Valor Texas Education Foundation
(dba Valor Public Schools)

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

Valor Texas Education Foundation
(dba Valor Public Schools)

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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, 2023 and 2022, 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, 2023 and 2022, 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 and 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. Information included in the supplemental statement of financial position – participating campuses as of June 30, 2023 and the supplemental statement of activities – participating campuses for the year ended June 30, 2023 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2023 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.

Blazek & Vetterling

November 20, 2023

Valor Texas Education Foundation
(dba Valor Public Schools)

Statements of Financial Position as of June 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash	$ 5,113,473	$ 4,982,264
Government grants receivable *(Note 3)*	3,524,763	2,454,574
Prepaid expenses and other receivables	434,410	344,035
Total current assets	9,072,646	7,780,873
Operating right-of-use assets *(Note 4)*	1,562,801	1,515,005
Contributions receivable restricted for capital projects, net *(Note 3)*	458,598	875,198
Bond and note proceeds held in trust *(Notes 6 and 8)*	51,617,610	
Property, net *(Note 5)*	73,560,379	32,429,637
Intangible asset – intellectual property *(Note 7)*	444,840	
TOTAL ASSETS	$136,716,874	$ 42,600,713
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 347,701	$ 486,207
Accrued payroll expenses	776,694	384,694
Construction payable	3,184,478	2,147,135
Accrued interest	227,055	83,762
Deferred revenue	30,395	
Refundable advance	50,000	
Lease liabilities – operating *(Note 4)*	1,274,290	745,107
Current portion of bonds and notes payable *(Note 8)*	691,952	247,926
Total current liabilities	6,582,565	4,094,831
Lease liabilities *(Note 4)*	416,621	805,006
Bonds and notes payable, net *(Note 8)*	115,185,092	24,155,229
Total liabilities	122,184,278	29,055,066
Commitments *(Notes 10 and 11)*		
Net assets:		
Without donor restrictions	8,549,014	2,591,527
With donor restrictions *(Note 9)*	5,983,582	10,954,120
Total net assets	14,532,596	13,545,647
TOTAL LIABILITIES AND NET ASSETS	$136,716,874	$ 42,600,713

See accompanying notes to financial statements.

Valor Texas Education Foundation
(dba Valor Public Schools)

Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants *(Note 10)*		$ 20,892,486	$ 20,892,486
Other contributions	$ 1,004,234	3,601,700	4,605,934
Program service fees	1,036,026		1,036,026
Total revenue	2,040,260	24,494,186	26,534,446
Net assets released from restrictions:			
Capital expenditures	6,626,387	(6,626,387)	
Program expenditures	22,838,337	(22,838,337)	
Total	31,504,984	(4,970,538)	26,534,446
EXPENSES:			
Program expenses:			
Instructional program	20,811,833		20,811,833
Auxiliary services	2,197,966		2,197,966
Total program expenses	23,009,799		23,009,799
Supporting activities:			
Management and general	2,117,383		2,117,383
Fundraising	420,315		420,315
Total expenses	25,547,497		25,547,497
CHANGES IN NET ASSETS	5,957,487	(4,970,538)	986,949
Net assets, beginning of year	2,591,527	10,954,120	13,545,647
Net assets, end of year	$ 8,549,014	$ 5,983,582	$ 14,532,596

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 RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants *(Note 10)*		$ 14,130,827	$ 14,130,827
Other contributions	$ 777,252	6,315,524	7,092,776
Program service fees	417,106		417,106
Total revenue	1,194,358	20,446,351	21,640,709
Net assets released from restrictions:			
Program expenditures	12,955,331	(12,955,331)	
Total	14,149,689	7,491,020	21,640,709
EXPENSES:			
Program expenses:			
Instructional program	11,818,208		11,818,208
Auxiliary services	1,304,210		1,304,210
Total program expenses	13,122,418		13,122,418
Supporting activities:			
Management and general	999,027		999,027
Fundraising	290,016		290,016
Total expenses	14,411,461		14,411,461
CHANGES IN NET ASSETS	(261,772)	7,491,020	7,229,248
Net assets, beginning of year	2,853,299	3,463,100	6,316,399
Net assets, end of year	$ 2,591,527	$ 10,954,120	$ 13,545,647

See accompanying notes to financial statements.

