DRAFT 03/27/19

Valor Public Schools

Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2018

Valor Public Schools

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Independent Auditors' Report

To the Board of Directors of
Valor Public Schools:

Report on the Financial Statements

We have audited the accompanying financial statements of Valor Public Schools, which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valor Public Schools as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE OPEN on our consideration of Valor Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valor Public Schools' 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 Valor Public Schools' internal control over financial reporting and compliance.

DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL

Valor Public Schools

Statement of Financial Position as of June 30, 2018

ASSETS	
Current assets:	
Cash	$ 346,712
Government grant receivable	98,726
Prepaid expenses and other assets	45,665
TOTAL ASSETS	$ 491,103
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable and accrued expenses	$ 44,535
Net assets:	
Unrestricted	421,568
Temporarily restricted for Academic Support Program	25,000
Total net assets	446,568
TOTAL LIABILITIES AND NET ASSETS	$ 491,103

See accompanying notes to financial statements.

Valor Public Schools

Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions	$ 759,801	$ 25,000	$ 784,801
Government grant *(Note 3)*		98,726	98,726
Total revenue	759,801	123,726	883,527
Net assets released from restrictions:			
Program expenditures	98,726	(98,726)	
Total	858,527	25,000	883,527
EXPENSES:			
Program expenses:			
Instructional program	110,902		110,902
Auxiliary services	21,848		21,848
Total program expenses	132,750		132,750
General and administrative	237,119		237,119
Fundraising	76,514		76,514
Total expenses	446,383		446,383
CHANGES IN NET ASSETS	412,144	25,000	437,144
Net assets, beginning of year	9,424	0	9,424
Net assets, end of year	$ 421,568	$ 25,000	$ 446,568

See accompanying notes to financial statements.

Valor Public Schools

Statement of Cash Flows for the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 437,144
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Government grant receivable	(98,726)
Prepaid expenses and other assets	(45,665)
Accounts payable and accrued expenses	44,535
Net cash provided by operating activities	337,288
NET CHANGE IN CASH	337,288
Cash, beginning of year	9,424
Cash, end of year	$ 346,712

See accompanying notes to financial statements.

Valor Public Schools

Notes to Financial Statements for the year ended June 30, 2018

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Valor Public Schools (Valor) is a nonprofit organization incorporated in Texas in January 2016. Valor's mission is to create the highest quality K-12 tuition-free charter schools, educating the whole person for authentic freedom and a full human life.

Federal income tax status – Valor is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

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

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

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional promises to give are included in contribution revenue when the conditions are substantially met. During 2018, approximately 96% of contributions recognized are from three donors.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are reported as deferred revenue.

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

Recent financial accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Valor is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – CONDITIONAL PLEDGE RECEIVABLE

At June 30, 2018, Valor has a $156,000 conditional pledge receivable. The commitment is conditioned on matching funds that must be raised by Valor. This gift will be recognized as contribution revenue when the conditions the donor has established are substantially met.

NOTE 3 – GOVERNMENT GRANT

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

NOTE 4 – MULTIEMPLOYER PENSION PLAN

Valor full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by Valor, but are the liability of the State of Texas. Plan members contributed 7.7% of their annual covered salary in 2018. Valor contributes 6.8% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, Valor makes a 1.5% non-OASDI payment for all TRS eligible employees. Valor's contributions do not represent more than 5% of the TRS' total contributions. For 2018, Valor contributed $12,951 to TRS.

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

Total TRS plan assets as of August 31, 2018 was $146.3 billion. Accumulated benefit obligations as of August 31, 2018 was $181.8 billion. The plan was 80.5% funded at August 31, 2018.

NOTE 5 – LEASE COMMITMENTS

In October 2017, Valor entered into a lease agreement with a church to lease campus facilities. The lease commenced on July 1, 2018 and will expire on June 30, 2020. Valor may extend the term of this lease for three additional consecutive terms of 12 months with written notice 180 days prior to the expiration of the original term of this lease. Future minimum lease commitments are as follows:

2019	$ 510,000
2020	520,200
Total	$ 1,030,200

NOTE 6 – SUBSEQUENT EVENTS

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

Independent Auditors' 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
Valor Public Schools:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valor Public Schools (Valor), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated DATE OPEN.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valor's internal control. Accordingly, we do not express an opinion on the effectiveness of Valor'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 Valor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valor'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL

Valor Public Schools

Schedule of Findings and Responses for the year ended June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ☒ unmodified ☐ qualified ☐ adverse ☐ disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to the financial statements noted? ☐ yes ☒ no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards.*