

**YES PREP PUBLIC SCHOOLS, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

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PROJECT YES, INC. – CHARTER HOLDER FOR:  
YES PREP PUBLIC SCHOOLS, INC.  
101-845

(Federal Employer Identification Number: 76-0563835)  
CERTIFICATE OF BOARD  
August 31, 2014

We, the undersigned, certify that the attached Annual Financial and Compliance Report of YES Prep Public Schools, Inc. was reviewed and  approved  disapproved for the year ended August 31, 2014, at a meeting of the governing body of said charter school on the 22<sup>nd</sup> day of January, 20 15.

  
\_\_\_\_\_  
Signature of Board President

  
\_\_\_\_\_  
Signature of Vice Chair

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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**HOUSTON, TX 77056**  
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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of  
YES Prep Public Schools, Inc.  
Houston, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of YES Prep Public Schools, Inc. (YES Prep) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014 and 2013, and the related statements of activities and 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of YES Prep as of August 31, 2014 and 2013, 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.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015, 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 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 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.

A handwritten signature in cursive script, appearing to read "Loney & Company".

Houston, TX  
January 19, 2015

YES PREP PUBLIC SCHOOLS, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2014 AND 2013

<b>Assets:</b>	<u>2014</u>	<u>2013</u>
Cash	\$ 16,653,369	\$ 13,341,234
Accounts Receivable	4,178,935	5,559,721
Other Assets	1,619,212	1,377,542
Bond Sinking Fund	6,494,624	4,559,855
Notes Receivable	10,422,800	10,422,800
Leasehold Improvements	123,554	68,738
Land	8,249,559	6,051,611
Buildings	90,476,875	83,532,190
Equipment and Furniture	7,036,494	6,748,222
Library Books and Media	66,909	66,909
Accumulated Depreciation	(17,903,774)	(13,685,453)
 Total Assets	 <u><u>\$ 127,418,556</u></u>	 <u><u>\$ 118,043,369</u></u>
 <b>Liabilities and Net Assets:</b>		
Liabilities:		
Accounts Payable	\$ 2,885,750	\$ 2,924,258
Accrued Wages and Benefits	2,478,967	2,943,418
Accrued Interest	944,361	737,177
Deferred Revenue	266,264	250,264
Bonds Payable	34,251,600	34,251,600
Notes Payable	30,772,864	24,493,014
Total Liabilities	<u>71,599,805</u>	<u>65,599,731</u>
 Minority Interest	 12,432	 14,908
 Net Assets:		
Unrestricted Net Assets	50,585,227	47,849,542
Temporarily Restricted Net Assets	5,221,092	4,579,188
Total Net Assets	<u>55,806,319</u>	<u>52,428,730</u>
 Total Liabilities and Net Assets	 <u><u>\$ 127,418,556</u></u>	 <u><u>\$ 118,043,369</u></u>

YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

	Unrestricted	Temporarily Restricted	Total
Operating Revenues and Public Support			
Local Support:			
5740 Other Revenues from Local Sources	\$ 3,444,203	\$ 6,846,871	\$ 10,291,074
5750 Cocurricular, Enterprising Services	4,144,381	1,090,734	5,235,115
Total Local Revenues	<u>7,588,584</u>	<u>7,937,605</u>	<u>15,526,189</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	62,000,656	62,000,656
5820 State Program Revenues Distributed by Texas Education Agency	-	400,672	400,672
Total State Program Revenues	<u>-</u>	<u>62,401,328</u>	<u>62,401,328</u>
Federal Program Revenues:			
5940 Federal Revenues Distributed by the Department of Education	-	1,488,059	1,488,059
5920 Federal Revenues Distributed by Texas Education Agency	-	7,921,251	7,921,251
Total Federal Program Revenues	<u>-</u>	<u>9,409,310</u>	<u>9,409,310</u>
Net assets Released from Restrictions:			
Restrictions Satisfied by Payments	78,812,236	(78,812,236)	-
Total Revenues	<u>86,400,820</u>	<u>936,007</u>	<u>87,336,827</u>
Operating Expenses			
11 Instruction	38,031,270	-	38,031,270
12 Resource and Media	170,184	-	170,184
13 Curriculum and Staff Development	3,651,545	-	3,651,545
21 Instructional Leadership	2,506,773	-	2,506,773
23 School Leadership	7,157,717	-	7,157,717
31 Counseling	2,100,986	-	2,100,986
32 Social Work Services	1,295,563	-	1,295,563
33 Health Services	222,625	-	222,625
34 Student Transportation	4,384,811	-	4,384,811
35 Food Services	3,054,511	-	3,054,511
36 Cocurricular/Extracurricular Activities	1,619,664	-	1,619,664
41 General Administration	9,057,895	-	9,057,895
51 Plant Maintenance and Operations	8,755,318	-	8,755,318
52 Security and Monitoring Services	95,043	-	95,043
53 Data Processing Services	2,410,251	-	2,410,251
71 Debt Service	1,252,616	-	1,252,616
81 Fundraising	927,166	-	927,166
Total Expenses	<u>86,693,938</u>	<u>-</u>	<u>86,693,938</u>
Change in Net Assets from Operations	(293,118)	936,007	642,889
Net Assets, Beginning of Year	16,733,034	3,049,465	19,782,499
<b>Net Operating Assets, End of Year</b>	<b><u>16,442,778</u></b>	<b><u>3,985,472</u></b>	<b><u>20,425,388</u></b>
Non-Operating Revenues (Expenses)			
5740 Facility Project Donations & Bond Income	-	2,934,700	2,934,700
Net Gain/(Loss) on Sale of Fixed Assets	-	-	-
Total Non-Operating Revenues(Expense)	<u>-</u>	<u>2,934,700</u>	<u>2,934,700</u>
Change in Net Assets from Non-Operating Activity	-	2,934,700	2,934,700
Net Assets, Beginning of Year	30,916,507	1,529,723	32,446,230
Restrictions Satisfied by Payments	3,228,803	(3,228,803)	-
<b>Net non-Operating Assets, End of Year</b>	<b><u>34,145,310</u></b>	<b><u>1,235,620</u></b>	<b><u>35,380,930</u></b>
Total Change in Net Assets	2,935,685	641,904	3,577,589
Net Assets, Beginning of Year, as Restated	47,649,542	4,579,188	52,228,730
Paid In Capital	-	-	-
<b>Net Assets, End of Year</b>	<b><u>\$ 50,585,227</u></b>	<b><u>\$ 5,221,092</u></b>	<b><u>\$ 55,806,319</u></b>

YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2013

	Unrestricted	Temporarily Restricted	Total
Operating Revenues and Public Support			
Local Support:			
5740 Other Revenues from Local Sources	3,708,858	2,834,490	\$ 6,543,348
5750 Cocurricular, Enterprising Services	6,932,031	800,809	7,732,840
Total Local Revenues	10,640,889	3,635,299	14,276,188
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	47,477,617	47,477,617
5820 State Program Revenues Distributed by Texas Education Agency	-	450,745	450,745
Total State Program Revenues	-	47,928,362	47,928,362
Federal Program Revenues:			
5920 Federal Revenues Distributed by the Department of Education	-	1,904,604	1,904,604
5920 Federal Revenues Distributed by Texas Education Agency	-	6,034,744	6,034,744
Total Federal Program Revenues	-	7,939,348	7,939,348
Net assets Released from Restrictions:			
Restrictions satisfied by payments	62,293,620	(62,293,620)	-
Total Revenues	72,934,509	(2,790,611)	70,143,898
Operating Expenses			
11 Instruction	30,976,618		30,976,618
12 Resource and Media	196,332		196,332
13 Curriculum and Staff Development	2,721,351		2,721,351
21 Instructional Leadership	1,686,379		1,686,379
23 School Leadership	5,827,150		5,827,150
31 Counseling	2,140,681		2,140,681
32 Social Work Services	1,035,897		1,035,897
33 Health Services	143,160		143,160
34 Student Transportation	3,773,999		3,773,999
35 Food Services	2,840,659		2,840,659
36 Cocurricular/Extracurricular Activities	1,112,307		1,112,307
41 General Administration	7,228,675		7,228,675
51 Plant Maintenance and Operations	7,411,499		7,411,499
52 Security and Monitoring Services	80,499		80,499
53 Data Processing Services	1,751,230		1,751,230
71 Debt Service	1,083,881		1,083,881
81 Fundraising	678,540		678,540
Total Expenses	70,688,857	-	70,688,857
Change in Net Assets from Operations	2,245,652	(2,790,611)	(544,959)
Net Assets, Beginning of Year	14,687,382	5,840,076	20,527,458
<b>Net Operating Assets, End of Year</b>	<b>16,933,034</b>	<b>3,049,465</b>	<b>19,982,499</b>
Non-Operating Revenues (Expenses)			
5740 Facility Project Donations & Bond Income	-	637,500	637,500
Net Gain/(Loss) on Sale of Fixed Assets	-	-	-
Total Non-Operating revenues(expense)	-	637,500	637,500
Change in Net Assets from Non-Operating Activity	-	637,500	637,500
Net Assets, Beginning of Year	28,273,070	3,535,660	31,808,730
Restrictions satisfied by payments	2,643,437	(2,643,437)	-
<b>Net non-Operating Assets, End of Year</b>	<b>30,916,507</b>	<b>\$ 1,529,723</b>	<b>\$ 32,446,230</b>
Total Change in Net Assets	4,889,089	(4,796,548)	92,541
Net Assets, Beginning of Year	42,960,453	9,375,736	52,336,189
Paid In Capital	-	-	-
Transfer of Net Assets due to North Forest ISD Closure	-	-	-
<b>Net Assets, End of Year</b>	<b>47,849,542</b>	<b>4,579,188</b>	<b>52,428,730</b>



