

**YES PREP PUBLIC SCHOOLS, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE TEN MONTH and TWELVE MONTH PERIODS ENDED JUNE 30, 2015 and  
AUGUST 31, 2014**

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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**

June 30, 2015

We, the undersigned, certify that the attached Financial and Compliance Report of YES Prep Public Schools, Inc. was reviewed and \_\_\_\_ approved \_\_\_\_ disapproved for the ten months ended June 30, 2015, at a meeting of the governing body of said charter holder on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

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

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

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**5177 RICHMOND AVE. SUITE 1100**  
**HOUSTON, TX 77056**  
**TEL: (713) 666-5900**  
**FAX: (713) 666-1049**  
<http://www.gomezandco.com>

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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 consolidated financial statements of YES Prep Public Schools, Inc. ("YES Prep") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2015 and August 31, 2014, and the related consolidated statements of activities and cash flows for the ten month and twelve month periods 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 consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YES Prep as of June 30, 2015 and August 31, 2014, and the changes in its net assets and its cash flows for the ten month and twelve month periods 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 consolidated 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 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 November 9, 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.



Houston, TX  
November 9, 2015

YES PREP PUBLIC SCHOOLS, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND AUGUST 31, 2014

	6/30/2015	8/31/2014
Assets:		
Current Assets		
Cash	\$ 30,869,510	\$ 16,653,369
Accounts receivable	16,262,762	4,178,935
Other current assets	376,903	284,267
Total Current Assets	47,509,175	21,116,571
Long-Term Assets		
Notes receivable	10,422,800	10,422,800
Land	8,249,559	8,249,559
Buildings	100,250,174	90,476,875
Equipment and furniture	7,036,494	7,036,494
Library books and media	66,909	66,909
Leasehold improvements	123,554	123,554
Accumulated depreciation	(21,261,979)	(17,903,774)
Bond and NMTC issuance costs	1,650,168	1,334,944
Bond sinking fund	8,449,614	6,494,624
Total Long-Term Assets	114,987,293	106,301,985
Total Assets	\$ 162,496,468	\$ 127,418,556
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	\$ 5,280,675	\$ 2,885,750
Accrued wages and benefits	6,229,291	2,478,967
Accrued interest	668,280	944,361
Current portion of debt	4,754,698	4,487,443
Total Current Liabilities	16,932,944	10,796,521
Long-Term Liabilities		
Deferred revenue	128,616	266,264
Loans payable (net of current portion)	26,796,456	26,285,421
Bonds payable	49,251,600	34,251,600
Total Long-Term Liabilities	76,176,672	60,803,285
Total Liabilities	93,109,616	71,599,806
Minority interest (YES Prep Holdings, Inc.)	10,430	12,432
Net Assets:		
Unrestricted Net Assets	53,562,461	50,585,226
Temporarily Restricted Net Assets	15,813,961	5,221,092
Total Net Assets	69,376,422	55,806,318
Total Liabilities and Net Assets	\$ 162,496,468	\$ 127,418,556

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE TEN MONTHS ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Public Support</b>			
<b>Local Support:</b>			
5740 Other Revenues from Local Sources	\$ 6,767,100	\$ 617,240	\$ 7,384,340
5750 Cocurricular, Enterprising Services	6,267,869	895,134	7,163,003
Total Local Revenues	13,034,969	1,512,374	14,547,343
<b>State Program Revenues:</b>			
5810 Foundation School Program Act Revenues	-	71,402,711	71,402,711
5820 State Program Revenues Distributed by Texas Education Agency	-	101,811	101,811
Total State Program Revenues	-	71,504,522	71,504,522
<b>Federal Program Revenues:</b>			
5940 Federal Revenues Distributed by the Department of Education	-	1,087,368	1,087,368
5920 Federal Revenues Distributed by Texas Education Agency	-	8,031,230	8,031,230
Total Federal Program Revenues	-	9,118,598	9,118,598
<b>Net assets Released from Restrictions:</b>			
Restrictions satisfied by payments	74,618,096	(74,618,096)	-
Total Revenues	87,653,065	7,517,398	95,170,463
<b>Operating Expenses</b>			
11 Instruction	38,727,481		38,727,481
12 Resource and Media	109,361		109,361
13 Curriculum and Staff Development	3,167,750		3,167,750
21 Instructional Leadership	1,966,574		1,966,574
23 School Leadership	5,688,756		5,688,756
31 Counseling	2,139,633		2,139,633
32 Social Work Services	1,284,793		1,284,793
33 Health Services	182,080		182,080
34 Student Transportation	4,370,509		4,370,509
35 Food Services	3,051,242		3,051,242
36 Cocurricular/Extracurricular Activities	2,362,753		2,362,753
41 General Administration	6,959,110		6,959,110
51 Plant Maintenance and Operations	7,749,992		7,749,992
52 Security and Monitoring Services	56,113		56,113
53 Data Processing Services	2,285,904		2,285,904
71 Debt Service	1,122,157		1,122,157
81 Fundraising	876,459		876,459
Total Expenses	82,100,667	-	82,100,667
Change in Net Assets from Operations	5,552,398	7,517,398	13,069,796
Net Assets, Beginning of Year	16,439,916	3,985,472	20,425,388
<b>Net Operating Assets, End of Year</b>	<b>21,992,314</b>	<b>11,502,870</b>	<b>33,495,184</b>
<b>Non-Operating Revenues (Expenses)</b>			
5740 Facility Project Donations & Bond Income	-	5,850,000	5,850,000
Discontinued Operations	(5,349,692)	-	(5,349,692)
Total Non-Operating revenues(expense)	(5,349,692)	5,850,000	500,308
Change in Net Assets from Non-Operating Activity	(5,349,692)	5,850,000	500,308
Net Assets, Beginning of Year	34,145,310	1,235,620	35,380,930
Restrictions satisfied by payments	2,774,529	(2,774,529)	-
<b>Net non-Operating Assets, End of Year</b>	<b>31,570,147</b>	<b>4,311,091</b>	<b>35,881,238</b>
Total Change in Net Assets	2,977,235	10,592,869	13,570,104
Net Assets, Beginning of Year	50,585,226	5,221,092	55,806,318
<b>Net Assets, End of Year</b>	<b>\$ 53,562,461</b>	<b>\$ 15,813,961</b>	<b>\$ 69,376,422</b>

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE TWELVE MONTHS 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	<u>16,733,034</u>	<u>3,049,465</u>	<u>19,782,499</u>
<b>Net Operating Assets, End of Year</b>	<b><u>16,439,916</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	47,649,541	4,579,188	52,228,729
<b>Net Assets, End of Year</b>	<b><u>\$ 50,585,226</u></b>	<b><u>\$ 5,221,092</u></b>	<b><u>\$ 55,806,318</u></b>



YES PREP PUBLIC SCHOOLS, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE TEN MONTHS ENDED JUNE 30, 2015 AND TWELVE MONTHS ENDED AUGUST 31, 2014

