

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Financial Statements
and Single Audit Reports
for the year ended June 30, 2022

Valor Texas Education Foundation (dba Valor Public Schools)

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Certificate of Board


Valor Texas Education Foundation
(dba Valor Public Schools)
Name of Charter Holder

81-1145945
Federal Employer ID Number

Valor Texas Education Foundation
(dba Valor Public Schools)
Name of Charter School

Travis 227-829
County Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of Valor Texas Education Foundation (dba Valor Public Schools) was reviewed and (check one) approved disapproved for the year ended June 30, 2022, at a meeting of the governing body of the Charter Holder on the 14th day of November 2022.


Cara Valle (Nov 15, 2022 10:00 EST)

Signature of Board Secretary


A M (Nov 15, 2022 12:20 CST)

Signature of Board President

If the governing body of the Charter Holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

Independent Auditors' Report

To the Board of Directors of
Valor Texas Education Foundation
(dba Valor Public Schools):

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valor Texas Education Foundation (dba Valor Public Schools) (Valor), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Valor as of June 30, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our audit of the financial statements as of and for the year ended June 30, 2022 was also performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Valor and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Valor's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Valor's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Valor's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

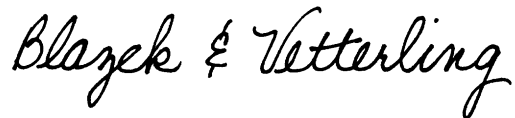
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 16 through 25 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2022 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Unaudited Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The explanation for budget variances and the schedule of real property ownership interest on pages 24 and 25 are presented for purposes of additional analysis as required by the Texas Education Agency and are not a required part of the basic financial statements. The explanation for budget variances and the schedule of real property ownership interest have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022 on our consideration of Valor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valor's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valor's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Blazek & Vetterling".

November 14, 2022

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statements of Financial Position as of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash	\$ 4,982,264	\$ 2,552,628
Government grants receivable (Note 4)	2,454,574	1,994,683
Prepaid expenses and other receivables	<u>344,035</u>	<u>26,997</u>
Total current assets	7,780,873	4,574,308
Right-of-use assets (Note 5)	1,515,005	
Contributions receivable restricted for capital projects, net (Note 4)	875,198	
Property, net (Note 6)	<u>32,429,637</u>	<u>15,466,017</u>
TOTAL ASSETS	<u>\$ 42,600,713</u>	<u>\$ 20,040,325</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 486,207	\$ 170,199
Accrued payroll expenses	384,694	414,993
Construction payable	2,147,135	
Accrued interest	83,762	46,843
Lease liabilities (Note 5)	745,107	
Current portion of notes payable (Note 7)	<u>247,926</u>	<u>198,515</u>
Total current liabilities	4,094,831	830,550
Lease liabilities (Note 5)	805,006	
Notes payable, net (Note 7)	<u>24,155,229</u>	<u>12,869,616</u>
Total liabilities	<u>29,055,066</u>	<u>13,700,166</u>
Commitments (Notes 9 and 10)		
Net assets:		
Without donor restrictions	2,591,527	2,853,299
With donor restrictions (Note 8)	<u>10,954,120</u>	<u>3,486,860</u>
Total net assets	<u>13,545,647</u>	<u>6,340,159</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,600,713</u>	<u>\$ 20,040,325</u>

See accompanying notes to financial statements.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions:			
Government grants <i>(Note 9)</i>		\$ 14,130,827	\$ 14,130,827
Other contributions	\$ 777,252	6,315,524	7,092,776
Program service fees	<u>417,106</u>	<u> </u>	<u>417,106</u>
Total revenue	1,194,358	20,446,351	21,640,709
Net assets released from restrictions:			
Program expenditures	<u>12,955,331</u>	<u>(12,955,331)</u>	<u> </u>
Total	<u>14,149,689</u>	<u>7,491,020</u>	<u>21,640,709</u>
EXPENSES:			
Program expenses:			
Instructional program	11,818,208		11,818,208
Auxiliary services	<u>1,304,210</u>		<u>1,304,210</u>
Total program expenses	13,122,418		13,122,418
Supporting activities:			
Management and general	999,027		999,027
Fundraising	<u>290,016</u>		<u>290,016</u>
Total expenses	<u>14,411,461</u>		<u>14,411,461</u>
CHANGES IN NET ASSETS	<u>(261,772)</u>	<u>7,491,020</u>	<u>7,229,248</u>
Net assets, beginning of year, as originally reported	2,853,299	3,486,860	6,340,159
Prior period adjustment due to change in accounting principle <i>(Note 2)</i>	<u> </u>	<u>(23,760)</u>	<u>(23,760)</u>
Net assets, beginning of year, as restated	<u>2,853,299</u>	<u>3,463,100</u>	<u>6,316,399</u>
Net assets, end of year	<u>\$ 2,591,527</u>	<u>\$ 10,954,120</u>	<u>\$ 13,545,647</u>