YES PREP PUBLIC SCHOOLS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Change in Net Assets	\$ 3,577,589	\$ 92,541
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,218,321	3,697,723
Net (Gain) Loss on Dispositions	-	-
(Gain) Loss on Bond Sinking Fund	(214,068)	(141,034)
(Increase) decrease in Accounts Receivable	1,380,786	(1,714,672)
(Increase) Decrease in Prepaid & Other Assets	(241,668)	(493,353)
Increase (Decrease) in Accounts Payable & Other Accrued Liabilities	(502,959)	1,327,013
Increase (Decrease) in Deferred Revenue	16,000	(68,447)
Total Adjustments	<u>4,656,412</u>	<u>2,607,230</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>8,234,001</u>	<u>2,699,770</u>
Cash Flows from Investing Activities:		
Purchase of Fixed Assets	(9,485,721)	(11,759,544)
NET CASH PROVIDED (USED) BY Investing Activities	<u>(9,485,721)</u>	<u>(11,759,544)</u>
Cash Flows From Financing Activities:		
Accrued Interest	207,184	46,593
Additional Notes Payable	13,290,000	13,865,000
Additional Bonds Payable	-	3,400,000
Bond Sinking Fund payments	(1,720,701)	(1,720,701)
Repayment of Debt	(7,122,650)	(397,284)
Long-term Note - Forgiven for Meeting Thresholds	(87,500)	(687,500)
NMTC Loan Receivable	-	(10,422,800)
Minority Interest	(2,477)	14,908
Net Cash Provided (USED) by Financing Activities	<u>4,563,856</u>	<u>4,098,216</u>
DECREASE IN CASH AND CASH EQUIVALENTS	3,312,135	(4,961,557)
CASH AT BEGINNING OF YEAR	13,341,234	18,302,791
CASH AT END OF YEAR	<u>\$ 16,653,369</u>	<u>\$ 13,341,234</u>
<u>Cash Paid During the Year for:</u>		
Interest	<u>\$ 816,964</u>	<u>\$ 976,336</u>

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

A. Organization:

YES Prep Public Schools, Inc., (YES Prep) a nonprofit organization, operates eleven schools under its charter as well as two schools under district charter arrangements with local ISDs. In total, YES Prep serves approximately 7,900 students in grades six through twelve. It is managed by a sixteen member board of directors that has the exclusive power and duty to direct the supervision, management, and administration of YES Prep's activities.

YES Prep operates a single charter for schools. Separately, YES Prep entered into district charter agreements with Spring Branch ISD (starting with the 2012-13 school year), and with Aldine ISD (starting with the 2013-14 school year). These activities are conducted outside YES Prep's charter. YES Prep also operated a school in partnership with North Forest ISD for the three school years ended August 31, 2013 (see Note E below).

YES Prep formed in 1996 under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that YES Prep is exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as an organization described in Section 501 (c)(3). YES Prep operates as part of the state public school system subject to all federal and state laws and rules governing public schools pursuant to its charter granted by the State Board of Education in accordance with the Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School. YES Prep is also subject to all laws and rules pertaining to open-enrollment charter schools in Section 12 of the Texas Education Code.

B. Summary of Significant Accounting Policies:

**BASIS OF PRESENTATION**

YES Prep reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958-205, Not-for-Profit Entities-205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets*

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

*Temporarily restricted net assets*

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

*Permanently restricted net assets*

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 AND 2013

B. Summary of Significant Accounting Policies: (continued)

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. Donated rental property has been recognized at its current fair market value. In addition, a substantial number of volunteers have donated their time in connection with program services and administration of YES Prep. No amounts have been reflected in the financial statements for volunteer time since no objective basis is available to measure the value of such donations.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when an unconditional commitment is received from the donor. Contributions received with donor stipulations are recorded as restricted net assets, temporary or permanent dependent on the nature of the stipulation.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased and at fair market value at the date of the gift if donated. Property and equipment valued in excess of \$5,000 is capitalized. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets as follows: equipment – 5 years; furniture – 7 years; temporary buildings – 12 years; and permanent structures – 30 years. Gains and losses on sale or disposition of property and equipment are reflected in income in the period of sale or disposition. The proceeds from such sales, other than when legally expected to be reinvested in property, are transferred to unrestricted assets.

BOND AND NOTE ISSUANCE COSTS

Costs incurred in conjunction with the issuance of bonds or notes are capitalized within other assets and amortized over the term of the bond or note for which the costs were incurred.

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

B. Summary of Significant Accounting Policies: (continued)

BUDGET

An official school budget is required for adoption for required Governmental Fund Types. YES Prep's annual budget is prepared on a basis consistent with generally accepted accounting principles and is formally adopted by the YES Prep Board of Directors.

INCOME TAXES

YES Prep qualifies as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes. YES Prep Facilities LLC is a taxable entity that incurred a net loss in in the years ended August 31, 2014 and 2013 and therefore has no provision for taxes.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires YES Prep management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. YES Prep Facilities, LLC:

During the year ended August 31, 2013 YES Prep Facilities, LLC ("Facilities"), a Texas limited liability corporation was formed. Facilities' business purpose is to operate buildings at YES Prep Fifth Ward and YES Prep Northside and to construct improvements on those campuses, which Facilities then leases to Yes Prep. The construction was financed through a New Markets Tax Credit transaction as described in Notes G and I.

YES Prep invested \$1,513,910 in Facilities and obtained a 99% interest in the limited liability corporation. The remaining 1% interest is owned by YES Prep Holdings, a Texas non-profit corporation that is not under the control of YES Prep.

In that YES Prep owns 99% of Facilities, it retains control over these assets. As a result, the results of operations and assets of Facilities are included in these consolidated financial statements. The 1% owned by YES Prep Holdings, Inc. is reported as minority interest.

D. Growth Plans:

In November 2008, YES Prep's Board of Directors adopted a plan to grow YES Prep from its five existing campuses serving 2,500 students to thirteen campuses that would eventually serve over 10,000 students. In July 2013, YES Prep opened the twelfth and thirteenth schools, completing that plan.

Achieving the objectives of the plan included YES Prep acquiring and constructing five new campuses, entering into three district partnerships and providing additional facilities on its original campuses during the period March 2009 – July 2013. For the 2014-15 school year, YES Prep will serve 9,000 students and has provided capacity to accommodate 12,000 students when the schools are fully grown. The campus improvements were funded through a combination of the loans and bonds described below and philanthropic donations.

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

D. Growth Plans: (continued)

More recently, YES Prep's Board approved the next phase of growth for the organization. The plan contemplates the addition of six new schools in Houston as well as expansion to Memphis, Tennessee by 2020.

YES Prep acquired the site for the first of those schools in August 2014 for approximately \$5,200,000. The site will accommodate two schools initially, and provide a permanent site for the YES Prep Home Office. YES Prep expects to close a \$16 million loan in January 2015, the proceeds of which will pay off the acquisition bridge loan and provide funding for the first phase of renovations for the schools and Home Office.

E. District Partnerships:

*Spring Branch*

In January 2011, Spring Branch ISD (SBISD) and YES Prep formed a partnership to serve students in the Spring Branch community. YES Prep's students are co-located in Northbrook Middle School alongside SBISD Northbrook students. The students are classified as SBISD students for Texas Education Agency ("TEA") reporting purposes.

Financially, SBISD receives the state and federal funds related to the students and in turn pays a set fee per student to YES Prep. YES Prep is responsible for all educational expenses including staff salaries and benefits, curriculum, supplies and program expenses. SBISD is responsible for utilities, facility maintenance, transportation, and food services expenses.

*Aldine*

In April 2013, Aldine ISD (Aldine) and YES Prep formed a partnership to serve students in the Aldine community. YES Prep's students are co-located in Hoffman Middle School alongside Aldine Hoffman students. The students are classified as Aldine students for TEA reporting purposes.

Financially, Aldine receives the state and federal funds related to the students and in turn pays a set fee per student to YES Prep. YES Prep is responsible for all educational expenses including staff salaries and benefits, curriculum, supplies and program expenses. Aldine is responsible for utilities, facility maintenance, transportation, and food services expenses.

*North Forest*

In June 2010, North Forest ISD (NFISD) and YES Prep formed a partnership to serve students in the North Forest community. Under the terms of the agreement, NFISD provided YES Prep use of a campus, and the students were classified as NFISD students for TEA reporting purposes.

For the years ended August 31, 2013, 2012 and 2011, NFISD received the state and federal funds related to the students and in turn paid a set fee per student to YES Prep. YES Prep was responsible for all educational expenses including staff salaries and benefits, curriculum, supplies and program expenses. NFISD was responsible for utilities, facility maintenance, transportation, and food services expenses.

In July 2013, NFISD was dissolved as an independent school district and was absorbed into Houston ISD (HISD). YES Prep and HISD did not enter into a new partnership arrangement, although the possibility exists for that to occur at some future date. For the 2013-14 school year, YES Prep is leasing the campus from HISD and operating the school on its own (the students are reported to TEA as YES Prep students for which YES Prep receives the state and federal funding).