Change in Net Assets	6/30/2015	8/31/2014
Change in Net Assets	\$ 13,570,104	\$ 3,577,589
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	3,433,731	4,218,321
(Gain) Loss on Bond Sinking Fund	(234,289)	(214,068)
(Increase) Decrease in Accounts Receivable	(12,083,827)	1,380,786
(Increase) Decrease in Prepaid & Other Assets	(92,636)	(241,668)
Increase (Decrease) in Accounts Payable & Other Accrued Liabilities	6,147,422	(502,959)
Increase (Decrease) in Deferred Revenue	(139,825)	16,000
Total adjustments	(2,969,424)	4,656,412
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	10,600,680	8,234,001
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(9,773,298)	(9,485,721)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(9,773,298)	(9,485,721)
Cash Flows from Financing Activities		
Accrued Interest	(276,081)	207,183
Additional Notes Payable	2,800,000	13,290,000
Additional Bonds Payable	15,000,000	-
Bond Sinking Fund	(1,720,701)	(1,720,701)
Repayment of Debt	(921,710)	(7,122,650)
Long-term Note - Forgiven for Meeting Thresholds	(1,100,000)	(87,500)
Loan Issuance Costs Incurred	(390,748)	-
Minority Interest	(2,001)	(2,477)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	13,388,759	4,563,855
DECREASE IN CASH AND CASH EQUIVALENTS	14,216,141	3,312,135
CASH AT BEGINNING OF YEAR	16,653,369	13,341,234
CASH AT END OF YEAR	\$ 30,869,510	\$ 16,653,369
<u>Cash Paid During the Year for</u>		
Interest	\$ 935,026	\$ 816,964

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

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 9,100 students in grades six through twelve. It is managed by a fifteen 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 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, temporarily restricted, 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 has no permanently restricted net assets.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

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 – 2 to 10 years; furniture – 3 to 7 years; temporary buildings and other improvements – 3 to 15 years; and permanent structures – 30 to 40 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.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

B. Summary of Significant Accounting Policies: (continued)

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.

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 net losses in in each year of its existence 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. Change of Fiscal Year End:

Yes Prep's Board of Trustees elected to change YES Prep's fiscal year end in the current period from August 31 to June 30 as permitted by the Texas Education Agency. As such, the statements of activities and cash flows for the period ended June 30, 2015 include the ten months beginning September 1, 2014 and ending June 30, 2015. All future periods will be reported on the years ended June 30.

D. 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 I and K.

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. Accordingly, 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.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

E. Growth Plans:

In August 2013, YES Prep’s Board of Trustees adopted a plan for the next phase of growth for the organization. The plan contemplated the addition of six new schools in Houston by 2020 as well as expansion to Memphis, Tennessee. Subsequently, YES Prep has discontinued its plans to open schools in Memphis (see Note F below).

YES Prep acquired the site for the first of the new Houston schools in August 2014 for approximately \$5,200,000, and began converting the site to accommodate the equivalent of the first two schools, as well as providing a permanent site for the YES Prep Home Office. The school opened in August 2015.

F. Discontinued Operations - Memphis

As noted above, YES Prep’s Board of Trustees adopted a plan in August 2013 to open schools in Memphis, Tennessee. In April 2015, the Board with the recommendation of management, decided to withdraw from that initiative. The decision was based on a combination of factors both programmatic and financial.

YES Prep received \$6,650,000 in contributions directly related to the Memphis initiative, \$3,850,000 in the fiscal year ended August 31, 2014 and \$2,800,000 in the ten months ended June 30, 2015. As of June 30, 2015, \$4,400,000 had been returned to the donor. The remaining \$2,250,000 will be repaid beginning in the year ended June 30, 2016 (see Note K below).

Also, YES Prep incurred \$1,499,692 of expenses related to the Memphis initiative. The net impact is reported as Discontinued Operations on the Statement of Operations for the ten months ended June 30, 2015 as follows:

Donations returned	\$ 6,650,000
Donations received in the current period	(2,800,000)
Expenses incurred in the current period	<u>1,499,692</u>
	<u>\$ 5,349,692</u>

G. 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.

Under this trilateral partnership agreement, YES Prep and KIPP Houston have been educating students in two SBISD middle school campuses. Beginning in July 2015, YES Prep began high school classes in Northbrook High School under a similar arrangement. The students from both the YES Prep and KIPP Houston middle school campuses will matriculate to this partnership school located in Northbrook High School starting with the 2016-17 school year.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

G. District Partnerships: (continued)

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.

H. 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.

<u>Cash Balances at</u>	June 30, 2015	August 31, 2014
Operating, unrestricted	\$ 12,721,110	\$ 13,895,256
Operating, restricted	4,589,277	538,344
Capital, restricted	13,559,123	2,219,769
	<u>\$ 30,869,510</u>	<u>\$ 16,653,369</u>

<u>Cash Balances at</u>	June 30, 2015	August, 31, 2014
Money market and mutual funds	\$ 30,760,152	\$ 15,008,493
Demand deposits	109,358	1,644,876
	<u>\$ 30,869,510</u>	<u>\$ 16,653,369</u>

I. Note Receivable:

YES Prep loaned \$10,422,800 to COCRF Investor XIV, LLC (“COCRF Investor”) on October 9, 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

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

I. Note Receivable: (continued)

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 at 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.

J. Bonds Payable and Bond Sinking Funds:

YES Prep entered into a Master Trust Indenture (MTI) in March 2010 for the purpose of issuing bonds. Under the MTI, YES Prep has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on YES Prep's revenue as well as on certain real property of YES Prep. YES Prep is required to maintain 1.2 times debt coverage at each quarter end while MTI debt is outstanding. With the exception of 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:

	<u>2015</u>	<u>2014</u>
Qualified Zone Academy Bond issued March 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 April 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

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

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

Qualified School Construction Bond issued March 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 April 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 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 April 2017, 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 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 2% 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

Qualified Zone Academy Bond issued June 2015. The investor earns 4.87% in annual tax credits and YES Prep pays 1% supplemental interest semi-annually. The supplemental interest is subject to reset in June 2022 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 2030.

15,000,000 --

\$ 49,251,600 \$ 34,251,600

Future maturities of bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 757,274	\$ 757,274
2017	-	757,274	757,274
2018	-	757,274	757,274
2019	-	757,274	757,274
2020	-	757,274	757,274
Thereafter	49,251,600	4,546,326	53,797,926
Total	<u>\$ 49,251,600</u>	<u>\$ 8,332,696</u>	<u>\$ 57,584,296</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



YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

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

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:

2016	\$ 2,558,713
2017	2,558,713
2018	2,558,713
2019	2,558,713
2020	2,558,713
Thereafter	17,819,228
Total	<u>\$ 30,612,793</u>

K. Notes Payable:

	<u>2015</u>	<u>2014</u>
Notes payable consists of the following:		
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.	\$ 8,936,097	\$ 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 Southside and the Home Office.	3,550,000	3,550,000
Loan Agreement with Charter School Growth Fund dated March 2009; original amount - \$2,500,000; original interest at 4%. As of December 2014 interest reduced to 1%, \$1,455,000 had been forgiven since inception of loan leaving a balance of \$1,045,000 which is due \$545,000 June 2020 and \$500,000 June 2021. Subordinate to all bonds and bank debt.	1,045,000	2,145,000
Loan Agreement with Charter School Growth Fund dated July 2013; original amount - \$200,000; interest at 1%. Interest is payable when the loan matures June 2019. Subordinate to all bonds and bank debt.	200,000	200,000

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

K. Notes Payable: (continued)

Loan Agreement with Charter School Growth Fund dated September 2013; original amount - \$200,000; interest at 1%. Interest is payable when the loan matures June 2019. Subordinate to all bonds and bank debt.