See accompanying notes to financial statements.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statement of Activities for the year ended June 30, 2021

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions:			
Government grants <i>(Note 9)</i>		\$ 10,878,066	\$ 10,878,066
Other contributions	\$ 522,207		522,207
Program service fees	<u>165,428</u>		<u>165,428</u>
Total revenue	687,635	10,878,066	11,565,701
Net assets released from restrictions:			
Program expenditures	8,796,845	(8,796,845)	
Capital expenditures	<u>2,985,000</u>	<u>(2,985,000)</u>	
Total	<u>12,469,480</u>	<u>(903,779)</u>	<u>11,565,701</u>
EXPENSES:			
Program expenses:			
Instructional program	8,447,546		8,447,546
Auxiliary services	<u>556,740</u>		<u>556,740</u>
Total program expenses	9,004,286		9,004,286
Supporting activities:			
Management and general	739,139		739,139
Fundraising	<u>103,726</u>		<u>103,726</u>
Total expenses	<u>9,847,151</u>		<u>9,847,151</u>
CHANGES IN NET ASSETS	2,622,329	(903,779)	1,718,550
Net assets, beginning of year	<u>230,970</u>	<u>4,390,639</u>	<u>4,621,609</u>
Net assets, end of year	<u>\$ 2,853,299</u>	<u>\$ 3,486,860</u>	<u>\$ 6,340,159</u>

See accompanying notes to financial statements.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statements of Functional Expenses for the years ended June 30, 2022 and 2021

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2022 TOTAL EXPENSES</u>
Payroll and related benefits	\$ 6,987,602	\$ 273,845	\$ 173,102	\$ 7,434,549
Professional fees and contract labor	2,053,030	446,491	8,636	2,508,157
Supplies and materials	1,155,937	19,585	78,222	1,253,744
Rent	908,051	33,463		941,514
Interest	591,348			591,348
Food	381,958			381,958
Travel	283,711	75,957		359,668
Depreciation	339,206	14,133		353,339
Utilities	282,738	11,781		294,519
Insurance	78,214	3,258		81,472
Dues, memberships and subscriptions	18,103	16,112		34,215
Other	<u>42,520</u>	<u>104,402</u>	<u>30,056</u>	<u>176,978</u>
Total expenses	<u>\$ 13,122,418</u>	<u>\$ 999,027</u>	<u>\$ 290,016</u>	<u>\$ 14,411,461</u>

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL EXPENSES</u>
Payroll and related benefits	\$ 5,124,391	\$ 263,293	\$ 68,967	\$ 5,456,651
Professional fees and contract labor	1,123,301	252,869		1,376,170
Supplies and materials	950,498	18,797	18,387	987,682
Rent	629,506	30,430		659,936
Interest	422,724			422,724
Food	120,141			120,141
Travel	6,036	33,384		39,420
Depreciation	319,506	16,816		336,322
Utilities	205,701	10,826		216,527
Insurance	59,265	3,119		62,384
Dues, memberships and subscriptions	11,914	8,344		20,258
Other	<u>31,303</u>	<u>101,261</u>	<u>16,372</u>	<u>148,936</u>
Total expenses	<u>\$ 9,004,286</u>	<u>\$ 739,139</u>	<u>\$ 103,726</u>	<u>\$ 9,847,151</u>