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

F. Cash and Cash Equivalents:

YES Prep includes all highly liquid investments with maturities of three months or less in Cash and Cash Equivalents. The bank accounts, at times, exceeded federally insured limits. YES Prep has not experienced any losses on such accounts.

Cash Balances at August 31,	2014	2013
Operating, unrestricted	\$ 13,895,256	\$ 11,264,186
Operating, restricted	538,344	434,421
Capital, restricted	2,219,769	1,642,627
	\$ 16,653,369	\$ 13,341,234
	2014	2013
Cash Balances at August 31,		
Money market and mutual funds	\$ 15,008,493	\$ 11,824,830
Demand deposits	1,644,876	1,516,404
	\$ 16,653,369	\$ 13,341,234

G. Note Receivable:

YES Prep loaned \$10,422,800 to COCRF Investor XIV, LLC (“COCRF Investor”) on October 10, 2012. The loan matures on November 1, 2042 and bears interest at 1.31%, which is paid quarterly. The loan is interest only for the first seven years of the loan.

Simultaneous with YES Prep making the loan to COCRF Investor, Capital One Bank, N. A. (“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 CDE and NMI 71. The loan from YES Prep to COCRF Investor is secured by COCRF Investor’s interests in COCRF CDE and NMI71. COCRF CDE and NMI 71 made loans to Facilities in the form of a New Markets Tax Credit Qualified Low-Income Community Investment under Section 45D of the Internal Revenue Code of 1986, as amended, for the construction of YES Prep Fifth Ward and YES Prep Northside.

*Put and Call*

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

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

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

H. Bonds Payable and Bond Sinking Funds:

YES Prep entered into a Master Trust Indenture (MTI) in March 2010 in anticipation of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. At August 31, 2014, approximately \$1,218,000 of the capacity remains un-borrowed and available. The MTI is secured by a first lien on YES Prep’s revenue as well as on real property of YES Prep. YES Prep is required to maintain 1.1 times debt coverage at each quarter end while MTI debt is outstanding. With the exception of the notes to Charter School Growth Fund and the New Markets Tax Credit loans, all bonds and notes described in this note exist under, and are subject to, the MTI.

Bonds consist of the following:

	2014	2013
Qualified Zone Academy Bond issued March 25, 2010. The investor earns 5.73% in annual tax credits and YES Prep pays 2% supplemental interest semi-annually. The supplemental interest is subject to reset in March 2017, no lower than 2% and no higher than 3%. The bond is secured by YES Prep revenue streams and real estate, and matures in April 2025.	\$ 16,000,000	\$ 16,000,000
Qualified School Construction Bond issued March 25, 2010. The investor earns 5.82% in annual tax credits and YES Prep pays 2% supplemental interest semi-annually. The supplemental interest is subject to reset in March 2017, no lower than 2% and no higher than 3%. The bond is secured by YES Prep revenue streams and real estate, and matures in April 2025.	6,100,000	6,100,000
Qualified Zone Academy Bond issued July 27, 2011. The investor earns 5.18% in annual tax credits and YES Prep pays 1.5% supplemental interest semi-annually. The supplemental interest is subject to reset in July 2018, no lower than 1.5% and no higher than 3%. The bond is secured by YES Prep revenue streams and real estate, and matures in April 2026.	8,751,600	8,751,600
Qualified Zone Academy Bond issued October 10, 2012. The investor earns 4.49% in annual tax credits and YES Prep pays 1% supplemental interest semi-annually. The supplemental interest is subject to reset in October 2019, no lower than 1% and no higher than 3%. The bond is secured by YES Prep revenue streams and real estate, and matures in April 2027.	3,400,000	3,400,000
	\$ 34,251,600	\$ 34,251,600

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 AND 2013

H. Bonds Payable and Bond Sinking Funds: (continued)

Future maturities of bonds payable over the next five years are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 607,274	\$ 607,274
2016	-	607,274	607,274
2017	-	607,274	607,274
2018	-	607,274	607,274
2019	-	607,274	607,274
Thereafter	34,251,600	3,320,494	37,572,094
Total	<u>\$ 34,251,600</u>	<u>\$ 6,356,864</u>	<u>\$ 40,608,464</u>

YES Prep entered into repurchase agreements (Wells Fargo Bank, Custodian) with Bayern Landesbank and Deutsche Bank for the purpose of funding the repayment of the bonds at 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 amounts due upon maturity for each of the bonds.

YES Prep's minimum cash commitment under the repurchase agreements is the following:

2015	\$ 1,720,701
2016	1,720,701
2017	1,720,701
2018	1,720,701
2019	1,720,701
Thereafter	9,439,108
Total	<u>\$ 18,042,613</u>

I. Notes Payable:

	<u>2014</u>	<u>2013</u>
Notes Payable consists of the following:		
Loan agreement with Charter School Growth Fund dated March 10, 2009; original amount - \$2,500,000; interest at 4%. \$1,500,000 of note principal and related interest are subject to forgiveness based on YES Prep's performance against preset milestones. The loan matures in three installments in 2016, 2017 and 2018. As of August 3, 2014, \$355,000 of principal related to this instrument has been forgiven.	\$ 2,145,000	\$ 2,232,500
Loan agreement with Charter School Growth Fund dated July 15, 2013; original amount - \$200,000; interest at 1%. Interest is paid when the loan matures in June 29, 2019.	200,000	200,000
Loan agreement with Charter School Growth Fund dated September 16, 2013; original amount - \$200,000; interest at 1%. Interest is paid when the loan matures in June 30, 2019.	200,000	-



YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 AND 2013

I. Notes Payable: (continued)

	2014	2013
Loan agreement with a bank dated June 2012; original amount \$7,890,935; interest at LIBOR plus 240 basis points. Interest is paid monthly as well as \$32,879 in monthly principal. The loan matures in June 2019. Loan proceeds were used to acquire sites for YES Prep Fifth Ward and YES Prep Northside, and construction of classrooms at YES Prep East End.	\$ 1,533,847	\$ 7,395,514
Loan agreement with a bank dated June 2012; original amount \$1,000,000; interest at LIBOR plus 240 basis points. Interest is paid monthly. Principal due at maturity, January 2014. Loan proceeds were used to acquire the site for YES Prep White Oak.	-	1,000,000
Loan agreement with a bank dated September 2013; original amount \$9,740,000; interest at 3.25%. Principal and Interest is paid semi-annually in \$425,413 installments. Proceeds were used to retire existing debt and to provide funding for expansions at YES Prep Southwest and YES Prep Fifth Ward.	9,479,018	-
Loan agreement with a bank dated August 2014; original amount \$3,550,000; interest at LIBOR plus 200 basis points. Interest is paid monthly. Principal due at maturity, July 2015. Loan proceeds were used to acquire the site for YES Prep White Oak.	3,550,000	-
Note payable to COCRF CDE; original amount of note \$5,000,000; interest at 1% paid quarterly. Note is interest only for the first seven years of the note. Loan proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside and is subordinate to all bank debt.	5,000,000	5,000,000
Note payable to NMI 71; original amount of note \$8,665,000; interest at 1% paid quarterly. Note is interest only for the first seven years of the note. Loan proceeds were used to finance buildings at YES Prep Fifth Ward and YES Prep Northside and is subordinate to all bank debt.	8,665,000	8,665,000
	\$ 30,772,864	\$ 24,493,014

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 AND 2013

I. Notes Payable: (continued)

Future maturities of notes payable over the next five years are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,487,443	\$ 598,415	\$5,085,858
2016	1,454,698	532,136	1,986,834
2017	1,724,089	478,638	2,202,727
2018	1,844,002	416,105	2,260,107
2019	1,018,690	370,786	1,389,476
Thereafter	20,243,942	2,692,995	22,936,937
Total	<u>\$ 30,772,864</u>	<u>\$ 5,089,075</u>	<u>\$ 35,861,939</u>

J. Recharacterization of Grant:

In June 2013, Charter School Growth Fund (“CSGF”) made a grant to YES Prep in the amount of \$200,000. CSGF unilaterally opted to convert the grant into a loan as of September 16, 2013 requiring a change in the accounting for the payment. YES Prep established the loan on its balance sheet as of September 2013 (See Note I. above) with a corresponding charge to Net Assets in the current period.

The loan is subject to being forgiven by CSGF provided YES Prep achieves certain milestones in the years ended August 31, 2015 and 2016.

K. Operating Lease Commitment:

Currently, YES Prep leases office space, copiers and other office equipment under noncancellable operating leases. YES Prep’s minimum annual lease commitments under these leases are:

<u>Twelve months ending August 31,</u>	<u>Amount</u>
2015	\$ 503,200
2016	306,234
2017	170,817
2018	30,096
Total	<u>\$ 1,010,347</u>

Operating lease expense amounted to \$1,222,618 and \$742,435 for the twelve months ended August 31, 2014 and 2013.

L. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31 are available for the following periods:

<u>Periods after August 31,</u>	<u>2014</u>	<u>2013</u>
Capital Campaign Contributions	\$ 1,235,620	\$ 1,529,723
State Funds	5,221,092	3,049,465
Total restricted funds	<u>\$ 6,456,712</u>	<u>\$ 4,579,188</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

L. Temporarily Restricted Net Assets: (continued)

Periods after August 31,	2014	2013
Capital Campaign Contributions	\$ 3,228,803	\$ 2,643,437
Fundraisers & Donations	1,909,742	3,823,046
State Funds	67,175,407	50,015,459
Federal Funds	9,727,087	8,455,115
Total restricted funds	\$ 82,041,039	\$ 64,937,057

M. Employee Benefit Plans:

*Retirement Plan*

YES Prep contributes to the Teacher Retirement System of Texas (TRS), a cost sharing, multiple-

Employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability employer defined benefit pension plan with one exception; all risks and costs are not shared by the annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2014 and 2013, and a state contribution rate of 6.8% for fiscal year 2014 and 6.0% for fiscal year 2013. YES Prep's employees' contributions to the system for the years ending August 31, 2014 and 2013 were \$3,087,419 and \$2,787,373, equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum were \$103,765 and \$182,542 for the years ending August 31, 2014 and 2013.

*Supplemental Retirement Plan*

YES Prep offers a 401 (k) plan for all employees over the age of 21 that work over 20 hours per week. YES Prep is not required to match any employee contributions and made no matching contributions in the years ended August 31, 2014 and 2013.

YES PREP PUBLIC SCHOOLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 AND 2013

M. Employee Benefit Plans: (continued)

*Health Care*

Employees of YES Prep are covered by a health insurance plan administered by TRS. During the years ended August 31, 2014 and 2013, YES Prep contributed \$332 and \$332 per month per participating employee for the years ending August 31, 2014 and 2013, respectively. The employees also contributed to the plan.

YES Prep also offers optional dental, vision, life and disability insurance. Premiums for these plans are borne by the employees that elect to participate.

N. Commitments and Contingencies:

YES Prep receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency, and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. These programs have complex compliance requirements and should state or federal auditors discover areas of noncompliance, these funds may be subject to refund to the grantor agency. YES Prep is dependent on these charter school revenue sources.

O. Change of Fiscal Year:

YES Prep requested permission from TEA to change its fiscal year end from August 31 to June 30, and TEA granted the request. The fiscal year change is effective for the year ended June 30, 2015. The fiscal period then ended will comprise the ten months September 1, 2014 – June 30, 2015.

P. Evaluation of Subsequent Events:

YES Prep has evaluated subsequent events through January 19, 2015, the date which the financial statements were available to be issued.

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of  
YES Prep Public Schools, Inc.  
Houston, Texas

We have audited the financial statements of YES Prep Public Schools, Inc. (YES Prep) (a nonprofit organization) as of and for the year ended August 31, 2014, and have issued our report thereon dated January 19, 2015, which contained an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The Schedules for Individual Charter School on pages 19 through 25, Consolidating Statement of Financial Position on pages 26 through 27 and Consolidating Statement of Activities on pages 28 through 29 are presented for purposes of additional analysis and are not a required part of the consolidated 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.



Houston, TX  
January 19, 2015

YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014 AND 2013

<b>Assets:</b>	2014	2013
Cash	\$ 16,666,344	\$ 13,332,031
Accounts Receivable	3,889,600	5,376,634
Other Assets	1,614,395	1,377,542
Bond Sinking Fund	6,494,624	4,559,855
Notes Receivable	10,422,800	10,422,800
Leasehold Improvements	62,436	34,440
Land	8,249,559	6,051,611
Buildings	90,446,280	83,508,725
Equipment and Furniture	7,036,494	6,748,222
Library Books and Media	66,909	66,909
Accumulated Depreciation	(17,887,629)	(13,679,206)
<b>Total Assets</b>	<b>\$ 127,061,812</b>	<b>\$ 117,799,563</b>
 <b>Liabilities and Net Assets:</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ 2,790,697	\$ 2,869,881
Accrued Wages and Benefits	2,352,090	2,839,251
Accrued Interest	944,361	737,177
Deferred Revenue	266,264	250,264
Bonds Payable	34,251,600	34,251,600
Notes Payable	30,772,864	24,493,014
<b>Total Liabilities</b>	<b>71,377,876</b>	<b>65,441,187</b>
Minority Interest	12,432	14,908
<b>Net Assets:</b>		
Unrestricted Net Assets	50,544,232	47,790,121
Temporarily Restricted Net Assets	5,127,272	4,553,347
<b>Total Net Assets</b>	<b>55,671,504</b>	<b>52,343,468</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 127,061,812</b>	<b>\$ 117,799,563</b>

YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	Unrestricted	Temporarily Restricted	Total	2013
<b>Operating Revenues and Public Support</b>				
<b>Local Support:</b>				
5740 Other Revenues from Local Sources	\$ 3,341,429	\$ 6,846,871	\$ 10,188,300	\$ 6,242,565
5750 Cocurricular, Enterprising Services	1,322,538	1,054,241	2,376,779	2,418,644
Total Local Revenues	4,663,967	7,901,112	12,565,079	8,661,209
<b>State Program Revenues:</b>				
5810 Foundation School Program Act Revenues	-	62,000,656	62,000,656	47,477,617
5820 State Program Revenues Distributed by Texas Education Agency	-	399,900	399,900	450,745
Total State Program Revenues	-	62,400,556	62,400,556	47,928,362
<b>Federal Program Revenues:</b>				
5940 Federal Revenues Distributed by the Department of Education	-	1,236,768	1,236,768	1,682,347
5920 Federal Revenues Distributed by Texas Education Agency	-	7,921,251	7,921,251	6,034,744
Total Federal Program Revenues	-	9,158,019	9,158,019	7,717,091
<b>Net assets Released from Restrictions:</b>				
Restrictions Satisfied by Payments	78,591,659	(78,591,659)	-	-
Total Revenues	83,255,626	868,028	84,123,654	64,306,662
<b>Operating Expenses</b>				
11 Instruction	36,078,183	-	36,078,183	27,755,463
12 Resource and Media	170,184	-	170,184	190,428
13 Curriculum and Staff Development	3,635,681	-	3,635,681	2,715,714
21 Instructional Leadership	2,340,899	-	2,340,899	1,478,602
23 School Leadership	6,427,113	-	6,427,113	4,978,769
31 Counseling	2,100,807	-	2,100,807	2,067,406
32 Social Work Services	1,230,326	-	1,230,326	870,112
33 Health Services	222,575	-	222,575	139,483
34 Student Transportation	4,384,811	-	4,384,811	3,773,999
35 Food Services	3,054,511	-	3,054,511	2,840,659
36 Cocurricular/Extracurricular Activities	1,618,137	-	1,618,137	1,052,872
41 General Administration	8,864,395	-	8,864,395	6,715,670
51 Plant Maintenance and Operations	8,714,843	-	8,714,843	7,363,374
52 Security and Monitoring Services	95,043	-	95,043	80,199
53 Data Processing Services	2,410,551	-	2,410,551	1,751,131
71 Debt Service	1,252,616	-	1,252,616	1,083,881
81 Fundraising	927,166	-	927,166	678,540
Total Expenses	83,527,841	-	83,527,841	65,536,302
Change in Net Assets from Operations	(272,215)	868,028	598,290	(1,229,640)
Net Assets, Beginning of Year	16,673,229	3,023,625	19,697,238	19,891,856
<b>Net Operating Assets, End of Year</b>	<b>16,403,875</b>	<b>3,891,653</b>	<b>20,295,528</b>	<b>18,662,216</b>
<b>Non-Operating Revenues (Expenses)</b>				
5740 Facility Project Donations & Bond Income	-	2,934,700	2,934,700	637,500
Total Non-Operating Revenues(Expense)	-	2,934,700	2,934,700	637,500
Change in Net Assets from Non-Operating Activity	-	2,934,700	2,934,700	637,500
Net Assets, Beginning of Year	30,916,507	1,529,723	32,446,230	31,808,730
Restrictions Satisfied by Payments	3,228,803	(3,228,803)	-	-
<b>Net non-Operating Assets, End of Year</b>	<b>34,145,310</b>	<b>1,235,620</b>	<b>35,380,930</b>	<b>32,446,230</b>
Total Change in Net Assets	2,956,588	573,925	3,530,513	(592,140)
Net Assets, Beginning of Year, as Restated	47,590,121	4,553,347	52,143,468	51,925,386
Transfer of Net Assets due to North Forest ISD Closure	-	-	-	1,010,222
<b>Net Assets, End of Year</b>	<b>\$ 50,546,709</b>	<b>\$ 5,127,272</b>	<b>\$ 55,673,981</b>	<b>\$ 52,343,468</b>

YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Change in Net assets	\$ 3,530,513	\$ (592,140)
Transfer of Net Assets due to North Forest ISD Closure	-	1,010,222
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,208,283	3,687,588
(Gain) Loss on Bond Sinking Fund	(214,068)	(141,034)
(Increase) decrease in Accounts Receivable	1,487,034	(2,026,092)
(Increase) Decrease in Prepaid & Other Assets	(236,713)	(493,353)
Increase (Decrease) in Accounts Payable & Other Accrued Liabilities	(568,822)	1,662,650
Increase (Decrease) in Deferred Revenue	16,000	24,961
Total Adjustments	<u>4,691,714</u>	<u>2,714,720</u>
NET CASH PROVIDED (USED) by OPERATING ACTIVITIES	<u>8,222,227</u>	<u>3,132,801</u>
Cash Flows from Investing Activities:		
Purchase of Fixed Assets	(9,451,770)	(11,763,743)
NET CASH PROVIDED (USED) by Investing Activities	<u>(9,451,770)</u>	<u>(11,763,743)</u>
Cash Flows From Financing Activities:		
Accrued Interest	207,184	46,595
Additional Notes Payable	13,290,000	13,865,000
Additional Bonds Payable	-	3,400,000
Bond Sinking Fund	(1,720,701)	(1,720,701)
Repayment of Debt	(7,122,650)	(397,284)
Long-term Note - Forgiven for Meeting Thresholds	(87,500)	(687,500)
NMTC Loan Receivable	-	(10,422,800)
Minority Interest	(2,476)	14,908
Net Cash Provided (USED) by Financing Activities	<u>4,563,857</u>	<u>4,098,217</u>
DECREASE IN CASH AND CASH EQUIVALENTS	3,334,314	(4,532,724)
CASH AT BEGINNING OF YEAR	13,332,031	17,864,755
CASH AT END OF YEAR	<u>\$ 16,666,344</u>	<u>\$ 13,332,031</u>
<u>Cash Paid During the Year for:</u>		
Interest	<u>\$ 816,964</u>	<u>\$ 976,336</u>



YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2014

Expenses	
6100 Payroll Costs	\$ 51,578,115
6200 Professional and Contracted Services	15,771,869
6300 Supplies and Materials	5,548,120
6400 Other Operating Costs	9,314,617
6500 Debt	1,315,119
Total Expenses	<u>\$ 83,527,841</u>

YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest			Total
	Local	State	Federal	
1110 Cash	\$ 20,837,680	\$ (3,616,399)	\$ (554,938)	\$ 16,666,344
1510 Land and Improvements	6,687,774	1,561,785	-	8,249,559
1520 Buildings and Improvements	86,046,492	4,399,787	-	90,446,279
1539 Furniture and Equipment	4,725,618	1,627,355	683,521	7,036,494
1569 Library Books and Media	-	66,909	-	66,909
1551 Leasehold Improvements	34,440	27,996	-	62,436
Total Capital Assets	\$ 118,332,004	\$ 4,067,433	\$ 128,584	\$ 122,528,021

YES PREP PUBLIC SCHOOLS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

	Budgeted Amounts		Actual	Variance from Final	%
	Original	Final		Budget	Variance
<b>Operating Revenues</b>					
<b>Local Support:</b>					
5740 Other Revenues from Local Sources	\$ 9,301,803	\$ 9,301,803	\$ 10,188,300	\$ 886,497	10% [1]
5750 Cocurricular, Enterprising Services	2,068,000	2,068,000	2,376,779	308,779	15% [2]
Total Local Revenues	11,369,803	11,369,803	12,565,079	1,195,276	74%
<b>State Program Revenues:</b>					
5810 Foundation School Program Act Revenues	60,149,007	60,149,007	62,000,656	1,851,649	3%
5820 State Program Revenues Distributed by Texas Education Agency	-	-	399,900	399,900	100% [3]
Total State Program Revenues	60,149,007	60,149,007	62,400,556	2,251,549	
<b>Federal Program Revenues:</b>					
Federal Revenues Distributed by Texas Education Agency	7,779,080	9,457,873	7,921,251	(1,536,622)	-102% [4]
5940 Federal Revenues Distributed by the Department of Education	1,511,105	1,511,105	1,236,768	(274,337)	-3%
	9,290,185	10,968,978	9,158,019	(1,810,959)	
<b>Total Revenues</b>	<b>80,808,995</b>	<b>82,487,788</b>	<b>84,123,654</b>	<b>1,635,866</b>	<b>2%</b>
<b>Operating Expenses</b>					
11 Instruction	31,255,648	31,430,785	36,078,183	(4,647,398)	-15% [5]
12 Resource and Media	150,594	150,594	170,184	(19,590)	-13% [6]
13 Curriculum and Staff Development	2,983,856	3,235,294	3,635,681	(400,387)	-12% [7]
21 Instructional Leadership	2,487,108	2,487,108	2,340,899	146,209	6%
23 School Leadership	6,972,735	6,972,735	6,427,113	545,622	8%
31 Counseling	1,883,014	1,883,014	2,100,807	(217,793)	-12% [8]
32 Social Work Services	1,361,260	1,363,560	1,230,326	133,234	10%
33 Health Services	201,740	201,740	222,575	(20,835)	-10%
34 Student Transportation	4,433,385	4,433,385	4,384,811	48,574	1%
35 Food Services	3,644,562	3,644,562	3,054,511	590,051	16%
36 Cocurricular/Extracurricular Activities	1,078,145	2,731,938	1,618,137	1,113,801	41% [9]
41 General Administration	11,692,332	9,744,130	8,864,395	879,735	9%
51 Plant Maintenance and Operations	7,261,829	7,261,829	8,714,843	(1,453,014)	-20% [10]
52 Security and Monitoring Services	-	-	95,043	(95,043)	-100% [11]
53 Data Processing Services	1,235,091	2,779,418	2,410,551	368,867	13% [12]
71 Debt Service	1,014,263	1,014,263	1,252,616	(238,353)	-24% [13]
81 Fundraising	900,238	900,238	927,166	(26,929)	-3%
<b>Total Expenses</b>	<b>78,555,799</b>	<b>80,234,592</b>	<b>83,527,841</b>	<b>(3,293,249)</b>	<b>-4%</b>
Net Gain/ (Loss) On Sale of Fixed Assets			-	-	
Change in Net Operating Assets	2,253,196	2,253,196	595,813	(1,657,383)	
Net Operating Assets, Beginning of Year	52,181,443	52,181,443	52,181,443	-	
Net Operating Assets, End of Year	\$ 54,434,638	\$ 54,434,638	\$ 52,777,256	\$ (1,657,383)	-3%

YES PREP PUBLIC SCHOOLS, INC.  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2014

- [1] YES Prep's Annual Fundraising was more successful than anticipated in the budget.
- [2] YES Prep did not budget enough for campus uniforms, tickets and book sales revenue, which totaled \$313,000 of additional revenues. In addition, YES Prep received funds from YES Prep teachers and other TEA charter schools to pay for the services of our Alternative Certification Program. Incremental revenue (ahead of budget) from this program totaled \$130,000 and had an equivalent amount of incremental costs for Curriculum and Staff Development. Finally, YES Prep included Food Service collections from students in Federal Revenues distributed by the TEA incorrectly. The actual collections are appropriately recorded here.
- [3] YES Prep received incremental FSP revenue based on student population and increased enrollment. YES Prep failed to budget for TEA Textbook Allotment revenues in 2014 which also resulted in the under-budgeting for textbooks and reading materials within Function 11 (instruction).
- [4] YES Prep's Federal Funding amount was adjusted down by \$712,000 in December 2013 due to the absorption of North Forest ISD into HISD and how funding is calculated. This was an unexpected consequence of the closure of NFISD.
- [5] YES Prep failed to budget for TEA Textbook Allotment revenues in 2014 which also resulted in the under-budgeting for textbooks and reading materials within Function 11 (instruction). We also paid out \$191,000 in student scholarships (that had associated revenue) that were previously not budgeted for.
- [6] YES Prep received designated grant money to purchase library supplies, the increased revenues reflected in #1 had associated expense in function 12.
- [7] YES Prep hired additional Instructional Coaches as a result of the increases in our ADA and for the instruction of teachers for other non-YES Prep TEA schools.
- [8] YES Prep did not adequately budget for student travel for college visits. In addition, YES Prep did not budget enough for SAT testing materials, travel for college counselors and other contracted services.
- [9] YES Prep did not appropriately budget for student transportation costs related to extracurricular activities. YES Prep also includes expenses related to the sale of items on campus in this function, and those expenses exceeded budget by 280%, but had associated revenue.
- [10] YES Prep underestimated contracted facility maintenance and repair costs on campus as well as depreciation costs for new construction.
- [11] YES Prep upgraded security at all campuses and is now paying for monitoring services for the security systems. These costs were incorrectly budgeted in Function 41, but correctly expensed to function 52.
- [12] YES Prep was informed of a sudden cessation of E-Rate funding from USAC in the Fall of 2013. Funding from USAC is on a reimbursement basis for technology costs, when YES Prep was notified that funding would cease we cut back on related expenses.
- [13] YES Prep underestimated interest on debt expense and failed to budget for fees related to our recent New Market Tax Credit Transaction.

