u>25,614,679</u>	<u>45,815,014</u>
Total liabilities	<u>194,627,605</u>	<u>128,654,342</u>
Commitments and contingencies (<i>Notes 9 and 10</i>)		
Net assets:		
Without donor restrictions	114,474,841	100,467,547
With donor restrictions (<i>Note 8</i>)	<u>58,218,608</u>	<u>48,521,823</u>
Total net assets	<u>172,693,449</u>	<u>148,989,370</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 367,321,054</u>	<u>\$ 277,643,712</u>

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Statement of Activities for the year ended June 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions:			
Government grants (<i>Note 10</i>)		\$ 170,462,215	\$ 170,462,215
Other contributions	\$ 4,206,076	5,038,797	9,244,873
Program service fees	18,486,039		18,486,039
Special events	1,942,599		1,942,599
Cost of direct donor benefits	(104,288)		(104,288)
Interest income	1,025,495		1,025,495
Other	35,186		35,186
Total operating revenue	25,591,107	175,501,012	201,092,119
Net assets released from restrictions:			
Program expenditures	159,899,215	(159,899,215)	
Capital expenditures	5,341,512	(5,341,512)	
Expiration of time restrictions	563,500	(563,500)	
Total	191,395,334	9,696,785	201,092,119
OPERATING EXPENSES:			
Program expenses:			
Instructional program	130,721,501		130,721,501
Auxiliary services	29,646,252		29,646,252
Total program expenses	160,367,753		160,367,753
General and administrative	15,930,859		15,930,859
Fundraising	1,089,428		1,089,428
Total operating expenses	177,388,040		177,388,040
CHANGES IN NET ASSETS	14,007,294	9,696,785	23,704,079
Net assets, beginning of year	100,467,547	48,521,823	148,989,370
Net assets, end of year	\$ 114,474,841	\$ 58,218,608	\$ 172,693,449

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 10</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
	<hr/>	<hr/>	<hr/>
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)	
	<hr/>	<hr/>	<hr/>
Total	168,114,972	15,382,870	183,497,842
OPERATING EXPENSES:			
Program expenses:			
Instructional program	113,792,633		113,792,633
Auxiliary services	24,562,899		24,562,899
	<hr/>		<hr/>
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
	<hr/>		<hr/>
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			
	<hr/>	<hr/>	<hr/>
	3,007,234		3,007,234
CHANGES IN NET ASSETS			
	<hr/>	<hr/>	<hr/>
Net assets, beginning of year	82,517,956	33,138,953	115,656,909
	<hr/>	<hr/>	<hr/>
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 Functional Expenses for the year ended June 30, 2021

	INSTRUCTIONAL PROGRAM	AUXILIARY SERVICES	TOTAL PROGRAM EXPENSES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL
Salaries and related costs	\$ 100,107,816	\$ 12,615,276	\$ 112,723,092	\$ 10,490,618	\$ 823,289	\$ 124,036,999
Materials and supplies	7,563,276	1,465,800	9,029,076	3,827,896	22,147	12,879,119
Depreciation	7,195,564	421,405	7,616,969	282,785	21,387	7,921,141
Contracted transportation services	9,556	6,554,275	6,563,831			6,563,831
Professional fees and other contracted services	2,930,989	2,835,241	5,766,230	562,295	182,170	6,510,695
Interest, debt service and bank fees	5,196,028	304,303	5,500,331	204,203	15,444	5,719,978
Contracted food services	209,294	4,638,506	4,847,800	35,552	2,778	4,886,130
Maintenance and repairs	4,020,376	235,371	4,255,747	157,946	11,946	4,425,639
Utilities and occupancy	1,964,173	516,744	2,480,917	71,007	5,370	2,557,294
Insurance	964,801	5,281	970,082	34,788		1,004,870
Travel	165,056	45,163	210,219	126,112	3,748	340,079
Other	394,572	8,887	403,459	137,657	1,149	542,265
Total expenses	<u>\$ 130,721,501</u>	<u>\$ 29,646,252</u>	<u>\$ 160,367,753</u>	<u>\$ 15,930,859</u>	<u>\$ 1,089,428</u>	177,388,040
Cost of direct donor benefits						<u>104,288</u>
Total						<u>\$ 177,492,328</u>