See accompanying notes to financial statements.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statements of Cash Flows for the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 7,229,248	\$ 1,718,550
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Prior period adjustment due to change in accounting principle	(23,760)	
Contribution restricted for capital projects	(4,615,524)	(25,000)
Forgiveness of loan	(1,700,000)	
Depreciation	353,339	336,322
Amortization of debt issuance costs	112,166	68,314
Amortization of right-of-use assets	35,108	
Changes in operating assets and liabilities:		
Government grants receivable	(459,891)	(983,378)
Prepaid expenses and other receivables	(317,038)	63,165
Other assets		50,000
Accounts payable and accrued expenses	316,008	38,048
Accrued payroll expenses	(30,299)	249,306
Accrued interest	<u>36,919</u>	<u>(7,888)</u>
Net cash provided by operating activities	<u>936,276</u>	<u>1,507,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(510,490)</u>	<u>(606,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contribution restricted for capital projects	3,740,326	25,000
Principal repayments of notes payable	(1,736,476)	
Capitalized debt issuance costs		<u>(226,490)</u>
Net cash provided (used) by financing activities	<u>2,003,850</u>	<u>(201,490)</u>
NET CHANGE IN CASH	2,429,636	699,125
Cash, beginning of year	<u>2,552,628</u>	<u>1,853,503</u>
Cash, end of year	<u>\$ 4,982,264</u>	<u>\$ 2,552,628</u>
<i>Supplemental disclosure of cash flow information:</i>		
Purchase of property funded by notes payable	\$14,659,334	\$3,357,450
Interest paid	\$737,792	\$508,752

See accompanying notes to financial statements.

Valor Texas Education Foundation (dba Valor Public Schools)

Notes to Financial Statements for the years ended June 30, 2022 and 2021

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Valor Texas Education Foundation (dba Valor Public Schools) (Valor) is a nonprofit organization incorporated in Texas in January 2016. Valor operates two schools located in Austin, Texas and has approximately 1,400 students from kindergarten through 11th grade for the 2021-2022 school year. 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. Valor is a single charter holder and does not conduct any other charter or non-charter activities.

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 includes demand deposits. At June 30, 2022 and 2021, the carrying amount and bank balances of Valor’s demand deposits were \$4,982,264 and \$2,552,628, respectively. Amounts on deposit in excess of the Federal Deposit Insurance Corporation limit are collateralized by security agreements with the banks.

Government grants and contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received.

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

Property is reported at cost if purchased or at fair value at the date of gift if donated. Valor capitalizes property that has a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

Capitalized debt issuance costs represent costs incurred related to the issuance of notes payable and are amortized as interest expense over the term of the notes. Unamortized debt issuance costs are netted against related debt.

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

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

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 *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Valor is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when conditions have been met. During 2022, approximately 64% of other contributions recognized is from one foundation.

Program service fees are derived from after-school programs, food service fees and extracurricular programs. Program service fees are due when the goods and services are provided to the student and are recognized at that time. All performance obligations related to program service fees are satisfied within the academic year which is contained within the fiscal year. There are no contract assets or liabilities resulting from other program fees at June 30, 2022, 2021 or 2020.

Functional allocation of expenses – Expenses are reported by their functional classification. Program expenses are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Plant maintenance and operation costs, security and monitoring service costs, and data processing service costs are allocated based on management’s estimates of costs utilized by each department.

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.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARD

Valor adopted 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. The ASU also requires expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. Valor adopted the new standard effective July 1, 2021 using the modified retrospective method. Therefore, comparative information for fiscal year 2021 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. The adoption resulted in the recognition of operating right-of-use assets totaling \$1,510,352, as well as operating lease liabilities totaling \$1,534,112 as of July 1, 2021. An adjustment to *net assets with donor restrictions* of \$23,760 was reported as of July 1, 2021.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 4,982,264	\$ 2,552,628
Government grants receivable	2,454,574	1,994,683
Other receivables	134,074	6,476
Contributions receivable restricted for capital projects, net	<u>875,198</u>	<u> </u>
Total financial assets	8,446,110	4,553,787
Less financial assets not available for general expenditure:		
Contributions receivable restricted for capital projects, net	<u>(875,198)</u>	<u> </u>
Total financial assets available for general expenditure	<u>\$ 7,570,912</u>	<u>\$ 4,553,787</u>

Valor relies on state and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Valor considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. As part of Valor's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash.