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

<b>Assets:</b>	YES Prep Public Schools	YES Prep Facilities Inc.	Consolidating Entries	YES Prep Public Schools	Partnership Schools	Consolidated 8/31/2014
Cash	\$ 16,271,588	\$ 394,756	\$ -	\$ 16,666,344	\$ (12,975)	\$ 16,653,369
Accounts Receivable	3,864,036	25,564	-	3,889,600	289,335	4,178,935
Other Assets	1,276,558	337,837	-	1,614,395	4,817	1,619,212
Bond Sinking Fund	6,494,624	-	-	6,494,624	-	6,494,624
Investment in YES Prep Facilities Inc.	1,513,910	-	(1,513,910)	-	-	-
Notes Receivable	10,422,800	-	-	10,422,800	-	10,422,800
Leasehold Improvements	62,436	-	-	62,436	61,118	123,554
Land	8,249,559	-	-	8,249,559	-	8,249,559
Buildings	76,368,685	14,077,595	-	90,446,280	30,595	90,476,875
Equipment and Furniture	6,730,600	305,894	-	7,036,494	-	7,036,494
Library Books and Media	66,909	-	-	66,909	-	66,909
Accumulated Depreciation	(17,676,928)	(210,701)	-	(17,887,629)	(16,146)	(17,903,774)
<b>Total Assets</b>	<b>\$ 113,644,777</b>	<b>\$ 14,930,945</b>	<b>\$ (1,513,910)</b>	<b>\$ 127,061,812</b>	<b>\$ 356,744</b>	<b>\$ 127,418,556</b>
<b>Liabilities and Net Assets:</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 2,790,697	\$ -	\$ -	\$ 2,790,697	\$ 95,053	\$ 2,885,750
Accrued Wages and Benefits	2,352,090	-	-	2,352,090	126,877	2,478,967
Accrued Interest	921,582	22,779	-	944,361	-	944,361
Deferred Revenue	266,264	-	-	266,264	-	266,264
Bonds Payable	34,251,600	-	-	34,251,600	-	34,251,600
Notes Payable	17,107,864	13,665,000	-	30,772,864	-	30,772,864
<b>Total Liabilities</b>	<b>57,690,097</b>	<b>13,687,779</b>	<b>-</b>	<b>71,377,876</b>	<b>221,929</b>	<b>71,599,805</b>
Minority Interest	-	-	12,432	12,432	-	12,432
<b>Net Assets:</b>						
Paid-in-Capital	-	1,529,202	(1,529,202)	-	-	-
Unrestricted Net Assets	50,827,408	(286,036)	2,860	50,544,232	40,995	50,585,227
Temporarily Restricted Net Assets	5,127,272	-	-	5,127,272	93,820	5,221,092
<b>Total Net Assets</b>	<b>55,954,680</b>	<b>1,243,166</b>	<b>(1,526,342)</b>	<b>55,671,504</b>	<b>134,815</b>	<b>55,806,319</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 113,644,777</b>	<b>\$ 14,930,945</b>	<b>\$ (1,513,910)</b>	<b>\$ 127,061,812</b>	<b>\$ 356,744</b>	<b>\$ 127,418,556</b>

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2013

<b>Assets:</b>	YES Prep Public Schools	YES Prep Facilities Inc.	Consolidating Entries	Total YES Prep Combined	Partnership Schools	Consolidated 8/31/2013
Cash	\$ 12,723,592	\$ 608,439	\$ -	\$ 13,332,031	\$ 9,203	\$ 13,341,234
Accounts Receivable	5,351,069	25,565	-	5,376,634	183,087	5,559,721
Other Assets	1,004,490	373,052	-	1,377,542	-	1,377,542
Bond Sinking Fund	4,559,855	-	-	4,559,855	-	4,559,855
Investment in YES Prep Facilities Inc.	1,513,910	-	(1,513,910)	-	-	-
Notes Receivable	10,422,800	-	-	10,422,800	-	10,422,800
Leasehold Improvements	34,440	-	-	34,440	34,298	68,738
Land	6,051,611	-	-	6,051,611	-	6,051,611
Buildings	69,612,695	13,896,030	-	83,508,725	23,465	83,532,190
Equipment and Furniture	6,456,939	291,283	-	6,748,222	-	6,748,222
Library Books and Media	66,909	-	-	66,909	-	66,909
Automobiles	-	-	-	-	-	-
Accumulated Depreciation	(13,663,455)	(15,751)	-	(13,679,206)	(6,247)	(13,685,453)
<b>Total Assets</b>	<b>\$ 104,134,855</b>	<b>\$ 15,178,618</b>	<b>\$ (1,513,910)</b>	<b>\$ 117,799,563</b>	<b>\$ 243,806</b>	<b>\$ 118,043,369</b>
<b>Liabilities and Net Assets:</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 2,869,881	\$ -	\$ -	\$ 2,869,881	\$ 54,377	\$ 2,924,258
Accrued Wages and benefits	2,839,251	-	-	2,839,251	104,167	2,943,418
Accrued Interest	714,402	22,775	-	737,177	-	737,177
Deferred Revenue	250,264	-	-	250,264	-	250,264
Bonds Payable	34,251,600	-	-	34,251,600	-	34,251,600
Notes Payable	10,828,014	13,665,000	-	24,493,014	-	24,293,014
<b>Total Liabilities</b>	<b>51,753,412</b>	<b>13,687,775</b>	<b>-</b>	<b>65,441,187</b>	<b>158,544</b>	<b>65,399,731</b>
Minority Interest	-	-	14,908	14,908	-	14,908
<b>Net Assets:</b>						
Paid-in-Capital	-	1,529,202	(1,529,202)	-	-	-
Unrestricted Net Assets	47,828,096	(38,359)	384	47,790,121	59,421	48,049,542
Temporarily Restricted Net Assets	4,553,347	-	-	4,553,347	25,841	4,579,188
<b>Total Net Assets</b>	<b>52,381,443</b>	<b>1,490,843</b>	<b>(1,528,818)</b>	<b>52,343,468</b>	<b>85,262</b>	<b>52,628,730</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 104,134,855</b>	<b>\$ 15,178,618</b>	<b>\$ (1,513,910)</b>	<b>\$ 117,799,563</b>	<b>\$ 243,806</b>	<b>\$ 118,043,369</b>

YES PREP PUBLIC SCHOOLS, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2014