200,000 200,000

Loan Agreement with Charter School Growth Fund dated December 2014; original amount - \$1,000,000; \$500,000 issued on June 2015; interest at 1%. Principal is due in June 2021 and June 2022 and all interest is due when the June 2022 principal payment is made. Subordinate to all bonds and bank debt.

500,000 --

Loan Agreement with Charter School Growth Fund dated April 2015; original amount - \$2,300,000; interest at 0%. Principal is due in installments June 2015 - 2020. Subordinate to all bonds and bank debt.

2,250,000 --

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.

1,205,058 1,533,847

Note payable to COCRF CDE; original amount \$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. Subordinate to all bonds and bank debt.

5,000,000 5,000,000

Note payable to NMI 71; original amount \$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. Subordinate to all bonds and bank debt.

8,665,000 8,665,000

\$ 31,551,155 \$ 30,772,865

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

K. Notes Payable: (continued)

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

<u>Period ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,754,698	\$ 473,213	\$ 5,227,911
2017	1,474,089	437,072	1,911,161
2018	1,493,343	407,555	1,900,898
2019	1,540,107	383,675	1,923,782
2020	1,683,679	358,971	2,042,650
Thereafter	20,605,239	3,879,129	24,484,368
Total	<u>\$ 31,551,155</u>	<u>\$ 5,939,615</u>	<u>\$ 37,490,770</u>

Subsequent to year-end, Charter School Growth Fund forgave the \$200,000 issued July 2013 in its entirety and all interest that accrued on this note.

L. Operating Lease Commitment:

Currently, YES Prep leases office space, copiers and other office equipment under non-cancellable operating leases. YES Prep's minimum annual lease commitments under these leases are:

<u>Period ending Jun 30,</u>	<u>Amount</u>
2016	\$ 567,659
2017	300,046
2018	112,801
2019	46,280
2020	18,097
Total	<u>\$ 1,044,883</u>

Operating lease expense amounted to \$1,093,468 and \$1,222,618 for the ten months ended June 30, 2015 and the twelve months ended August 31, 2014.

M. Temporarily Restricted Net Assets:

Temporarily restricted net assets at June 30, 2015 and August 31, 2014 are available for the following periods:

<u>Periods after</u>	<u>June, 30,</u> <u>2015</u>	<u>August 31,</u> <u>2014</u>
Capital Contributions	\$ 5,291,360	\$ 1,235,620
State Funds	10,470,854	3,985,472
Federal Funds	51,747	-
Total restricted funds	<u>\$ 15,813,961</u>	<u>\$ 5,221,092</u>

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

M. Temporarily Restricted Net Assets: (continued)

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

<u>Periods after</u>	<u>June, 30, 2015</u>	<u>August 31, 2014</u>
Capital Contributions	\$ 2,774,529	\$ 3,228,803
Fundraisers & Donations	1,119,638	1,909,742
State Funds	64,431,607	67,175,407
Federal Funds	9,066,851	9,727,087
Total restricted funds	<u>\$ 77,392,625</u>	<u>\$ 82,041,039</u>

N. 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 with a corresponding charge to Net Assets for the period.

O. Employee Benefit Plans:

*Plan Description*

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 the 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.

The plan 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.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

O. Employee Benefit Plans: (continued)

*Funding Policy*

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 6.7% for the 2015 fiscal period and 6.4% for the 2014 fiscal period. The state's contribution rate as a non-employer contributing entity was 6.8% in 2015 and 2014, respectively. YES Prep's employees' contributions to the system for the ten months ended June 30, 2015 and the twelve months ended August 31, 2014 were \$4,170,564 and \$3,087,419, 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 contributed at a rate of 6.8% totaling \$36,596 and \$103,765 for the ten months ending June 30, 2015 and the year ending August 31, 2014. YES Prep's contributions into this plan do not represent more than 5% of the total contributions to the plan. YES Prep's participation in the TRS plan for the ten month period ended June 30, 2015 is outlined in the table below (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2015	ABO 2015	Percent Funded	Surcharge Imposed
TRS	\$ 157,261,707,241	\$ 159,496,075,886	83.25%	No

*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 ten months ended June 30, 2015 or in the twelve months ended August 31, 2014.

*Health Care*

Employees of YES Prep are covered by a health insurance plan administered by TRS. During the ten months ended June 30, 2015 and the twelve months ended August 31, 2014, YES Prep contributed \$332 and \$332 per month per participating employee. 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.

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND AUGUST 31, 2014

P. 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.

Q. Evaluation of Subsequent Events:

YES Prep has evaluated subsequent events through November 9, 2015, the date which the financial statements were available to be issued.

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**5177 RICHMOND AVE. SUITE 1100**  
**HOUSTON, TX 77056**  
**TEL: (713) 666-5900**  
**FAX: (713) 666-1049**  
<http://www.gomezandco.com>

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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 consolidated financial statements of YES Prep Public Schools, Inc. ("YES Prep") (a nonprofit organization) as of the ten months ended June 30, 2015, and the twelve months ended August 31, 2014 and our report thereon dated November 9, 2015, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedules for Individual Charter School on pages 20 through 26, Consolidating Statement of Financial Position on pages 27 through 28 and Consolidating Statement of Activities on pages 29 through 30 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Houston, TX  
November 9, 2015

YES PREP PUBLIC SCHOOLS, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND AUGUST 31, 2014

Assets:	6/30/2015	8/31/2014
<b>Current Assets</b>		
Cash	\$ 30,319,975	\$ 16,666,344
Accounts receivable	15,709,627	3,889,600
Other current assets	366,903	284,267
Total Current Assets	46,396,505	20,840,211
<b>Long-Term Assets</b>		
Notes receivable	10,422,800	10,422,800
Land	8,249,559	8,249,559
Buildings	100,219,579	90,446,280
Equipment and furniture	7,036,494	7,036,494
Library books and media	66,909	66,909
Leasehold improvements	62,436	62,436
Accumulated depreciation	(21,236,754)	(17,887,629)
Bond and NMTC issuance costs	1,650,168	1,330,128
Bond sinking fund	8,449,614	6,494,624
Total Long-Term Assets	114,920,805	106,221,601
Total Assets	\$ 161,317,310	\$ 127,061,812
<b>Liabilities and Net Assets:</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,213,844	\$ 2,790,697
Accrued wages and benefits	5,838,585	2,352,090
Accrued interest	668,280	944,361
Current portion of debt	4,754,698	4,485,350
Total Current Liabilities	16,475,407	10,572,498
<b>Long-term Liabilities</b>		
Deferred revenue	128,617	266,264
Loans payable (net of current portion)	26,796,456	26,287,514
Bonds payable	49,251,600	34,251,600
Total Long-term Liabilities	76,176,673	60,805,378
Total Liabilities	92,652,080	71,377,876
Minority Interest (YES Prep Holdings, Inc.)	10,430	12,432
<b>Net Assets:</b>		
Unrestricted Net Assets	52,989,454	50,544,232
Temporarily Restricted Net Assets	15,665,346	5,127,272
Total Net Assets	68,654,800	55,671,504
Total Liabilities and Net Assets	\$ 161,317,310	\$ 127,061,812



YES PREP PUBLIC SCHOOLS, INC.