NOTE 4 – GOVERNMENT GRANTS AND CONTRIBUTIONS RECEIVABLE

Government grants and contributions receivable are as follow:

	<u>2022</u>	<u>2021</u>
Government agencies	\$ 2,454,574	\$ 1,994,683
Capital projects	<u>911,943</u>	<u> </u>
Total government grants and contributions receivable	3,366,517	1,994,683
Discount to net present value at 3.01%	<u>(36,745)</u>	<u> </u>
Government grants and contributions receivable, net	<u>\$ 3,329,772</u>	<u>\$ 1,994,683</u>

Government grants and contributions receivable at June 30, 2022 are expected to be collected as follows:

2023	\$ 3,010,545
2024	<u>355,972</u>
Total government grants and contributions receivable	<u>\$ 3,366,517</u>

NOTE 5 – OPERATING LEASES

Valor leases certain office and school facilities space used in its operations that are classified as operating leases. Payments due under these lease contracts are fixed.

As of June 30, 2022, the right-of-use (ROU) assets and lease liabilities related to operating leases are as follows:

Operating lease ROU assets	\$1,515,005
Operating lease liabilities	\$1,550,113

During 2022, lease cost associated with operating leases is as follows:

Operating lease cost:	
Fixed rent expense	\$798,811

During the year ended June 30, 2022, cash and non-cash activities associated with operating leases are as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$787,462

Non-cash investing and financing liabilities:	
New operating lease liabilities	\$1,550,113

Future payments due under operating leases as of June 30, 2022 are as follows:

2023	\$ 805,723
2024	<u>827,007</u>
Total minimum lease payments	1,632,730
Less effects of discounting	<u>(82,617)</u>
Lease liabilities recognized	<u>\$ 1,550,113</u>

As of June 30, 2022, the weighted-average remaining lease term for all operating leases is 24 months. The weighted average discount rate associated with operating leases as of June 30, 2022 is 5.0%.

NOTE 6 – PROPERTY

Property is comprised of the following:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 4,073,175	\$ 4,029,373
Buildings and improvements	10,265,964	10,265,964
Equipment	34,011	27,602
Construction in progress	<u>18,746,148</u>	<u>1,479,400</u>
Total property, at cost	33,119,298	15,802,339
Accumulated depreciation	<u>(689,661)</u>	<u>(336,322)</u>
Property, net	<u>\$ 32,429,637</u>	<u>\$ 15,466,017</u>

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2022</u>	<u>2021</u>
A \$16,413,000 loan agreement with a bank. The proceeds are being used to acquire, construct and renovate the Valor Kyle Campus. The loan bears interest at 3.5%, which is due monthly. Principal is due at maturity on March 5, 2026. The loan is secured by real property.	\$ 11,933,399	\$ 154,535
A \$9.8 million loan agreement with a bank, net of unamortized debt issuance costs of \$78,327 and \$109,657 at June 30, 2022 and 2021, respectively. The proceeds were used to acquire, construct and renovate the Valor North Campus. The loan bears interest at 4.29%. Interest is due monthly until September 2021 when principal and interest are due monthly until maturity on August 1, 2046. The loan is secured by real property.	9,537,115	9,690,343
A \$3,711,000 loan agreement with Raza Development Fund, net of unamortized debt issuance costs of \$138,791 and \$176,644 at June 30, 2022 and 2021, respectively. The proceeds are being used to acquire, construct and renovate the Valor Kyle Campus. The loan bears interest at 6.25%, which is due monthly. Principal is due at maturity on March 5, 2026. The loan is secured by real property.	2,034,312	653,886
A \$950,000 loan agreement with a charter school facility financing organization, net of unamortized debt issuance costs of \$37,650 and \$52,710 at June 30, 2022 and 2021, respectively. The proceeds were used to acquire, construct and renovate the Valor North Campus. The loan bears interest at 6%. Interest is due monthly until September 2021, when principal and interest are due monthly until maturity on December 20, 2024. The loan is secured by real property.	898,329	897,290
A \$1,700,000 loan agreement with a foundation, net of unamortized debt issuance costs of \$27,923 at June 30, 2021. The proceeds were used to finance the land purchase for the Valor Kyle Campus. The loan bears interest at 0.25%, which is due annually. Principal is due at maturity on December 16, 2022. The loan is secured by real property. The loan was fully forgiven in 2022.		<u>1,672,077</u>
Notes payable, net	<u>\$ 24,403,155</u>	<u>\$ 13,068,131</u>

Capitalized interest on the notes payable totaled approximately \$298,000 and \$146,000 in 2022 and 2021, respectively. Interest on the notes payable recognized as expenses totaled approximately \$479,000 in 2022 and \$354,000 in 2021.