	YES Prep Public Schools			YES Prep Facilities Inc.			Consolidating Entries	Total YES Prep Combined			Partnership Schools			Consolidated FY 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Public Support</b>																
<b>Local Support:</b>																
5740 Other Revenues from Local Sources	\$ 3,089,564	\$ 6,846,871	\$ 9,936,435	\$ 249,388	\$ -	\$ 249,388	\$ 2,477	\$ 3,341,429	\$ 6,846,871	\$ 10,188,300	\$ 105,251	\$ -	\$ 105,251	\$ 3,444,203	\$ 6,846,871	\$ 10,291,074
5750 Cocurricular, Enterprising Services	1,322,538	1,054,241	2,376,779	-	-	-	-	1,322,538	1,054,241	2,376,779	2,821,843	36,493	2,858,336	4,144,381	1,090,734	5,235,115
<b>Total Local Revenues</b>	<b>4,412,102</b>	<b>7,901,112</b>	<b>12,313,214</b>	<b>249,388</b>	<b>-</b>	<b>249,388</b>	<b>2,477</b>	<b>4,663,967</b>	<b>7,901,112</b>	<b>12,565,079</b>	<b>2,927,094</b>	<b>36,493</b>	<b>2,963,587</b>	<b>7,588,584</b>	<b>7,937,605</b>	<b>15,526,189</b>
<b>State Program Revenues:</b>																
5810 Foundation School Program Act Revenues	-	62,000,656	62,000,656	-	-	-	-	-	62,000,656	62,000,656	-	-	-	-	62,000,656	62,000,656
5820 State Program Revenues Distributed by Texas Education Agency	-	399,900	399,900	-	-	-	-	-	399,900	399,900	-	772	772	-	400,672	400,672
<b>Total State Program Revenues</b>	<b>-</b>	<b>62,400,556</b>	<b>62,400,556</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,400,556</b>	<b>62,400,556</b>	<b>-</b>	<b>772</b>	<b>772</b>	<b>-</b>	<b>62,401,328</b>	<b>62,401,328</b>
<b>Federal Program Revenues:</b>																
5940 Federal Revenues Distributed by the Department of Education	-	1,236,768	1,236,768	-	-	-	-	-	1,236,768	1,236,768	-	251,291	251,291	-	1,488,059	1,488,059
5920 Federal Revenues Distributed by Texas Education Agency	-	7,921,251	7,921,251	-	-	-	-	-	7,921,251	7,921,251	-	-	-	-	7,921,251	7,921,251
<b>Total Federal Program Revenues</b>	<b>-</b>	<b>9,158,019</b>	<b>9,158,019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,158,019</b>	<b>9,158,019</b>	<b>-</b>	<b>251,291</b>	<b>251,291</b>	<b>-</b>	<b>9,409,310</b>	<b>9,409,310</b>
<b>Net assets Released from Restrictions:</b>																
Restrictions Satisfied by Payments	78,591,659	(78,591,659)	-	-	-	-	-	78,591,659	(78,591,659)	-	220,577	(220,577)	-	78,812,236	(78,812,236)	-
<b>Total Revenues</b>	<b>83,003,761</b>	<b>868,028</b>	<b>83,871,789</b>	<b>249,388</b>	<b>-</b>	<b>249,388</b>	<b>2,477</b>	<b>83,255,626</b>	<b>868,028</b>	<b>84,123,654</b>	<b>3,147,671</b>	<b>67,979</b>	<b>3,215,650</b>	<b>86,400,820</b>	<b>936,007</b>	<b>87,336,827</b>
<b>Operating Expenses</b>																
11 Instruction	36,078,183	-	36,078,183	-	-	-	-	36,078,183	-	36,078,183	1,953,087	-	1,953,087	38,031,270	-	38,031,270
12 Resource and Media	170,184	-	170,184	-	-	-	-	170,184	-	170,184	-	-	-	170,184	-	170,184
13 Curriculum and Staff Development	3,635,681	-	3,635,681	-	-	-	-	3,635,681	-	3,635,681	15,864	-	15,864	3,651,545	-	3,651,545
21 Instructional Leadership	2,340,899	-	2,340,899	-	-	-	-	2,340,899	-	2,340,899	165,874	-	165,874	2,506,773	-	2,506,773
23 School Leadership	6,427,113	-	6,427,113	-	-	-	-	6,427,113	-	6,427,113	730,604	-	730,604	7,157,717	-	7,157,717
31 Counseling	2,100,807	-	2,100,807	-	-	-	-	2,100,807	-	2,100,807	179	-	179	2,100,986	-	2,100,986
32 Social Work Services	1,230,326	-	1,230,326	-	-	-	-	1,230,326	-	1,230,326	65,237	-	65,237	1,295,563	-	1,295,563
33 Health Services	222,575	-	222,575	-	-	-	-	222,575	-	222,575	50	-	50	222,625	-	222,625
34 Student Transportation	4,384,811	-	4,384,811	-	-	-	-	4,384,811	-	4,384,811	-	-	-	4,384,811	-	4,384,811
35 Food Services	3,054,511	-	3,054,511	-	-	-	-	3,054,511	-	3,054,511	-	-	-	3,054,511	-	3,054,511
36 Cocurricular/Extracurricular Activities	1,618,137	-	1,618,137	-	-	-	-	1,618,137	-	1,618,137	1,527	-	1,527	1,619,664	-	1,619,664
41 General Administration	8,752,536	-	8,752,536	111,859	-	111,859	-	8,864,395	-	8,864,395	193,500	-	193,500	9,057,895	-	9,057,895
51 Plant Maintenance and Operations	8,519,893	-	8,519,893	194,950	-	194,950	-	8,714,843	-	8,714,843	40,475	-	40,475	8,755,318	-	8,755,318
52 Security and Monitoring Services	95,043	-	95,043	-	-	-	-	95,043	-	95,043	-	-	-	95,043	-	95,043
53 Data Processing Services	2,410,551	-	2,410,551	-	-	-	-	2,410,551	-	2,410,551	(300)	-	(300)	2,410,251	-	2,410,251
71 Debt Service	1,062,360	-	1,062,360	190,256	-	190,256	-	1,252,616	-	1,252,616	-	-	-	1,252,616	-	1,252,616
81 Fundraising	927,166	-	927,166	-	-	-	-	927,166	-	927,166	-	-	-	927,166	-	927,166
<b>Total Expenses</b>	<b>83,030,776</b>	<b>-</b>	<b>83,030,776</b>	<b>497,065</b>	<b>-</b>	<b>497,065</b>	<b>-</b>	<b>83,527,841</b>	<b>-</b>	<b>83,527,841</b>	<b>3,166,097</b>	<b>-</b>	<b>3,166,097</b>	<b>86,693,938</b>	<b>-</b>	<b>86,693,938</b>
Change in Net Assets from Operations	(27,015)	868,028	841,013	(247,677)	-	(247,677)	2,477	(272,215)	868,028	598,290	(18,426)	67,979	49,553	(293,118)	936,007	642,889
Net Assets, Beginning of Year	16,711,588	3,023,625	19,735,213	(38,359)	-	(38,359)	384	16,673,229	3,023,625	19,697,238	59,421	25,841	85,262	16,733,034	3,049,465	19,782,499
<b>Net Operating Assets, End of Year</b>	<b>16,684,573</b>	<b>3,891,653</b>	<b>20,576,226</b>	<b>(286,036)</b>	<b>-</b>	<b>(286,036)</b>	<b>2,861</b>	<b>16,403,875</b>	<b>3,891,653</b>	<b>20,295,528</b>	<b>40,995</b>	<b>93,820</b>	<b>134,815</b>	<b>16,442,778</b>	<b>3,985,472</b>	<b>20,425,388</b>
<b>Non-Operating Revenues (Expenses)</b>																
5740 Facility Project Donations & Bond Income	-	2,934,700	2,934,700	-	-	-	-	-	2,934,700	2,934,700	-	-	-	-	2,934,700	2,934,700
<b>Total Non-Operating Revenues(Expense)</b>	<b>-</b>	<b>2,934,700</b>	<b>2,934,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,934,700</b>	<b>2,934,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,934,700</b>	<b>2,934,700</b>
Change in Net Assets from Non-Operating Activity	-	2,934,700	2,934,700	-	-	-	-	-	2,934,700	2,934,700	-	-	-	-	2,934,700	2,934,700
Net Assets, Beginning of Year	30,916,507	1,529,723	32,446,230	-	-	-	-	30,916,507	1,529,723	32,446,230	-	-	-	30,916,507	1,529,723	32,446,230
Restrictions Satisfied by Payments	3,228,803	(3,228,803)	-	-	-	-	-	3,228,803	(3,228,803)	-	-	-	-	3,228,803	(3,228,803)	-
<b>Net non-Operating Assets, End of Year</b>	<b>34,145,310</b>	<b>1,235,620</b>	<b>35,380,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,145,310</b>	<b>1,235,620</b>	<b>35,380,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,145,310</b>	<b>1,235,620</b>	<b>35,380,930</b>
Total Change in Net Assets	3,201,788	573,925	3,775,713	(247,677)	-	(247,677)	2,477	2,956,588	573,925	3,530,513	(18,426)	67,979	49,553	2,935,685	641,904	3,577,589
Net Assets, Beginning of Year, as Restated	47,628,096	4,553,347	52,181,443	(38,359)	-	(38,359)	384	47,590,121	4,553,347	52,143,468	59,421	25,841	85,262	47,649,542	4,579,188	52,228,730
Paid In Capital	-	-	-	1,529,202	-	1,529,202	(1,529,202)	-	-	-	-	-	-	-	-	-
<b>Net Assets, End of Year</b>	<b>\$ 50,829,884</b>	<b>\$ 5,127,272</b>	<b>\$ 55,957,156</b>	<b>\$ 1,243,166</b>	<b>\$ -</b>	<b>\$ 1,243,166</b>	<b>\$ (1,526,341)</b>	<b>\$ 50,546,709</b>	<b>\$ 5,127,272</b>	<b>\$ 55,673,981</b>	<b>\$ 40,995</b>	<b>\$ 93,820</b>	<b>\$ 134,815</b>	<b>\$ 50,585,227</b>	<b>\$ 5,221,092</b>	<b>\$ 55,806,319</b>

YES PREP PUBLIC SCHOOLS, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2013