Valor Texas Education Foundation
(dba Valor Public Schools)

Statements of Functional Expenses for the years ended June 30, 2023 and 2022

	PROGRAM EXPENSES	MANAGEMENT AND GENERAL	FUNDRAISING	2023 TOTAL EXPENSES
Payroll and related benefits	$ 12,140,172	$ 653,977	$ 329,344	$ 13,123,493
Professional fees and contract labor	2,850,331	849,549	9,864	3,709,744
Supplies and materials	2,514,382	76,828	61,023	2,652,233
Interest and amortization of debt issuance costs	1,929,268	82,899	4,841	2,017,008
Rent	1,145,203	41,728	5,807	1,192,738
Depreciation	983,597	42,007	2,453	1,028,057
Travel	473,107	136,989	2,120	612,216
Utilities	438,143	18,827	1,099	458,069
Food	302,846			302,846
Insurance	135,027	36,157	339	171,523
Dues, memberships and subscriptions	34,830	20,194		55,024
Other	62,893	158,228	3,425	224,546
Total expenses	$ 23,009,799	$ 2,117,383	$ 420,315	$ 25,547,497

	PROGRAM EXPENSES	MANAGEMENT AND GENERAL	FUNDRAISING	2022 TOTAL EXPENSES
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
Interest and amortization of debt issuance costs	591,348			591,348
Rent	908,051	33,463		941,514
Depreciation	339,206	14,133		353,339
Travel	283,711	75,957		359,668
Utilities	282,738	11,781		294,519
Food	381,958			381,958
Insurance	78,214	3,258		81,472
Dues, memberships and subscriptions	18,103	16,112		34,215
Other	42,520	104,402	30,056	176,978
Total expenses	$ 13,122,418	$ 999,027	$ 290,016	$ 14,411,461

See accompanying notes to financial statements.

Valor Texas Education Foundation
(dba Valor Public Schools)

Statements of Cash Flows for the years ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 986,949	$ 7,229,248
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Prior period adjustment due to change in accounting principle		(23,760)
Contributions restricted for capital projects	(3,480,830)	(4,615,524)
Forgiveness of loan		(1,700,000)
Depreciation	1,028,057	353,339
Amortization of debt issuance costs	333,927	112,166
Amortization of right-of-use assets	806,482	35,108
Changes in operating assets and liabilities:		
Government grants receivable	(1,070,189)	(459,891)
Prepaid expenses and other receivables	(90,375)	(317,038)
Accounts payable and accrued expenses and interest	396,787	322,628
Deferred revenue and refundable advance	80,395	
Lease liabilities	(713,480)	
Net cash provided (used) by operating activities	(1,722,277)	936,276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment of bond proceeds	(51,617,610)	
Purchase of property	(10,820,795)	(510,490)
Purchase of intangible asset – intellectual property	(444,840)	
Net cash used by investing activities	(62,883,245)	(510,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contribution restricted for capital projects	3,897,430	3,740,326
Proceeds from bonds and notes payable	61,965,079	
Principal repayments of bonds and notes payable	(937,078)	(1,736,476)
Capitalized debt issuance costs	(188,700)	
Net cash provided by financing activities	64,736,731	2,003,850
NET CHANGE IN CASH	131,209	2,429,636
Cash, beginning of year	4,982,264	2,552,628
Cash, end of year	$ 5,113,473	$ 4,982,264

Supplemental disclosure of cash flow information:

Purchase of property funded by bonds and notes payable	$30,402,670	$14,659,334
Operating lease right-of-use assets financed by new lease liabilities	$899,227	$1,550,113
Interest paid	$1,573,377	$737,792
Debt retired with proceeds of bonds and notes payable	$17,701,421	
Debt issuance costs paid with proceeds of bonds and notes payable	$2,458,243	

See accompanying notes to financial statements.

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 three schools located in and near Austin, Texas and has approximately 2,200 students from kindergarten through 12th grade for the 2022-2023 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, 2023 and 2022, the carrying amount and bank balances of Valor's demand deposits were $5,230,108 and $4,917,979, respectively. Amounts on deposit in excess of the Federal Deposit Insurance Corporation limit are collateralized by security agreements with the banks.