STATEMENT OF ACTIVITIES

FOR THE TEN MONTHS ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR AUGUST 31, 2014)

	Unrestricted	Temporarily Restricted	Total	2014
Operating Revenues and Public Support				
Local Support:				
5740 Other Revenues from Local Sources	\$ 6,677,151	\$ 617,240	\$ 7,294,391	\$ 10,188,300
5750 Cocurricular, Enterprising Services	1,722,719	855,172	2,577,891	2,376,779
Total Local Revenues	8,399,870	1,472,412	9,872,282	12,565,079
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	71,402,711	71,402,711	62,000,656
5820 State Program Revenues Distributed by Texas Education Agency	-	101,811	101,811	399,900
Total State Program Revenues	-	71,504,522	71,504,522	62,400,556
Federal Program Revenues:				
5940 Federal Revenues Distributed by the Department of Education	-	973,085	973,085	1,236,768
5920 Federal Revenues Distributed by Texas Education Agency	-	8,031,230	8,031,230	7,921,251
Total Federal Program Revenues	-	9,004,315	9,004,315	9,158,019
Net assets Released from Restrictions:				
Restrictions satisfied by payments	74,518,646	(74,518,646)	-	-
Total Revenues	82,918,516	7,462,603	90,381,119	84,123,654
Operating Expenses				
11 Instruction	36,127,668	-	36,127,668	36,078,183
12 Resource and Media	109,361	-	109,361	170,184
13 Curriculum and Staff Development	3,136,917	-	3,136,917	3,635,681
21 Instructional Leadership	1,854,730	-	1,854,730	2,340,899
23 School Leadership	5,047,507	-	5,047,507	6,427,113
31 Counseling	2,139,633	-	2,139,633	2,100,807
32 Social Work Services	1,195,967	-	1,195,967	1,230,326
33 Health Services	181,908	-	181,908	222,575
34 Student Transportation	4,370,509	-	4,370,509	4,384,811
35 Food Services	3,051,242	-	3,051,242	3,054,511
36 Cocurricular/Extracurricular Activities	2,360,744	-	2,360,744	1,618,137
41 General Administration	6,245,305	-	6,245,305	8,864,395
51 Plant Maintenance and Operations	7,736,007	-	7,736,007	8,714,843
52 Security and Monitoring Services	56,113	-	56,113	95,043
53 Data Processing Services	2,285,904	-	2,285,904	2,410,551
71 Debt Service	1,122,157	-	1,122,157	1,252,616
81 Fundraising	876,459	-	876,459	927,166
Total Expenses	77,898,131	-	77,898,131	83,527,841
Change in Net Assets from Operations	5,020,385	7,462,603	12,482,988	595,813
Net Assets, Beginning of Year	16,398,922	3,891,653	20,290,575	19,694,762
Net Operating Assets, End of Year	21,419,307	11,354,256	32,773,563	20,290,575
Non-Operating Revenues (Expenses)				
5740 Facility Project Donations & Bond Income	-	5,850,000	5,850,000	2,934,700
Discontinued Operations	(5,349,692)	-	(5,349,692)	-
Total Non-Operating revenues(expense)	(5,349,692)	5,850,000	500,308	2,934,700
Change in Net Assets from Non-Operating Activity	(5,349,692)	5,850,000	500,308	2,934,700
Net Assets, Beginning of Year	34,145,310	1,235,619	35,380,930	32,446,230
Restrictions satisfied by payments	2,774,529	(2,774,529)	-	-
Net non-Operating Assets, End of Year	31,570,147	4,311,090	35,881,238	35,380,930
Total Change in Net Assets	2,445,222	10,538,074	12,983,296	3,530,513
Net Assets, Beginning of Year	50,544,232	5,127,272	55,671,504	52,140,991
Net Assets, End of Year	\$ 52,989,454	\$ 15,665,346	\$ 68,654,800	\$ 55,671,504

YES PREP PUBLIC SCHOOLS, INC

STATEMENTS OF CASH FLOWS

FOR THE TEN MONTHS ENDED JUNE 30, 2015 AND TWELVE MONTHS ENDED AUGUST 31, 2014

	6/30/2015	8/31/2014
Change in Net Assets		
Change in Net Assets	\$ 12,983,296	\$ 3,530,513
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	3,419,832	4,208,283
(Gain) Loss on Bond Sinking Fund	(234,289)	(214,068)
(Increase) Decrease in Accounts Receivable	(11,820,027)	1,487,034
(Increase) Decrease in Prepaid & Other Assets	(82,636)	(236,713)
Increase (Decrease) in Accounts Payable & Other Accrued Liabilities	5,911,643	(568,822)
Increase (Decrease) in Deferred Revenue	(137,647)	16,000
Total adjustments	<u>(2,943,124)</u>	<u>4,691,714</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>10,040,172</u>	<u>8,222,227</u>
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(9,773,299)	(9,451,770)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(9,773,299)</u>	<u>(9,451,770)</u>
Cash Flows from Financing Activities		
Accrued Interest	(278,082)	207,184
Additional Notes Payable	2,800,000	13,290,000
Additional Bonds Payable	15,000,000	-
Bond Sinking Fund	(1,720,701)	(1,720,701)
Repayment of Debt	(921,710)	(7,122,650)
Long-term Note - Forgiven for Meeting Thresholds	(1,100,000)	(87,500)
Loan Issuance Costs Incurred	(390,748)	-
Minority Interest	(2,001)	(2,477)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>13,386,758</u>	<u>4,563,856</u>
DECREASE IN CASH AND CASH EQUIVALENTS	13,653,631	3,334,313
CASH AT BEGINNING OF YEAR	16,666,344	13,332,031
CASH AT END OF YEAR	<u>\$ 30,319,975</u>	<u>\$ 16,666,344</u>
<u>Cash Paid During the Year for</u>		
Interest	<u>\$ 935,026</u>	<u>\$ 816,964</u>

YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF EXPENSES

FOR THE TEN MONTHS ENDED JUNE 30, 2015

Expenses		
6100 Payroll Costs	\$	50,173,573
6200 Professional and Contracted Services		14,473,598
6300 Supplies and Materials		4,373,844
6400 Other Operating Costs		7,731,793
6500 Debt		1,145,323
Total Expenses	\$	<u>77,898,131</u>

YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE TEN MONTHS ENDED JUNE 30, 2015

YES Prep Public Schools, Inc.	Ownership Interest			Total
	Local	State	Federal	
1110 Cash	\$ 29,764,452	\$ 537,846	\$ 17,677	\$ 30,319,975
1510 Land and Improvements	6,687,774	1,561,785	-	8,249,559
1520 Buildings and Improvements	95,623,381	4,520,938	75,260	100,219,579
1539 Furniture and Equipment	4,725,618	1,627,355	683,521	7,036,494
1551 Leasehold Improvements	34,440	27,996	-	62,436
1569 Library Books and Media	-	66,909	-	66,909
Total Capital Assets	\$ 136,835,665	\$ 8,342,829	\$ 776,458	\$ 145,954,952