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	\$ 82,984,291	\$ 11,575,617	\$ 94,559,908	\$ 10,799,456	\$ 716,816	\$ 106,076,180
Materials and supplies	10,145,624	1,145,081	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
Contracted transportation services	139,533	5,544,631	5,684,164	2,006		5,686,170
Professional fees and other contracted services	3,446,418	1,485,907	4,932,325	877,575	213,985	6,023,885
Interest, debt service and bank fees	2,392,373	172,055	2,564,428	115,331	8,603	2,688,362
Contracted food services	141,323	3,450,642	3,591,965	83,283	30,399	3,705,647
Maintenance and repairs	4,504,610	324,003	4,828,613	217,157	16,198	5,061,968
Utilities and occupancy	2,414,141	192,758	2,606,899	120,439	7,929	2,735,267
Insurance	685,292	54,663	739,955	242,110	2,464	984,529
Travel	924,840	206,083	1,130,923	211,168	9,536	1,351,627
Other	325,556	2,343	327,899	113,642	1,697	443,238
Total expenses	<u>\$ 113,792,633</u>	<u>\$ 24,562,899</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.

Statements of Cash Flows for the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 23,704,079	\$ 33,332,461
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for expansion of facilities	(4,260,000)	(17,200,000)
Depreciation	7,921,141	6,392,440
Gain on New Markets Tax Credit transaction		(3,007,234)
Amortization of bonds premium	(279,985)	
Amortization of bonds and notes payable issuance costs	283,716	326,676
Changes in operating assets and liabilities:		
Receivables	(7,373,012)	(419,559)
Prepaid expenses and other assets	(314,163)	908,190
Beneficial interest in charitable trust	213,500	165,625
Accounts payable and accrued expenses	6,882,458	(2,432,371)
Accrued interest	<u>569,634</u>	<u>53,384</u>
Net cash provided by operating activities	<u>27,347,368</u>	<u>18,119,612</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(41,261,722)</u>	<u>(29,100,735)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond sinking fund investments	(3,915,051)	(3,057,581)
Capitalized bonds and notes payable issuance costs	(2,873,863)	(52,263)
Proceeds from bonds and notes payable	63,332,826	17,415,389
Principal repayments of bonds and notes payable	(4,458,665)	(6,050,113)
Proceeds from contributions restricted for expansion of facilities	<u>4,564,169</u>	<u>15,712,499</u>
Net cash provided by financing activities	<u>56,649,416</u>	<u>23,967,931</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	42,735,062	12,986,808
Cash and cash equivalents, beginning of year	<u>49,169,264</u>	<u>36,182,456</u>
Cash and cash equivalents, end of year	<u>\$ 91,904,326</u>	<u>\$ 49,169,264</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 65,116,671	\$ 49,169,264
Bond proceeds held in trust	<u>26,787,655</u>	<u> </u>
Total cash and cash equivalents	<u>\$ 91,904,326</u>	<u>\$ 49,169,264</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$4,409,301	\$2,057,800
Retirement of line of credit with bond proceeds	\$18,912,108	

See accompanying notes to financial statements.

YES Prep Public Schools, Inc.

Notes to Financial Statements for the years ended June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – YES Prep Public Schools, Inc. (YES Prep) operates seventeen Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 15,000 students from K through 2nd grade and 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 incurred New Markets Tax Credit (NMTC) debt 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. was 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. 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. In December 2019, a Certificate of Termination for Facilities was filed with the State of Texas Secretary of State.

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.

Allowance for doubtful accounts – An allowance for receivables is provided when it is believed the balances may not be collected in full. Balances are written off against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of receivables recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account-by-account analysis of receivable balances each period. YES Prep considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

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.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advances until earned. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

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.

Reclassifications – Expenses of \$8,535,159 for the year ended June 30, 2020 have been reclassified from instructional program expenses to auxiliary services to conform with the current presentation. These reclassifications had no impact on total net assets or changes in net assets for fiscal year 2020.