Maturities of notes payable at June 30, 2022 are as follows:

2023	\$ 247,926
2024	351,718
2025	10,213,943
2026	<u>13,844,336</u>
Total principal payments due	24,657,923
Unamortized debt issuance costs	<u>(254,768)</u>
Total	<u>\$ 24,403,155</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Capital projects	\$ 6,311,471	
Foundation School Program	4,579,331	\$ 3,486,860
Child nutrition program	<u>63,318</u>	
Total net assets with donor restrictions	<u>\$ 10,954,120</u>	<u>\$ 3,486,860</u>

NOTE 9 – GOVERNMENT GRANTS

Valor is the recipient of grants from state and federal agencies as follows:

	<u>2022</u>	<u>2021</u>
State grants:		
Foundation School Program	\$ 12,459,656	\$ 10,247,338
Other	<u>161,760</u>	<u>176,437</u>
Total state grants	<u>12,621,416</u>	<u>10,423,775</u>
Federal grants:		
U. S. Department of Education	835,249	399,168
U. S. Department of Agriculture	467,097	41,815
Federal Communications Commission	164,985	
U. S. Department of Health and Human Services	42,080	
U. S. Department of Treasury		<u>13,308</u>
Total federal grants	<u>1,509,411</u>	<u>454,291</u>
Total government grants	<u>\$ 14,130,827</u>	<u>\$ 10,878,066</u>

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 10 – COMMITMENTS

At June 30, 2022, Valor had outstanding commitments of approximately \$1.5 million related to the construction of Valor Kyle Campus.

NOTE 11 – MULTIEMPLOYER PENSION PLAN

Valor's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by Valor, but are the liability of the State of Texas. Plan members contributed 8.0% in 2022 and 7.7% in 2021 of their annual covered salary. Valor contributes 7.75% for new members the first 90 days of employment, and the State of Texas contributes 7.75%. Additionally, Valor makes a 1.7% non-OASDI payment for all TRS eligible employees. Valor's contributions do not represent more than 5% of the TRS' total contributions. For 2022 and 2021, Valor contributed \$289,066 and \$206,476, respectively, 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, 2021 and 2020 were \$223.2 billion and \$184.4 billion, respectively. Accumulated benefit obligations as of August 31, 2021 and 2020 were \$227.3 billion and \$218.9 billion, respectively. The plan was 79.1% funded at August 31, 2021 and 76.8% funded at August 31, 2020.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent to year end, Valor borrowed an additional \$2,844,826 from its \$16,413,000 loan agreement to finance construction costs for the Valor Kyle Campus.

Management has evaluated subsequent events through November 14, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed above, were identified that are required to be disclosed or would have material impact on reported net assets or changes in net assets.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedules of Expenses for the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
EXPENSES:		
6100 Payroll costs	\$ 7,434,549	\$ 5,456,651
6200 Professional and contracted services	3,744,190	2,252,633
6300 Supplies and materials	1,635,702	1,107,823
6400 Other operating costs	1,005,672	607,320
6500 Interest expense	<u>591,348</u>	<u>422,724</u>
Total expenses	<u>\$ 14,411,461</u>	<u>\$ 9,847,151</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedules of Capital Assets as of June 30, 2022 and 2021

		2022		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 3,995,873	\$ 77,302	
1520	Buildings and improvements	10,265,964		
1530	Furniture and equipment	27,602		\$ 6,409
1580	Construction in progress	<u>18,746,148</u>	<u> </u>	<u> </u>
Total capital assets		<u>\$ 33,035,587</u>	<u>\$ 77,302</u>	<u>\$ 6,409</u>

		2021		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 4,029,373		
1520	Buildings and improvements	10,265,964		
1530	Furniture and equipment	27,602		
1580	Construction in progress	<u>1,479,400</u>	<u> </u>	<u> </u>
Total capital assets		<u>\$ 15,802,339</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedule of Related Party Transactions for the year ended June 30, 2022

<u>RELATED PARTY NAME</u>	<u>NAME OF RELATION TO THE RELATED PARTY</u>	<u>RELATIONSHIP</u>	<u>TYPE OF TRANSACTION</u>	<u>DESCRIPTION OF TERMS AND CONDITIONS</u>	<u>SOURCE OF FUNDS USED</u>	<u>PAYMENT FREQUENCY</u>	<u>TOTAL PAID DURING FISCAL YEAR</u>	<u>PRINCIPAL BALANCE DUE</u>
Kingfisher Education LLC	David Williams	President	Financial	IP licensing agreement	State	Semi-annually	\$ 79,080	
Total							<u>\$ 79,080</u>	<u>\$ 0</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedule of Related Party Compensation and Benefits for the year ended June 30, 2022