Partnership Schools	Ownership Interest			Total
	Local	State	Federal	
1110 Cash	\$ 549,535	\$ -	\$ -	\$ 549,535
1520 Buildings and Improvements	30,595	-	-	30,595
1551 Leasehold Improvements	61,117	-	-	61,117
Total Capital Assets	\$ 641,247	\$ -	\$ -	\$ 641,247

Total Capital Assets	Ownership Interest			Total
	Local	State	Federal	
1110 Cash	\$ 30,313,987	\$ 537,846	\$ 17,677	\$ 30,869,510
1510 Land and Improvements	6,687,774	1,561,785	-	8,249,559
1520 Buildings and Improvements	95,653,976	4,520,938	75,260	100,250,174
1539 Furniture and Equipment	4,725,618	1,627,355	683,521	7,036,494
1551 Leasehold Improvements	95,557	27,996	-	123,554
1569 Library Books and Media	-	66,909	-	66,909
Total Capital Assets	\$ 137,476,912	\$ 8,342,829	\$ 776,458	\$ 146,596,200

YES PREP PUBLIC SCHOOLS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTHS ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance from Final Budget	% Variance
	Original	Final			
<b>Operating Revenues</b>					
<b>Local Support:</b>					
5740 Other Revenues from Local Sources	\$ 8,370,351	\$ 8,370,351	\$ 7,294,391	\$ (1,075,960)	-13% [1]
5750 Cocurricular, Enterprising Services	2,394,500	2,394,500	\$ 2,577,891	183,391	8%
Total Local Revenues	10,764,851	10,764,851	9,872,282	(892,569)	
<b>State Program Revenues:</b>					
5810 Foundation School Program Act Revenues	70,372,274	70,372,274	71,402,711	1,030,437	1%
5820 State Program Revenues Distributed by Texas Education Agency	586,655	586,655	101,811	(484,844)	-83% [2]
Total State Program Revenues	70,958,929	70,958,929	71,504,522	545,593	
<b>Federal Program Revenues:</b>					
5920 Federal Revenues Distributed by the Department of Education	8,391,067	8,391,067	8,031,230	(359,837)	-4%
5940 Federal Revenues Distributed by Texas Education Agency	1,084,846	1,084,846	973,085	(111,761)	-10% [3]
	9,475,913	9,475,913	9,004,315	(471,598)	
Total Revenues	91,199,693	91,199,693	90,381,119	(818,574)	-1%
<b>Operating Expenses</b>					
11 Instruction	37,209,117	37,209,117	36,127,668	1,081,449	3%
12 Resource and Media	130,517	130,517	109,361	21,156	16% [4]
13 Curriculum and Staff Development	4,056,155	4,056,155	3,136,917	919,238	23% [5]
21 Instructional Leadership	2,566,191	2,566,191	1,854,730	711,461	28% [6]
23 School Leadership	6,682,344	6,682,344	5,047,507	1,634,837	24% [7]
31 Counseling	2,049,163	2,049,163	2,139,633	(90,470)	-4%
32 Social Work Services	1,493,078	1,493,078	1,195,967	297,111	20% [8]
33 Health Services	204,940	204,940	181,908	23,032	11% [9]
34 Student Transportation	4,897,033	4,897,033	4,370,509	526,524	11% [10]
35 Food Services	3,499,601	3,499,601	3,051,242	448,359	13% [11]
36 Cocurricular/Extracurricular Activities	1,149,245	1,149,245	2,360,744	(1,211,499)	-105% [12]
41 General Administration	9,948,442	9,948,442	6,245,305	3,703,137	37% [13]
51 Plant Maintenance and Operations	9,161,232	9,161,232	7,736,007	1,425,225	16% [14]
52 Security and Monitoring Services	-	-	56,113	(56,113)	-100% [15]
53 Data Processing Services	2,440,168	2,440,168	2,285,904	154,264	6%
71 Debt Service	866,099	866,099	1,122,157	(256,058)	-30% [16]
81 Fundraising	940,124	940,124	876,459	63,665	7%
Total Expenses	87,293,449	87,293,449	77,898,131	9,395,318	
Change in Net Operating Assets	3,906,244	3,906,244	12,482,988	8,576,744	
Net Operating Assets, Beginning of Year	20,292,667	20,292,667	20,292,667		
Net Operating Assets, End of Year	\$ 24,198,911	\$ 24,198,911	\$ 32,775,655	\$ 8,576,744	

YES PREP PUBLIC SCHOOLS, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE TEN MONTHS ENDED JUNE 30, 2015

- [1] YES Prep's Annual Fundraising was less successful than anticipated in the budget.
- [2] YES Prep budgeted on a 12-Month Basis for the FY 2015, but actually only had 10 months of operating activity due to a fiscal year end change. Previously YES Prep's fiscal year end was August 31st each year. TEA approved a move to a June 30, 2015 year end. In the 12-month budget YES Prep budgeted to receive all IMA/EMAT funds related to reimbursing Textbook purchases. However, in the 10 month period many of these funds were not received as the majority of Textbook purchases and reimbursements take place in July/August.
- [3] YES Prep students did not participate in the lunch program at as high of rate as was anticipated when building the budget, therefore, revenue related to the lunch program was not as high as expected.
- [4] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [5] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [6] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [7] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [8] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [9] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [10] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [11] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [12] YES Prep received a 21st Century Learning Grant (ACE) and inappropriately budgeted the expenditures to functions 11 and 23, instead of function 36. YES Prep appropriately booked the expenses to function 36.
- [13] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [14] In 2015 YES Prep converted from an August 31st year end to a June 30, 2015 year end. To accommodate this change YES Prep budgeted for 12 months of activity (per TEA instructions) and only incurred 10 months of activity. The variance that exists in expenses for this function essentially represents two months of activity.
- [15] YES Prep initiated some new security measures across campuses in 2015. YES Prep appropriately allocated these expenses to function 52, however, as they were an unexpected initiative no funds were budgeted to function 52.
- [16] YES Prep failed to budget for interest related to YES Prep Facilities and also has a bridge loan that unexpectedly remained outstanding all year.