	YES Prep Public Schools			YES Prep Facilities Inc.			Consolidating	Total YES Prep Combined			Partnership Schools			Consolidated FY 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Public Support</b>																
<b>Local Support:</b>																
5740 Other Revenues from Local Sources	\$ 3,211,480	\$ 2,802,095	\$ 6,013,575	\$ 228,606	\$ -	\$ 228,606	\$ 384	\$ 3,440,470	\$ 2,802,095	\$ 6,242,565	\$ 268,388	\$ 32,395	\$ 300,783	3,708,858	2,834,490	\$ 6,543,348
5750 Cocurricular, Enterprising Services	1,681,885	736,759	2,418,644	-	-	-	-	1,681,885	736,759	2,418,644	5,250,146	64,050	5,314,196	6,932,031	800,809	7,732,840
Total Local Revenues	4,893,365	3,538,854	8,432,219	228,606	-	228,606	384	5,122,355	3,538,854	8,661,209	5,518,534	96,445	5,614,979	10,640,889	3,635,299	14,276,572
<b>State Program Revenues:</b>																
5810 Foundation School Program Act Revenues	-	47,477,617	47,477,617	-	-	-	-	-	47,477,617	47,477,617	-	-	-	-	47,477,617	47,477,617
5820 State Program Revenues Distributed by Texas Education Agency	-	450,745	450,745	-	-	-	-	-	450,745	450,745	-	-	-	-	450,745	450,745
Total State Program Revenues	-	47,928,362	47,928,362	-	-	-	-	-	47,928,362	47,928,362	-	-	-	-	47,928,362	47,928,362
<b>Federal Program Revenues:</b>																
5920 Federal Revenues Distributed by the Department of Education	-	1,682,347	1,682,347	-	-	-	-	-	1,682,347	1,682,347	-	222,257	222,257	-	1,904,604	1,904,604
5920 Federal Revenues Distributed by Texas Education Agency	-	6,034,744	6,034,744	-	-	-	-	-	6,034,744	6,034,744	-	-	-	-	6,034,744	6,034,744
Total Federal Program Revenues	-	7,717,091	7,717,091	-	-	-	-	-	7,717,091	7,717,091	-	222,257	222,257	-	7,939,348	7,939,348
<b>Net assets Released from Restrictions:</b>																
Restrictions satisfied by payments	62,061,147	(62,061,147)	-	-	-	-	-	62,061,147	(62,061,147)	-	232,473	(232,473)	-	62,293,620	(62,293,620)	-
Total Revenues	66,954,512	(2,876,840)	64,077,672	228,606	-	228,606	384	67,183,118	(2,876,840)	64,306,662	5,751,007	86,229	5,837,236	72,934,509	(2,790,611)	70,143,898
<b>Operating Expenses</b>																
11 Instruction	27,755,463	-	27,755,463	-	-	-	-	27,755,463	-	27,755,463	3,221,155	-	3,221,155	30,976,618	-	30,976,618
12 Resource and Media	190,428	-	190,428	-	-	-	-	190,428	-	190,428	5,904	-	5,904	196,332	-	196,332
13 Curriculum and Staff Development	2,715,714	-	2,715,714	-	-	-	-	2,715,714	-	2,715,714	5,637	-	5,637	2,721,351	-	2,721,351
21 Instructional Leadership	1,478,602	-	1,478,602	-	-	-	-	1,478,602	-	1,478,602	207,777	-	207,777	1,686,379	-	1,686,379
23 School Leadership	4,978,769	-	4,978,769	-	-	-	-	4,978,769	-	4,978,769	848,381	-	848,381	5,827,150	-	5,827,150
31 Counseling	2,067,406	-	2,067,406	-	-	-	-	2,067,406	-	2,067,406	73,275	-	73,275	2,140,681	-	2,140,681
32 Social Work Services	870,112	-	870,112	-	-	-	-	870,112	-	870,112	165,785	-	165,785	1,035,897	-	1,035,897
33 Health Services	139,483	-	139,483	-	-	-	-	139,483	-	139,483	3,677	-	3,677	143,160	-	143,160
34 Student Transportation	3,773,999	-	3,773,999	-	-	-	-	3,773,999	-	3,773,999	-	-	-	3,773,999	-	3,773,999
35 Food Services	2,840,659	-	2,840,659	-	-	-	-	2,840,659	-	2,840,659	-	-	-	2,840,659	-	2,840,659
36 Cocurricular/Extracurricular Activities	1,052,872	-	1,052,872	-	-	-	-	1,052,872	-	1,052,872	59,435	-	59,435	1,112,307	-	1,112,307
41 General Administration	6,603,693	-	6,603,693	111,977	-	111,977	-	6,715,670	-	6,715,670	513,005	-	513,005	7,228,675	-	7,228,675
51 Plant Maintenance and Operations	7,347,623	-	7,347,623	15,751	-	15,751	-	7,363,374	-	7,363,374	48,125	-	48,125	7,411,499	-	7,411,499
52 Security and Monitoring Services	80,199	-	80,199	-	-	-	-	80,199	-	80,199	300	-	300	80,499	-	80,499
53 Data Processing Services	1,751,131	-	1,751,131	-	-	-	-	1,751,131	-	1,751,131	99	-	99	1,751,230	-	1,751,230
71 Debt Service	944,644	-	944,644	139,237	-	139,237	-	1,083,881	-	1,083,881	-	-	-	1,083,881	-	1,083,881
81 Fundraising	678,540	-	678,540	-	-	-	-	678,540	-	678,540	-	-	-	678,540	-	678,540
Total Expenses	65,269,337	-	65,269,337	266,965	-	266,965	-	65,536,302	-	65,536,302	5,152,555	-	5,152,555	70,688,857	-	70,688,857
Change in Net Assets from Operations	1,685,175	(2,876,840)	(1,191,665)	(38,359)	-	(38,359)	384	1,647,200	(2,876,840)	(1,229,640)	598,452	86,229	684,681	2,245,652	(2,790,611)	(544,959)
Net Assets, Beginning of Year	14,358,486	5,533,370	19,891,856	-	-	-	-	14,358,486	5,533,370	19,891,856	328,896	306,707	635,602	14,687,382	5,840,076	20,527,458
<b>Net Operating Assets, End of Year</b>	<b>16,043,661</b>	<b>2,656,530</b>	<b>18,700,191</b>	<b>(38,359)</b>	<b>-</b>	<b>(38,359)</b>	<b>384</b>	<b>16,005,686</b>	<b>2,656,530</b>	<b>18,662,216</b>	<b>927,348</b>	<b>392,936</b>	<b>1,320,283</b>	<b>16,933,034</b>	<b>3,049,465</b>	<b>19,982,499</b>
<b>Non-Operating Revenues (Expenses)</b>																
5740 Facility Project Donations & Bond Income	-	637,500	637,500	-	-	-	-	-	637,500	637,500	-	-	-	-	637,500	637,500
Total Non-Operating revenues(expense)	-	637,500	637,500	-	-	-	-	-	637,500	637,500	-	-	-	-	637,500	637,500
Change in Net Assets from Non-Operating Activity	-	637,500	637,500	-	-	-	-	-	637,500	637,500	-	-	-	-	637,500	637,500
Net Assets, Beginning of Year	28,273,070	3,535,660	31,808,730	-	-	-	-	28,273,070	3,535,660	31,808,730	-	-	-	28,273,070	3,535,660	31,808,730
Restrictions satisfied by payments	2,643,437	(2,643,437)	-	-	-	-	-	2,643,437	(2,643,437)	-	-	-	-	2,643,437	(2,643,437)	-
<b>Net non-Operating Assets, End of Year</b>	<b>\$ 30,916,507</b>	<b>\$ 1,529,723</b>	<b>\$ 32,446,230</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>30,916,507</b>	<b>1,529,723</b>	<b>\$ 32,446,230</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>30,916,507</b>	<b>\$ 1,529,723</b>	<b>\$ 32,446,230</b>
Total Change in Net Assets	4,328,612	(4,882,777)	(554,165)	(38,359)	-	(38,359)	384	4,290,637	(4,882,777)	(592,140)	598,452	86,229	684,681	4,889,089	(4,796,548)	92,541
Net Assets, Beginning of Year	43,001,703	8,923,683	51,925,386	-	-	-	-	43,001,703	8,923,683	51,925,386	(41,250)	452,053	410,803	42,960,453	9,375,736	52,336,189
Paid In Capital	-	-	-	1,529,202	-	1,529,202	(1,529,202)	-	-	-	-	-	-	-	-	-
Transfer of Net Assets due to North Forest ISD Closure	497,781	512,441	1,010,222	-	-	-	-	497,781	512,441	1,010,222	(497,781)	(512,441)	(1,010,222)	-	-	-
<b>Net Assets, End of Year</b>	<b>47,828,096</b>	<b>4,553,347</b>	<b>52,381,443</b>	<b>1,490,843</b>	<b>-</b>	<b>1,490,843</b>	<b>(1,528,818)</b>	<b>47,790,121</b>	<b>4,553,347</b>	<b>52,343,468</b>	<b>59,421</b>	<b>25,841</b>	<b>85,262</b>	<b>47,849,542</b>	<b>4,579,188</b>	<b>52,428,730</b>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Directors of  
YES Prep Public Schools, Inc.  
Houston, Texas

We have audited, in accordance with the 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, the financial statements YES Prep Public Schools, Inc. (YES Prep) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered YES Prep's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YES Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether YES Prep's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Ramsey & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX  
January 19, 2015

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To The Board of Directors of  
YES Prep Public Schools, Inc.  
Houston, Texas

**Report on Compliance for Each Major Federal Program**

We have audited YES Prep Public Schools, Inc. (YES Prep) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of YES Prep's major federal programs for the year ended August 31, 2014. YES Prep's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of YES Prep's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about YES Prep's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of YES Prep's compliance.

***Opinion on Each Major Federal Program***

In our opinion, YES Prep complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

**Report on Internal Control Over Compliance**

Management of YES Prep is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered YES Prep's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

## Report on Internal Control Over Compliance (continued)

Accordingly, we do not express an opinion on the effectiveness of YES Prep's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Roney & Company". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Houston, TX  
January 19, 2015

YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2014

Summary of Audit Results

1. The auditor’s report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. The auditor’s report on compliance for the major programs expresses an unmodified opinion on all major programs.
6. The audit did not disclose any audit findings which are required to be reported under section .510 (a) of OMB A-133.

7. Major programs:

U.S. Department of Education	<u>CFDA Number</u>
Passed – Through Texas Education Agency	
Title I, Part A	84.010A
21 <sup>st</sup> Community Learning Center	84.287C
Passed – Through Harris County	
21 <sup>st</sup> Community Learning Center	84.287C

8. A \$ 300,000 threshold was used to distinguish between Type A and Type B programs as described in section .520 (b) of OMB A-133.

9. YES Prep Public Schools, Inc. qualifies as a low-risk auditee.

<u>Current Year Findings</u>	<u>Questioned Cost</u>
No audit findings were noted as per governmental auditing standards and section .510 (a) of OMB A-133.	\$ -0-

YES PREP PUBLIC SCHOOLS, INC.  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2014

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2013. \$ -0-

YES PREP PUBLIC SCHOOLS INC.

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

Federal Grantor/ Pass- Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	(in revenue) Federal Expenditures
U.S. Department of Education - Charter School Program	84.282M	U282M100019	\$ 1,143,445
U.S. Department of Education - Transition to Teaching	84.350A	U350A110020	344,614
Passed Through Harris County Department of Ed: U.S. Department of Education - CASE YR 5	84.287C		107,482
Passed Through Texas Education Agency: ESEA, Title I, Part A, Improving Basic Skills	84.010A	14610101101845	2,166,589
U.S. Department of Education - 21 St Com Lrng Cntrs CY 5 yr 1	84.287C	S287C100044	1,646,529
ESEA, IDEA B, Formula	84.027A	146600011018456000	761,553
ESEA, Title II, Part A: Teacher and Principal Training and Recruiting	84.367A	14694501101845	344,614
ESEA, Title III, Part A LEP	84.365A	14671001101845	83,289
Total U.S Department of Education			<u>\$ 6,598,115</u>
U.S. Department of Agriculture Passed Through Texas Education Agency: Federal Food Service Reimbursement: National School Lunch Program	10.555	71301301	\$ 2,510,159
School Breakfast Program	10.553	71401301	301,036
Total U.S. Department of Agriculture			<u>\$ 2,811,195</u>
		Total Federal Awards	<u>\$ 9,409,310</u>

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2014

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying schedule of federal awards (the Schedule) includes federal grant activity of YES Prep Public Schools, Inc. (YES Prep) under programs of the federal government for the year ended August 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of YES Prep, it is not intended to and does not present the financial position, changes in net assets or cash flows of YES Prep.

***Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.