<u>RELATED PARTY NAME</u>	<u>NAME OF RELATION TO THE RELATED PARTY</u>	<u>RELATIONSHIP</u>	<u>COMPENSATION OR BENEFIT</u>	<u>PAYMENT FREQUENCY</u>	<u>DESCRIPTION</u>	<u>SOURCE OF FUNDS USED</u>	<u>TOTAL PAID DURING FISCAL YEAR</u>
Alison Bates	Jesse Bates	Spouse	Compensation	Monthly	Salary	State	<u>\$ 442</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Use of Funds Report – Select State Allotment Programs for the year ended June 30, 2022

Section A: Compensatory Education Programs	Responses
Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
Does the LEA have written policies and procedures for its state compensatory education program?	Yes
List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$450,756
List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$306,054
Section B: Bilingual Education Programs	Responses
Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
Does the LEA have written policies and procedures for its bilingual education program?	Yes
List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$40,337
List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$52,140

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statements of Activities by Function for the years ended June 30, 2022 and 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS		
			<u>2022</u>	<u>2021</u>	
REVENUE:					
Local program revenue:					
5740	Other revenue from local sources	\$ 1,191,578	\$ 6,315,524	\$ 7,507,102	\$ 634,712
5750	Revenue from co-curricular or enterprising services or activities	<u>2,780</u>		<u>2,780</u>	<u>52,923</u>
	Total local program revenue	<u>1,194,358</u>	<u>6,315,524</u>	<u>7,509,882</u>	<u>687,635</u>
State program revenue:					
5810	Foundation School Program		12,459,656	12,459,656	10,247,338
5820	State program revenue distributed by Texas Education Agency (TEA)		<u>161,760</u>	<u>161,760</u>	<u>176,437</u>
	Total state program revenue		<u>12,621,416</u>	<u>12,621,416</u>	<u>10,423,775</u>
Federal program revenue:					
5920	Federal revenue distributed by TEA		1,467,331	1,467,331	440,983
5930	Federal revenue distributed by other State of Texas government agencies		<u>42,080</u>	<u>42,080</u>	<u>13,308</u>
	Total federal program revenue		<u>1,509,411</u>	<u>1,509,411</u>	<u>454,291</u>
Net assets released from restrictions:					
	Program expenditures	<u>12,955,331</u>	<u>(12,955,331)</u>		
	Total revenue	<u>14,149,689</u>	<u>7,491,020</u>	<u>21,640,709</u>	<u>11,565,701</u>
EXPENSES:					
11	Instruction	6,683,252		6,683,252	4,764,383
13	Curriculum development	679,469		679,469	646,992
21	Instructional leadership	94,405		94,405	91,750
23	School leadership	1,563,318		1,563,318	946,610
31	Guidance, counseling and evaluation services	50,708		50,708	
33	Health services	118,362		118,362	156,550
35	Food services	440,666		440,666	144,531
36	Extracurricular activities	355,849		355,849	185,786
41	General administration	920,684		920,684	663,377
51	Facilities maintenance and operations	2,302,405		2,302,405	1,588,139
52	Security and monitoring services	11,841		11,841	2,016
53	Data processing services	138,398		138,398	94,567
61	Community services	170,745		170,745	36,000
71	Debt service	591,348		591,348	422,724
81	Fundraising	<u>290,011</u>		<u>290,011</u>	<u>103,726</u>
	Total expenses	<u>14,411,461</u>		<u>14,411,461</u>	<u>9,847,151</u>

(continued)

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Statements of Activities by Function for the years ended June 30, 2022 and 2021 *(continued)*

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTALS</u>	
			<u>2022</u>	<u>2021</u>
CHANGES IN NET ASSETS	<u>(261,772)</u>	<u>7,491,020</u>	<u>7,229,248</u>	<u>1,718,550</u>
Net assets, beginning of year, as originally reported	2,853,299	3,486,860	6,340,159	4,621,609
Prior period adjustment due to change in accounting principle	<u> </u>	<u>(23,760)</u>	<u>(23,760)</u>	<u> </u>
Net assets, beginning of year, as restated	<u>2,853,299</u>	<u>3,463,100</u>	<u>6,316,399</u>	<u>4,621,609</u>
Net assets, end of year	<u>\$ 2,591,527</u>	<u>\$ 10,954,120</u>	<u>\$ 13,545,647</u>	<u>\$ 6,340,159</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Budgetary Comparison Schedule for the year ended June 30, 2022