NOTE 2 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 65,116,671	\$ 49,169,264
Receivables, net	33,485,348	26,416,505
Beneficial interest in charitable trust	1,376,376	1,589,876
Bond proceeds held in trust	26,787,655	
Bond sinking fund investments	<u>27,728,184</u>	<u>23,813,133</u>
Total financial assets	154,494,234	100,988,778
Less financial assets not available for general expenditure:		
Bond sinking fund investments	(27,728,184)	(23,813,133)
Bond proceeds held in trust and contributions receivable restricted for long-term purposes	(27,187,655)	(3,143,114)
Beneficial interest in charitable trust, net of current portion	(1,126,376)	(1,339,876)
Restricted by donors for use in future periods or for future projects, net of expected amount to be satisfied in coming year	<u>(115,482)</u>	<u>(831,750)</u>
Total financial assets available for general expenditure	<u>\$ 98,336,537</u>	<u>\$ 71,860,905</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 those activities, to be general expenditures. See Note 7 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 available lines of credit with banks for \$35 million and \$5 million.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
Demand deposits	\$ 10,145,149	\$ 1,749,838
Money market fund	28,802,560	2,014,111
TexPool, TexSTAR and LOGIC investment pools	<u>52,956,617</u>	<u>45,405,315</u>
Total cash and cash equivalents	<u>\$ 91,904,326</u>	<u>\$ 49,169,264</u>

Bank deposits exceed the federally insured limit per depositor per institution. Approximately \$6.1 million was not collateralized by a security agreement with a bank at June 30, 2021.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2021</u>	<u>2020</u>
Government agencies	\$ 31,211,421	\$ 18,534,955
Other contributions receivable	1,067,083	2,808,333
Contributions receivable restricted for capital expansion	<u>400,000</u>	<u>2,704,169</u>
Total contributions receivable	<u>\$ 32,678,504</u>	<u>\$ 24,047,457</u>

Contributions receivable at June 30, 2021 are expected to be collected as follows:

Due within one year	\$ 31,926,754
Due in one to five years	<u>751,750</u>
Total contributions receivable	<u>\$ 32,678,504</u>

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. In 2021, \$1,000,000 was recognized as revenue with \$4,000,000 remaining to be recognized as of June 30, 2021 as conditions are satisfied.

NOTE 5 – 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, 2021 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, TexSTAR and LOGIC	\$ 52,956,617			\$ 52,956,617
Repurchase agreements for bond sinking fund		\$ 27,728,184		27,728,184
Beneficial interest in charitable trust	<u> </u>	<u> </u>	\$ 1,376,376	<u>1,376,376</u>
Total assets reported at fair value	<u>\$ 52,956,617</u>	<u>\$ 27,728,184</u>	<u>\$ 1,376,376</u>	<u>\$ 82,061,177</u>

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, TexSTAR and LOGIC	\$ 45,405,315			\$ 45,405,315
Repurchase agreements for bond sinking fund		\$ 23,813,133		23,813,133
Beneficial interest in charitable trust	<u> </u>	<u> </u>	\$ 1,589,876	<u>1,589,876</u>
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>

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.

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.

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

Balance at June 30, 2019	\$ 1,755,501
Distribution	(250,000)
Change in fair value	<u>84,375</u>
Balance at June 30, 2020	1,589,876
Distribution	(250,000)
Change in fair value	<u>36,500</u>
Balance at June 30, 2021	<u>\$ 1,376,376</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 21,963,370	\$ 18,397,478
Buildings and improvements	200,290,764	170,064,620
Furniture and equipment	12,591,534	11,162,986
Construction in progress	<u>32,551,935</u>	<u>23,993,658</u>
Total property and equipment, at cost	267,397,603	223,618,742
Accumulated depreciation	<u>(55,754,571)</u>	<u>(47,833,433)</u>
Property and equipment, net	<u>\$ 211,643,032</u>	<u>\$ 175,785,309</u>

YES Prep has buildings and improvements with an approximate net book value of \$36 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 7 – 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 fiscal year end while the MTI debt is still outstanding. With the exception of the Charter School Growth Fund loans, all bonds and notes held by YES Prep exist under, and are subject to, the MTI.

Bonds payable at June 30, 2021 consist of the following:

	OUTSTANDING BALANCE	PREMIUM/ DISCOUNT	ISSUANCE COSTS	TOTAL
Series 2020	\$ 71,585,000	\$ 8,883,228	\$ (2,840,446)	\$ 77,627,782
Series 2010Z	16,000,000		(86,421)	15,913,579
Series 2015Z	15,000,000		(226,649)	14,773,351
Series 2017Z-1	10,391,333		(116,245)	10,275,088
Series 2011Z	8,751,600		(72,976)	8,678,624
Series 2010Q	6,100,000		(39,608)	6,060,392
Series 2017Z	6,019,700		(148,390)	5,871,310
Series 2012Z	<u>3,400,000</u>		<u>(78,967)</u>	<u>3,321,033</u>
Total	137,247,633	8,883,228	(3,609,702)	142,521,159
Less current portion	<u>(1,546,667)</u>			<u>(1,546,667)</u>
Net long-term bonds payable	<u>\$ 135,700,966</u>	<u>\$ 8,883,228</u>	<u>\$ (3,609,702)</u>	<u>\$ 140,974,492</u>