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 bonds and notes payable and are amortized as interest expense over the term of the bonds and 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 2023, approximately 68% of other contributions recognized is from two donors. During 2022, approximately 64% of other contributions recognized is from one donor.

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 resulting from other program fees at June 30, 2023, 2022 or 2021. Contract liabilities related to program fees are $30,395 at June 30, 2023. There were no contract liabilities at June 30, 2022 or 2021.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. 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 – 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:

	2023	2022
Financial assets:		
Cash	$ 5,113,473	$ 4,982,264
Government grants receivable	3,524,763	2,454,574
Other receivables	254,211	134,074
Contributions receivable restricted for capital projects, net	458,598	875,198
Bond and note proceeds held in trust	51,617,610	
Total financial assets	60,968,655	8,446,110
Less financial assets not available for general expenditure:		
Bond and note proceeds held in trust	(51,617,610)	
Contributions receivable restricted for capital projects, net	(458,598)	(875,198)
Total financial assets available for general expenditure	$ 8,892,447	$ 7,570,912

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 3 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are as follows:

	2023	2022
Government agencies	$ 3,524,763	$ 2,454,574
Capital projects	590,372	911,943
Total grants and contributions receivable	4,115,135	3,366,517
Allowance for doubtful accounts	(97,000)	
Discount to net present value at 3.01%	(34,774)	(36,745)
Grants and contributions receivable, net	$ 3,983,361	$ 3,329,772

Grants and contributions receivable at June 30, 2023 are expected to be collected as follows:

2024	$ 3,818,963
2025	296,172
Total grants and contributions receivable	$ 4,115,135

NOTE 4 – OPERATING LEASES

Valor leases office and school facilities space used in its operations that are classified as operating leases. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

Information related to operating leases is as follows:

	2023	2022
Operating ROU assets	$1,562,801	$1,515,005
Operating lease liabilities	$1,690,911	$1,550,113
Lease cost associated with operating leases is as follows:		
Fixed rent expense	$916,225	$798,811
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$823,223	$787,462
Non-cash investing and financing liabilities:		
ROU assets financed by new lease liabilities	$899,227	$1,550,113

Future payments due under operating lease liabilities as of June 30, 2023 are as follows:

2024	$ 1,331,844
2025	427,410
Total undiscounted cash flows	1,759,254
Less discount to present value	(68,343)
Total minimum lease payments	$ 1,690,911

As of June 30, 2023, the remaining weighted-average lease term for operating leases is 18 months. The weighted-average discount rate associated with operating leases as of June 30, 2023 is 4.00%.

NOTE 5 – PROPERTY

Property is comprised of the following:

	2023	2022
Land and improvements	$ 19,391,747	$ 4,073,175
Buildings and improvements	30,509,457	10,265,964
Equipment	88,608	34,011
Construction in progress	25,288,285	18,746,148
Total property, at cost	75,278,097	33,119,298
Accumulated depreciation	(1,717,718)	(689,661)
Property, net	$ 73,560,379	$ 32,429,637

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2023 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond proceeds held in trust:				
U. S. Treasury bills and notes		$ 32,450,483		$ 32,450,483
Money market mutual funds	$ 16,718,437			16,718,437
U. S. Government debt		2,448,690		2,448,690
Total assets measured at fair value	$ 16,718,437	$ 34,899,173	$ 0	$ 51,617,610

Valuation methods used for assets measured at fair value are as follows:

- *U. S. Treasury bills and notes* and *U. S. Government debt* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Mutual funds* are valued at the reported net asset value of shares held.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Valor believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 7 – INTANGIBLE ASSET AND RELATED PARTY TRANSACTION

Valor previously operated under an intellectual property (IP) licensing agreement negotiated by the Valor Board of Directors for intellectual property (Licensing Agreement) owned by Kingfisher Education, LLC (Kingfisher), a related party under Texas law. The licensed IP covered in the Licensing Agreement included: curriculum, advertising and marketing plans and strategies; logos and designs; website maps and domain names; student interest lists; recruiting and hiring strategies and plans; grant applications and proposals; instructional models and teaching guides; Licensed Marks; and other proprietary information, including any derivative works of the foregoing.