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

	YES Prep Public Schools	YES Prep Facilities Inc.	Consolidating Entries	Total YES Prep Combined	Partnership Schools	Consolidated 2015
<b>Assets:</b>						
<b>Current Assets</b>						
Cash	\$ 29,999,038	\$ 320,937	\$ -	\$ 30,319,975	\$ 549,535	\$ 30,869,510
Accounts receivable	15,667,061	42,566	-	15,709,627	553,135	16,262,762
Other current assets	366,903	-	-	366,903	10,000	376,903
<b>Total Current Assets</b>	<b>46,033,002</b>	<b>363,503</b>	<b>-</b>	<b>46,396,505</b>	<b>1,112,670</b>	<b>47,509,175</b>
<b>Long Term Assets</b>						
Investment in YES Prep Facilities Inc.	1,513,910	-	(1,513,910)	-	-	-
Notes receivable	10,422,800	-	-	10,422,800	-	10,422,800
Land	8,249,559	-	-	8,249,559	-	8,249,559
Buildings	86,141,984	14,077,595	-	100,219,579	30,595	100,250,174
Equipment and furniture	6,730,600	305,894	-	7,036,494	-	7,036,494
Library books and media	66,909	-	-	66,909	-	66,909
Leasehold improvements	62,436	-	-	62,436	61,118	123,554
Accumulated depreciation	(20,863,020)	(373,734)	-	(21,236,754)	(25,225)	(21,261,979)
Bond and NMTC issuance costs	1,315,426	334,742	-	1,650,168	-	1,650,168
Bond sinking fund	8,449,614	-	-	8,449,614	-	8,449,614
<b>Total Long Term Assets:</b>	<b>102,090,218</b>	<b>14,344,497</b>	<b>(1,513,910)</b>	<b>114,920,805</b>	<b>66,488</b>	<b>114,987,293</b>
<b>Total Assets</b>	<b>\$ 148,123,220</b>	<b>\$ 14,708,000</b>	<b>\$ (1,513,910)</b>	<b>\$ 161,317,310</b>	<b>\$ 1,179,158</b>	<b>\$ 162,496,468</b>
<b>Liabilities and Net Assets:</b>						
<b>Liabilities:</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 5,213,844	\$ -	\$ -	\$ 5,213,844	\$ 67,006	\$ 5,280,675
Accrued wages and benefits	5,838,585	-	-	5,838,585	390,706	6,229,291
Accrued interest	668,267	13	-	668,280	-	668,280
Current portion of debt	4,754,698	-	-	4,754,698	-	4,754,698
<b>Total Current Liabilities</b>	<b>16,475,394</b>	<b>13</b>	<b>-</b>	<b>16,475,407</b>	<b>457,712</b>	<b>16,932,944</b>
<b>Long-term Liabilities</b>						
Deferred revenue	128,617	-	-	128,617	-	128,617
Loans payable (net of current portion)	13,131,456	13,665,000	-	26,796,456	-	26,796,456
Bonds payable	49,251,600	-	-	49,251,600	-	49,251,600
<b>Total Long-Term Liabilities</b>	<b>62,511,673</b>	<b>13,665,000</b>	<b>-</b>	<b>76,176,673</b>	<b>-</b>	<b>76,176,673</b>
<b>Total Liabilities</b>	<b>78,987,067</b>	<b>13,665,013</b>	<b>-</b>	<b>92,652,080</b>	<b>457,712</b>	<b>93,109,616</b>
Minority Interest (YES Prep Holdings, Inc.)	-	-	10,430	10,430	-	10,430
<b>Net Assets:</b>						
Paid-in-Capital	-	1,529,202	(1,529,202)	-	-	-
Unrestricted Net Assets	53,470,809	(486,215)	4,862	52,989,456	572,830	53,562,460
Temporarily Restricted Net Assets	15,665,345	-	-	15,665,345	148,616	15,813,961
<b>Total Net Assets</b>	<b>69,136,154</b>	<b>1,042,987</b>	<b>(1,524,340)</b>	<b>68,654,800</b>	<b>721,446</b>	<b>69,376,422</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 148,123,220</b>	<b>\$ 14,708,000</b>	<b>\$ (1,513,910)</b>	<b>\$ 161,317,310</b>	<b>\$ 1,179,158</b>	<b>\$ 162,496,468</b>

YES PREP PUBLIC SCHOOLS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2014

Assets:	YES Prep Public Schools	YES Prep Facilities Inc.	Consolidating Entries	Total YES Prep Combined	Partnership Schools	Consolidated 8/31/2014
<b>Current Assets</b>						
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 current assets	284,267	-	-	284,267	4,817	289,084
<b>Total Current Assets</b>	<b>20,419,891</b>	<b>420,320</b>	<b>-</b>	<b>20,840,211</b>	<b>281,177</b>	<b>21,121,388</b>
<b>Long-term Assets</b>						
Investment in YES Prep Facilities Inc.	1,513,910	-	(1,513,910)	-	-	-
Notes receivable	10,422,800	-	-	10,422,800	-	10,422,800
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
Leasehold improvements	62,436	-	-	62,436	61,118	123,554
Accumulated depreciation	(17,676,928)	(210,701)	-	(17,887,629)	(16,146)	(17,903,774)
Bond and NMTC issuance costs	992,292	337,837	-	1,330,128	-	1,330,128
Bond sinking fund	6,494,624	-	-	6,494,624	-	6,494,624
<b>Total Long-term Assets</b>	<b>93,224,886</b>	<b>14,510,625</b>	<b>(1,513,910)</b>	<b>106,221,601</b>	<b>75,567</b>	<b>106,297,168</b>
<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>						
<b>Current 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
Current portion of debt	4,485,350	-	-	4,485,350	-	4,485,350
<b>Total Current Liabilities</b>	<b>10,549,719</b>	<b>22,779</b>	<b>-</b>	<b>10,572,498</b>	<b>221,929</b>	<b>10,794,427</b>
<b>Long-term Liabilities</b>						
Deferred revenue	266,264	-	-	266,264	-	266,264
Loans payable (net of current portion)	12,622,514	13,665,000	-	26,287,514	-	26,287,514
Bonds payable	34,251,600	-	-	34,251,600	-	34,251,600
<b>Total Long-term Liabilities</b>	<b>47,140,378</b>	<b>13,665,000</b>	<b>-</b>	<b>60,805,378</b>	<b>-</b>	<b>60,805,378</b>
<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 (YES Prep Holdings, Inc.)	-	-	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 ACTIVITIES  
FOR THE TEN MONTHS ENDED JUNE 30, 2015