Bonds payable at June 30, 2020 consist of the following:

	OUTSTANDING BALANCE	PREMIUM/ DISCOUNT	ISSUANCE COSTS	TOTAL
Series 2010Z	\$ 16,000,000		\$ (114,044)	\$ 15,885,956
Series 2015Z	15,000,000		(251,832)	14,748,168
Series 2017Z-1	11,336,000		(127,058)	11,208,942
Series 2011Z	8,751,600		(87,100)	8,664,500
Series 2010Q	6,100,000		(46,031)	6,053,969
Series 2017Z	6,622,000		(155,518)	6,466,482
Series 2012Z	<u>3,400,000</u>		<u>(91,344)</u>	<u>3,308,656</u>
Total	67,209,600		(872,927)	66,336,673
Less current portion	<u>(1,546,667)</u>			<u>(1,546,667)</u>
Net long-term bonds payable	<u>\$ 65,662,933</u>	<u>\$ 0</u>	<u>\$ (872,927)</u>	<u>\$ 64,790,006</u>

Series 2020: Education Revenue Bonds issued by the Clifton Higher Education Finance Corporation. The bonds bear interest of 3% to 5% and accrue interest semi-annually. The bond is due April 2050. The proceeds were used to rehabilitate or repair specified campus Facilities, the home office and to pay off a line of credit balance of \$18,912,108 and are secured by real estate.

Series 2010Z: Qualified Zone Academy Bond, Taxable 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.

Series 2015Z: Qualified Zone Academy Bond, Taxable 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.

Series 2017Z-1: Qualified Zone Academy Bond, Taxable issued by the City of Houston Higher Education Finance Corporation. 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. The bonds require YES Prep to maintain certain financial ratios and meet other covenants over the life of the bonds.

Series 2011Z: Qualified Zone Academy Bond, Taxable 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 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.

Series 2010Q: Qualified School Construction Bond, Taxable 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.

Series 2017Z: Qualified Zone Academy Bond 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 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.

Series 2012Z: Qualified Zone Academy Bond, Taxable 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.

Bond sinking fund investments at June 30, 2021 are held in money market mutual funds and are escrowed for future debt service in the amount of \$27,728,184. Interest on the bonds payable totaled approximately \$846,000 and \$834,000 at June 30, 2021 and 2020, respectively.

Maturities of bonds payable, including interest, at June 30, 2021 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 1,546,667	\$ 3,412,390	\$ 4,959,057
2023	3,001,667	3,412,390	6,414,057
2024	3,001,667	3,342,890	6,344,557
2025	25,176,667	3,159,640	6,236,307
2026	3,151,665	2,703,289	5,854,954
Thereafter	<u>101,369,300</u>	<u>30,101,660</u>	<u>153,570,960</u>
Total payments due	137,247,633	<u>\$ 46,132,259</u>	<u>\$ 183,379,892</u>
Unamortized bond premium	8,883,228		
Unamortized debt issuance costs	<u>(3,609,702)</u>		
Total bonds payable, net	<u>\$ 142,521,159</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:

2022	\$ 2,558,713
2023	2,558,713
2024	2,558,713
2025	2,558,713
2026	2,558,713
Thereafter	<u>3,545,948</u>
Total	<u>\$ 16,339,513</u>

Notes payable consist of the following:

	<u>2021</u>	<u>2020</u>
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 \$289,184 and \$357,408 in 2021 and 2020, respectively. Proceeds were used for acquiring, constructing, and renovating buildings at YES Prep Hobby. The loan is secured by real estate.	\$ 10,554,491	\$ 11,186,265
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 \$108,249 and \$118,319 in 2021 and 2021, respectively. Proceeds were used to acquire land and construct buildings. The loan is secured by real estate.	7,466,751	8,041,681
Series 2013 loan agreement for \$9,740,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$93,071 and \$115,813 in 2021 and 2020, 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.	5,331,267	5,923,557
Series 2015 loan agreement for \$7,000,000 with a bank issued by Dickinson Education Finance Corporation, net of unamortized debt issuance costs of \$106,255 and \$117,538 in 2021 and 2020, 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.	4,093,745	4,549,129
Loan agreement for \$1,000,000 with Charter School Growth Fund dated December 2014. Interest at 1%. Principal payments were due in annual installments in June 2021 and June 2022, with interest due in June 2022. Charter School Growth Fund deferred the June 2021 principal payment until June 2022 and the June 2022 payment until June 2023. The loan is unsecured.	1,000,000	1,000,000