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FROM ACTUAL AND FINAL BUDGET
	ORIGINAL	FINAL		
REVENUE:				
Local program revenue:				
5740	\$ 5,750,969	\$ 7,653,109	\$ 7,507,102	\$ (146,007)
5750	82,140	2,760	2,780	20
State program revenue:				
5810	12,123,397	12,449,918	12,459,656	9,738
5820	205,350	128,829	161,760	32,931 (1)
Federal program revenue:				
5920	852,980	1,520,220	1,467,331	(52,889)
5930			42,080	42,080
			<u>42,080</u>	<u>42,080</u>
Total revenue	<u>19,014,836</u>	<u>21,754,836</u>	<u>21,640,709</u>	<u>(114,127)</u>
EXPENSES:				
11	7,266,562	6,846,564	6,683,252	(163,312)
12	10,001			
13	525,140	670,140	679,469	9,329
21	101,500	81,500	94,405	12,905 (2)
23	1,598,170	1,598,170	1,563,318	(34,852)
31	16,000	56,000	50,708	(5,292)
32	10,001			
33	120,000	120,000	118,362	(1,638)
35	199,403	424,403	440,666	16,263
36	257,437	347,437	355,849	8,412
41	860,221	970,221	920,684	(49,537)
51	2,107,861	2,227,861	2,302,405	74,544
52	50,000	10,000	11,841	1,841 (3)
53	111,440	131,440	138,398	6,958
61	62,000	177,000	170,745	(6,255)
71	694,063	593,134	591,348	(1,786)
81	210,988	285,988	290,011	4,023
Total expenses	<u>14,200,787</u>	<u>14,539,858</u>	<u>14,411,461</u>	<u>(128,397)</u>
CHANGES IN NET ASSETS	4,814,049	7,214,978	7,229,248	14,270
Net assets, beginning of year, as restated	<u>6,316,399</u>	<u>6,316,399</u>	<u>6,316,399</u>	<u>0</u>
Net assets, end of year	<u>\$11,130,448</u>	<u>\$13,531,377</u>	<u>\$13,545,647</u>	<u>\$ 14,270</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Explanation for Budget Variances for the year ended June 30, 2022 (unaudited)

The following are explanations of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule:

- (1) The variance is due to unexpected high enrollment growth in instructional material allotment.

The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule:

- (2) The variance is due to higher than expected salary costs from employee hired near end of the year.
- (3) The variance is due to higher than expected costs of alarm system maintenance.

Original to final budget variances: Due to the ongoing COVID-19 pandemic, there were many uncertainties and shifts to the original budget throughout the year, as well as additional unexpected COVID-related funding, and we will take the above-described elements into consideration in future budget preparation processes. Additionally, ongoing expansion and construction related to Valor's growth and the inflationary environment created uncertainties and shifts to the original financing budget throughout the year.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedule of Real Property Ownership Interest at June 30, 2022 (unaudited)

<u>DESCRIPTION</u>	<u>PROPERTY ADDRESS</u>	<u>TOTAL ASSESSED VALUE</u>	<u>OWNERSHIP INTEREST</u>		
			<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
Lots 2 and 3, Block B, Wells Branch Phase U	14200 N. Interstate Hwy. 35, Austin, TX 78728	\$ 8,637,109	\$ 8,637,109		
2355 Windy Hill Road, Lot 1, Acres 25.435	2355 Windy Hill Road, Kyle, TX 78640	<u>6,712,280</u>	<u>6,712,280</u>		
Total		<u>\$ 15,349,389</u>	<u>\$ 15,349,389</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