	YES Prep Public Schools			YES Prep Facilities Inc.			Consolidating		Total YES Prep Combined			Partnership Schools			Consolidated FY 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Entries	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	
<b>Operating Revenues and Public Support</b>																	
Local Support:																	
5740 Other Revenues from Local Sources	\$ 6,432,404	\$ 617,240	\$ 7,049,644	\$ 242,746	\$ -	\$ 242,746	\$ 2,001	\$ 6,677,151	\$ 617,240	\$ 7,294,391	\$ 91,950	\$ -	\$ 91,950	\$ 6,767,100	\$ 617,240	\$ 7,384,340	
5750 Cocurricular, Enterprising Services	1,722,719	855,172	2,577,891	-	-	-	-	1,722,719	855,172	2,577,891	4,545,150	39,962	4,585,112	6,267,869	895,134	7,163,003	
<b>Total Local Revenues</b>	<b>8,155,123</b>	<b>1,472,412</b>	<b>9,627,535</b>	<b>242,746</b>	<b>-</b>	<b>242,746</b>	<b>2,001</b>	<b>8,399,870</b>	<b>1,472,412</b>	<b>9,872,282</b>	<b>4,637,100</b>	<b>39,962</b>	<b>4,677,062</b>	<b>13,034,969</b>	<b>1,512,374</b>	<b>14,547,343</b>	
<b>State Program Revenues:</b>																	
5810 Foundation School Program Act Revenues	-	71,402,711	71,402,711	-	-	-	-	-	71,402,711	71,402,711	-	-	-	-	71,402,711	71,402,711	
5820 State Program Revenues Distributed by Texas Education Agency	-	101,811	101,811	-	-	-	-	-	101,811	101,811	-	-	-	-	101,811	101,811	
<b>Total State Program Revenues</b>	<b>-</b>	<b>71,504,522</b>	<b>71,504,522</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,504,522</b>	<b>71,504,522</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,504,522</b>	<b>71,504,522</b>	
<b>Federal Program Revenues:</b>																	
5940 Federal Revenues Distributed by the Department of Education	-	973,085	973,085	-	-	-	-	-	973,085	973,085	-	114,283	114,283	-	1,087,368	1,087,368	
5920 Federal Revenues Distributed by Texas Education Agency	-	8,031,230	8,031,230	-	-	-	-	-	8,031,230	8,031,230	-	-	-	-	8,031,230	8,031,230	
<b>Total Federal Program Revenues</b>	<b>-</b>	<b>9,004,315</b>	<b>9,004,315</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,004,315</b>	<b>9,004,315</b>	<b>-</b>	<b>114,283</b>	<b>114,283</b>	<b>-</b>	<b>9,118,598</b>	<b>9,118,598</b>	
<b>Net assets Released from Restrictions:</b>																	
Restrictions satisfied by payments	74,518,647	(74,518,647)	-	-	-	-	-	74,518,646	(74,518,646)	-	99,449	(99,449)	-	74,618,096	(74,618,096)	-	
<b>Total Revenues</b>	<b>82,673,770</b>	<b>7,462,602</b>	<b>90,136,372</b>	<b>242,746</b>	<b>-</b>	<b>242,746</b>	<b>2,001</b>	<b>82,918,516</b>	<b>7,462,603</b>	<b>90,381,119</b>	<b>4,736,549</b>	<b>54,796</b>	<b>4,791,345</b>	<b>87,653,065</b>	<b>7,517,398</b>	<b>95,170,463</b>	
<b>Operating Expenses</b>																	
11 Instruction	36,127,668	-	36,127,668	-	-	-	-	36,127,668	-	36,127,668	2,599,813	-	2,599,813	38,727,481	-	38,727,481	
12 Resource and Media	109,361	-	109,361	-	-	-	-	109,361	-	109,361	-	-	-	109,361	-	109,361	
13 Curriculum and Staff Development	3,136,917	-	3,136,917	-	-	-	-	3,136,917	-	3,136,917	30,833	-	30,833	3,167,750	-	3,167,750	
21 Instructional Leadership	1,854,730	-	1,854,730	-	-	-	-	1,854,730	-	1,854,730	111,844	-	111,844	1,966,574	-	1,966,574	
23 School Leadership	5,047,507	-	5,047,507	-	-	-	-	5,047,507	-	5,047,507	641,249	-	641,249	5,688,756	-	5,688,756	
31 Counseling	2,139,633	-	2,139,633	-	-	-	-	2,139,633	-	2,139,633	-	-	-	2,139,633	-	2,139,633	
32 Social Work Services	1,195,967	-	1,195,967	-	-	-	-	1,195,967	-	1,195,967	88,826	-	88,826	1,284,793	-	1,284,793	
33 Health Services	181,908	-	181,908	-	-	-	-	181,908	-	181,908	172	-	172	182,080	-	182,080	
34 Student Transportation	4,370,509	-	4,370,509	-	-	-	-	4,370,509	-	4,370,509	-	-	-	4,370,509	-	4,370,509	
35 Food Services	3,051,242	-	3,051,242	-	-	-	-	3,051,242	-	3,051,242	-	-	-	3,051,242	-	3,051,242	
36 Cocurricular/Extracurricular Activities	2,360,744	-	2,360,744	-	-	-	-	2,360,744	-	2,360,744	2,009	-	2,009	2,362,753	-	2,362,753	
41 General Administration	6,127,383	-	6,127,383	117,922	-	117,922	-	6,245,305	-	6,245,305	713,805	-	713,805	6,959,110	-	6,959,110	
51 Plant Maintenance and Operations	7,572,974	-	7,572,974	163,033	-	163,033	-	7,736,007	-	7,736,007	13,985	-	13,985	7,749,992	-	7,749,992	
52 Security and Monitoring Services	56,113	-	56,113	-	-	-	-	56,113	-	56,113	-	-	-	56,113	-	56,113	
53 Data Processing Services	2,285,904	-	2,285,904	-	-	-	-	2,285,904	-	2,285,904	-	-	-	2,285,904	-	2,285,904	
71 Debt Service	960,187	-	960,187	161,970	-	161,970	-	1,122,157	-	1,122,157	-	-	-	1,122,157	-	1,122,157	
81 Fundraising	876,459	-	876,459	-	-	-	-	876,459	-	876,459	-	-	-	876,459	-	876,459	
<b>Total Expenses</b>	<b>77,455,206</b>	<b>-</b>	<b>77,455,206</b>	<b>442,925</b>	<b>-</b>	<b>442,925</b>	<b>-</b>	<b>77,898,131</b>	<b>-</b>	<b>77,898,131</b>	<b>4,202,536</b>	<b>-</b>	<b>4,202,536</b>	<b>82,100,667</b>	<b>-</b>	<b>82,100,667</b>	
Change in Net Assets from Operations	5,218,564	7,462,602	12,681,166	(200,179)	-	(200,179)	2,001	5,020,385	7,462,603	12,482,988	534,013	54,796	588,809	5,552,398	7,517,398	13,069,796	
Net Assets, Beginning of Year	16,684,573	3,891,653	20,576,226	(286,036)	-	(286,036)	2,861	16,398,922	3,891,653	20,290,575	40,995	93,820	134,815	16,439,916	3,985,472	20,425,388	
<b>Net Operating Assets, End of Year</b>	<b>21,903,137</b>	<b>11,354,255</b>	<b>33,257,392</b>	<b>(486,215)</b>	<b>-</b>	<b>(486,215)</b>	<b>4,862</b>	<b>21,419,307</b>	<b>11,354,256</b>	<b>32,773,563</b>	<b>575,008</b>	<b>148,616</b>	<b>723,624</b>	<b>21,992,314</b>	<b>11,502,870</b>	<b>33,495,184</b>	
<b>Non-Operating Revenues (Expenses)</b>																	
5740 Facility Project Donations & Bond Income	-	5,850,000	5,850,000	-	-	-	-	-	5,850,000	5,850,000	-	-	-	-	5,850,000	5,850,000	
Net Gain/(Loss) on Sale of Fixed Assets	(5,349,692)	-	(5,349,692)	-	-	-	-	(5,349,692)	-	(5,349,692)	-	-	-	(5,349,692)	-	(5,349,692)	
<b>Total Non-Operating revenues(expense)</b>	<b>(5,349,692)</b>	<b>5,850,000</b>	<b>500,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,349,692)</b>	<b>5,850,000</b>	<b>500,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,349,692)</b>	<b>5,850,000</b>	<b>500,308</b>	
Change in Net Assets from Non-Operating Activity	(5,349,692)	5,850,000	500,308	-	-	-	-	(5,349,692)	5,850,000	500,308	-	-	-	(5,349,692)	5,850,000	500,308	
Net Assets, Beginning of Year	34,145,310	1,235,620	35,380,930	-	-	-	-	34,145,310	1,235,619	35,380,930	40,995	93,820	134,815	34,145,310	1,235,620	35,380,930	
Restrictions satisfied by payments	2,774,529	(2,774,529)	-	-	-	-	-	2,774,529	(2,774,529)	-	-	-	-	2,774,529	(2,774,529)	-	
<b>Net non-Operating Assets, End of Year</b>	<b>31,570,147</b>	<b>4,311,091</b>	<b>35,881,238</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,570,147</b>	<b>4,311,090</b>	<b>35,881,238</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,570,147</b>	<b>4,311,091</b>	<b>35,881,238</b>	
Total Change in Net Assets	2,643,401	10,538,073	13,181,474	(200,179)	-	(200,179)	2,001	2,445,222	10,538,074	12,983,296	534,013	54,796	588,809	2,977,235	10,592,869	13,570,104	
Net Assets, Beginning of Year	50,827,408	5,127,272	55,954,680	(286,036)	-	(286,036)	2,861	50,544,232	5,127,272	55,671,504	40,995	93,820	134,815	50,585,226	5,221,092	55,806,318	
Paid In Capital	-	-	-	1,529,202	-	1,529,202	(1,529,202)	-	-	-	-	-	-	-	-	-	
<b>Net Assets, End of Year</b>	<b>\$ 53,470,809</b>	<b>\$ 15,665,345</b>	<b>\$ 69,136,154</b>	<b>\$ 1,042,987</b>	<b>\$ -</b>	<b>\$ 1,042,987</b>	<b>\$ (1,524,340)</b>	<b>\$ 52,989,454</b>	<b>\$ 15,665,346</b>	<b>\$ 68,654,800</b>	<b>\$ 575,008</b>	<b>\$ 148,616</b>	<b>\$ 723,624</b>	<b>\$ 53,562,461</b>	<b>\$ 15,813,961</b>	<b>\$ 69,376,422</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
Total Local Revenues	4,412,102	7,901,112	12,313,214	249,388	-	249,388	2,477	4,663,967	7,901,112	12,565,079	2,927,094	36,493	2,963,587	7,588,584	7,937,605	15,526,189
<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
Total State Program Revenues	-	62,400,556	62,400,556	-	-	-	-	-	62,400,556	62,400,556	-	772	772	-	62,401,328	62,401,328
<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
Total Federal Program Revenues	-	9,158,019	9,158,019	-	-	-	-	-	9,158,019	9,158,019	-	251,291	251,291	-	9,409,310	9,409,310
<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	595,813	(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	16,671,137	3,023,625	19,694,762	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>16,398,922</b>	<b>3,891,653</b>	<b>20,290,575</b>	<b>40,995</b>	<b>93,820</b>	<b>134,815</b>	<b>16,439,916</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
Total Non-Operating Revenues(Expense)	-	2,934,700	2,934,700	-	-	-	-	-	2,934,700	2,934,700	-	-	-	-	2,934,700	2,934,700
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	1,529,722	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>1,235,619</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	3,528,036	(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	47,587,644	4,553,347	52,143,468	59,421	25,841	85,262	47,649,541	4,579,188	52,228,729
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>\$ 50,544,232</b>	<b>\$ 5,127,272</b>	<b>\$ 55,671,504</b>	<b>\$ 40,995</b>	<b>\$ 93,820</b>	<b>\$ 134,815</b>	<b>\$ 50,585,226</b>	<b>\$ 5,221,092</b>	<b>\$ 55,806,318</b>