Loan agreement for \$2,500,000 with Charter School Growth Fund amended in 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-19 pandemic. The loan is unsecured.	500,000	1,045,000
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
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%. Principal is due upon maturity on April 1, 2022. The loan was secured by real estate and paid in full with proceeds from the Series 2020 Bonds issuance. The line of credit has a \$0 balance and \$35,000,000 available as of June 30, 2021.		<u>17,381,079</u>
Notes payable, net	<u>\$ 29,046,254</u>	<u>\$ 49,226,711</u>

Interest on the notes payable totaled approximately \$1,261,000 and \$1,148,000 for the years ended June 30, 2021 and 2020, respectively.

Maturities of notes payable, including interest, at June 30, 2021 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 3,431,575	\$ 979,056	\$ 4,410,631
2023	3,002,459	877,722	3,880,181
2024	2,678,976	785,038	3,464,014
2025	2,652,394	693,653	3,346,047
2026	2,736,549	597,484	3,334,033
Thereafter	<u>15,141,060</u>	<u>1,826,340</u>	<u>16,967,400</u>
Total payments due	29,643,013	<u>\$ 5,759,293</u>	<u>\$ 35,402,306</u>
Unamortized debt issuance costs	<u>(596,759)</u>		
Total notes payable, net	<u>\$ 29,046,254</u>		

The \$35 million line of credit has a variable interest rate based on LIBOR while available (replaced with the Federal Funds Rate when unavailable) plus 1.45%. YES Prep also has a \$5 million line of credit with a bank with an interest rate of 2.40% as of June 30, 2021 on which no amounts were drawn during the current fiscal year.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
State resources for future educational activity	\$ 40,149,240	\$ 23,102,955
Leading Houston Forward campaign	13,486,820	18,164,000
College scholarships for YES Prep graduates	1,581,168	1,856,109
National School Lunch Program	1,450,923	1,317,434
YES Prep future operations	547,750	1,108,250
Campus academic/extra-curricular programs	394,127	150,850
Innovation Fund	374,799	1,836,102
Student and family support		444,524
Teaching Excellence		410,888
Other	<u>233,781</u>	<u>130,711</u>
Total net assets with donor restrictions	<u>\$ 58,218,608</u>	<u>\$ 48,521,823</u>

NOTE 9 – COMMITMENTS

Construction commitments – In 2021, YES Prep entered into contracts totaling approximately \$32 million for construction projects at certain schools and the home office. As of June 30, 2021, outstanding commitments on these contracts totaled approximately \$3.1 million.

NOTE 10 – GOVERNMENT GRANTS

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

	<u>2021</u>	<u>2020</u>
State grants:		
Texas Education Agency Foundation School Program Act	\$ 142,448,214	\$ 119,815,261
Textbook and Kindergarten Materials	<u>700,576</u>	<u>1,000,956</u>
Total state grants	<u>143,148,790</u>	<u>120,816,217</u>
Federal grants:		
U. S. Department of Education	18,268,661	10,265,886
U. S. Department of Agriculture	7,950,357	4,852,214
U. S. Department of Treasury	1,080,007	
U. S. Department of Homeland Security	<u>14,400</u>	<u>192,698</u>
Total federal grants	<u>27,313,425</u>	<u>15,310,798</u>
Total government grants	<u>\$ 170,462,215</u>	<u>\$ 136,127,015</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 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 2021, 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 \$3,273,880 and \$2,718,807 to the plan during fiscal years 2021 and 2020, 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, 2020 and 2019 were \$184.4 billion and \$181.8 billion, respectively. Accumulated benefit obligations as of August 31, 2020 and 2019 were \$218.9 billion and \$209.9 billion, respectively. The plan was 76.8% funded at August 31, 2020 and 76.4% funded at August 31, 2019.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2021, 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.