<u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title</u>	<u>Assistance</u> <u>Listing</u> <u>Number</u>	<u>Contract Number</u> <u>or Pass-through</u> <u>Grantor Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</u> <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed through Texas Education Agency:				
#1 School Breakfast Program 10/01/20 – 09/30/21	10.553	71402101	N/A	\$ 10,870
#2 School Breakfast Program 10/01/21 – 09/30/22	10.553	71402201	N/A	<u>60,873</u>
Total School Breakfast Program				<u>71,743</u>
Passed through Texas Education Agency:				
#3 National School Lunch Program 10/01/20 – 09/30/21	10.555	71302101	N/A	52,444
#4 National School Lunch Program 10/01/21 – 09/30/22	10.555	71302201	N/A	<u>293,682</u>
Total School Lunch Program				<u>346,126</u>
Total U. S. Department of Agriculture				<u>417,869</u>
FEDERAL COMMUNICATIONS COMMISSION				
Passed through Universal Service Administration Company:				
#5 COVID-19 – Emergency Connectivity Fund Program N/A	32.009	ECF2190006630	\$237,908	<u>164,985</u>
Total Federal Communications Commission				<u>164,985</u>
U. S. DEPARTMENT OF EDUCATION				
Passed through Texas Education Agency:				
#6 Title I Grants to Local Educational Agencies 07/23/21 – 09/30/22	84.010A	S010A210043	\$34,284	<u>34,284</u>
#7 Special Education Grants to States 07/23/21 – 09/30/22	84.027A	H027A200008	\$162,644	<u>162,644</u>
#8 Supporting Effective Instruction State Grants 07/23/21 – 09/30/22	84.367A	S367A200041	\$18,371	<u>18,371</u>
#9 Student Support and Academic Enrichment Program 07/23/21 – 09/30/22	84.424A	S424A200045	\$10,000	<u>10,000</u>
#10 COVID-19 Education Stabilization Fund Elementary and Secondary School Emergency Relief Fund (ARP) 10/23/21 – 09/30/23	84.425U	S425U210042	\$642,712	<u>609,950</u>
Total U. S. Department of Education				<u>835,249</u>

(continued)

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Schedule of Expenditures of Federal Awards for the year ended June 30, 2022 *(continued)*

<u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title</u>	<u>Assistance</u> <u>Listing</u> <u>Number</u>	<u>Contract Number</u> <u>or Pass-through</u> <u>Grantor Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</u> <u>Expenditures</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Texas Education Agency:				
#11	Epidemiology and Laboratory Capacity for Infectious Diseases COVID-19 School Health Support Grant 05/01/21 – 03/31/22	93.323 6 NU50CK000501-02-06	\$42,080	<u>42,080</u>
Total U. S. Department of Health and Human Services				<u>42,080</u>
TOTAL FEDERAL AWARDS				<u>\$ 1,460,183</u>

Federal funds expended by Valor, by Assistance Listing Number or Assistance Listing cluster, are summarized as follows:

<u>Assistance Listing Number(s)</u>	<u>Name of Program or Cluster</u>	<u>Amount</u>
10.553, 10.555	Child Nutrition Cluster	\$ 417,869
32.009	COVID-19 – Emergency Connectivity Fund Program	164,985
84.010A	Title I Grants to Local Educational Agencies	34,284
84.027A	Special Education Grants to States	162,644
84.367A	Supporting Effective Instruction State Grants	18,371
84.424A	Student Support and Academic Enrichment Program	10,000
84.425U	COVID-19 Education Stabilization Fund	609,950
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases – COVID-19 School Health Support Grant	<u>42,080</u>
Total		<u>\$ 1,460,183</u>

See accompanying note to schedule of expenditures of federal awards.

**Valor Texas Education Foundation
(dba Valor Public Schools)**

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards (the schedule) is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal awards. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized in Valor’s financial statements in conformity with generally accepted accounting principles. Valor has elected not to use the 10% de minimis rate for indirect costs and does not have any subrecipients.

Because the schedule presents only a selected portion of the operations of Valor, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Valor.

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 Texas Education Foundation
(dba Valor Public Schools):

We have audited, 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, the financial statements of Valor Texas Education Foundation (dba Valor Public Schools) (Valor), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 entity'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.

Blazek & Vetterling

November 14, 2022

**Independent Auditors' Report on Compliance for Each Major
Federal Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors of
Valor Texas Education Foundation
(dba Valor Public Schools):

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Valor Texas Education Foundation's (dba Valor Public Schools) (Valor) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Valor's major federal programs for the year ended June 30, 2022. Valor's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Valor complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of Valor and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Valor's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Valor's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Valor's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Valor's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Valor's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Valor's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Valor's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses,

as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

November 14, 2022