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**5177 RICHMOND AVE. SUITE 1100**  
**HOUSTON, TX 77056**  
**TEL: (713) 666-5900**  
**FAX: (713) 666-1049**  
<http://www.gomezandco.com>

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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 consolidated financial statements YES Prep Public Schools, Inc. ("YES Prep") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, and cash flows for the ten months ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated 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 Yes Prep'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.

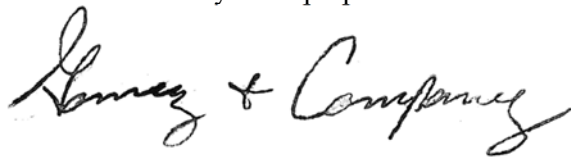
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 consolidated 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  
November 9, 2015

**GOMEZ & COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**5177 RICHMOND AVE. SUITE 1100**  
**HOUSTON, TX 77056**  
**TEL: (713) 666-5900**  
**FAX: (713) 666-1049**  
<http://www.gomezandco.com>

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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.'s ("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 ten months ended June 30, 2015. 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 ten months ended June 30, 2015.

**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

## Report on Internal Control Over Compliance (continued)

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. 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, likely representing the auditing firm, is written in black ink. The signature is stylized and appears to read "KPMG & Company".

Houston, TX  
November 9, 2015

YES PREP PUBLIC SCHOOLS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE TEN MONTHS ENDED JUNE 30, 2015

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 federal award 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>CFDA Number</u>
U.S. Department of Education	
Passed – Through Texas Education Agency	
Title II, Part A	84.367A
 U.S. Department of Agriculture	
Passed – Through Texas Education Agency	
National School Lunch Program*	10.555
School Breakfast Program*	10.553

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 TEN MONTHS ENDED JUNE 30, 2015

Summary Schedule of Prior Year Findings

No audit findings were noted as per section .300 (f) of OMB A-133 for the year ended August 31, 2014.



YES PREP PUBLIC SCHOOLS INC.

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

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	\$ 287,091
U.S. Department of Education - Charter School Program	84.282M	U282M140017	364,448
U.S. Department of Education - Transition to Teaching	84.350A	U350A110020	384,700
Passed Through Harris County Department of Ed:			
U.S. Department of Education - CASE YR 5	84.287C	156950167110020	113,667
Passed Through Texas Education Agency:			
ESEA, Title I, Part A, Improving Basic Skills	84.010A	15610101101845	2,346,045
U.S. Department of Education - 21 St Com Lrng Cntrs CY 5 yr 1	84.287C	156950197110018	1,343,381
ESEA, IDEA B, Formula	84.027A	156600011018456000	1,029,771
ESEA, Title II, Part A: Teacher and Principal Training and Recruiting	84.367A	15694501101845	365,883
ESEA, Title III, Part A LEP	84.365A	15671001101845	<u>63,264</u>
Total U.S Department of Education			<u>6,298,250</u>
U.S. Department of Agriculture			
Passed Through Texas Education Agency:			
Federal Food Service Reimbursement:			
National School Lunch Program	10.555	71301501	2,498,100
School Breakfast Program	10.553	71401501	<u>270,501</u>
Total U.S. Department of Agriculture			<u>2,768,601</u>
		Total Federal Awards	<u>\$ 9,066,851</u>

YES PREP PUBLIC SCHOOLS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE TEN MONTHS ENDED JUNE 30, 2015

**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 ten months ended June 30, 2015. 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.

***Reconciliation of Federal Revenues and Schedule of Expenditures of Federal Awards (SEFA):***

Total expenditure of federal awards per the SEFA	\$ 9,066,851
Transition to Teaching Revenue	51,129
Title I, Part A Revenue	<u>618</u>
Total federal revenues per the Consolidated Statement of Activities	<u>\$ 9,118,598</u>