In 2019, Valor secured a third-party valuation of the IP from BKD, LLC, to ensure that the fees negotiated and paid by Valor to Kingfisher under the Licensing Agreement were fair, reasonable, and not excessive under IRS standards. BKD, LLC provided a fair market value of the licensed IP of $732,000 as of February 28, 2019, using an “asset approach” of the AICPA’s Statement on Standards for Valuation Services No. 1 and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. BKD, LLC used the cost to recreate method, a replacement cost approach under the asset approach methodology, to provide an appropriate indication of value for the IP on a controlling, nonmarketable interest basis.

The term of the Licensing Agreement was set to expire on May 12, 2023, but would auto-renew for six-month terms thereafter. Valor paid fees to Kingfisher under the Licensing Agreement, which totaled $287,160, including $128,370 in the school year 2022-2023.

On May 19, 2023, Kingfisher agreed to sell, assign, transfer, convey, set over, and deliver to Valor all of the licensed IP, including derivative works and all other rights pertaining to the IP for consideration of $444,840 paid on that same date. Valor has determined that the IP has an indefinite useful life but will review its value for possible impairment annually.

NOTE 8 – BONDS AND NOTES PAYABLE

In 2023, Valor entered into a Master Trust Indenture (the MTI) for the purpose of issuing debt. Under the MTI, Valor has the ability to issue additional debt on a parity basis. The MTI is secured by a first lien on Valor’s revenue, as well as on real property of Valor related to the Valor South Austin, Valor Leander, and Valor San Antonio Campuses (the participating campuses). Valor is required to maintain 1.2 times debt coverage at the end of each fiscal year while the MTI debt is still outstanding. All bonds and the Equitable Facilities Fund note held by Valor exist under, and are subject to, the MTI.

Bonds payable at June 30, 2023 consist of the following:

	OUTSTANDING BALANCE	DISCOUNT	ISSUANCE COSTS	TOTAL
Series 2023A	$ 61,010,000	$ (1,470,998)	$ (1,122,495)	$ 58,416,507
Series 2023B	615,000		(184,626)	430,374
Long-term bonds payable, net	$ 61,625,000	$ (1,470,998)	$ (1,307,121)	$ 58,846,881

Series 2023A – $61,010,000 Education Revenue Bonds issued by the Clifton Higher Education Finance Corporation on June 21, 2023. The bonds bear interest at rates ranging from 5.50% to 6.25% and interest payments are due each December 15th and June 15th, commencing on December 15, 2023, while principal is due annually commencing on June 15, 2025, until maturity. Maturity dates range from June 15, 2033 to June 15, 2053. The proceeds were used to retire short-term debt and are also being used to fund the acquisition, construction, renovation, expansion and/or equipping of the Valor South Austin and Valor Leander Campuses. The bonds are secured by pledged revenue, future operating revenue, and real property under the MTI.

Series 2023B – $615,000 Taxable Education Revenue Bond issued by the Clifton Higher Education Finance Corporation on June 21, 2023. The bond bears an interest rate of 7.00% and interest and principal payments are due each December 15th and June 15th, commencing on December 15, 2023, until maturity. The maturity date is June 15, 2025. The proceeds are being used to fund the acquisition, construction, renovation, expansion and/or equipping of the Valor South Austin and Valor Leander campuses. The bond is secured by pledged revenue, future operating revenue, and real property, under the MTI.

The bonds require Valor to maintain certain financial ratios and to meet other covenants over the life of the bonds.

Notes payable consist of the following:

	2023	2022
Note payable of $24,800,000 to Equitable Facilities Fund (EFF) dated May 24, 2023, net of unamortized debt issuance costs of $778,658 at June 30, 2023. The note bears interest at 4.50%, which is payable annually until May 1, 2048. The proceeds will be used to fund capital project costs for the Valor San Antonio Campus. The note is secured under the MTI.	$ 24,021,342	
A $16,413,000 loan agreement with Vectra Bank. The proceeds were 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.	16,413,000	$ 11,933,399
Promissory note payable of up to $35,944,052 to Schola Building Fund LLC dated December 23, 2022, net of unamortized debt issuance costs of $381,067 at June 30, 2023. The note bears a variable interest rate, which is payable monthly until maturity on December 23, 2030. The proceeds were used to retire existing debt and will be used to fund capital project costs. The note is secured by Valor North Austin real property.	14,523,656	

A \$3,711,000 loan agreement with Raza Development Fund, net of unamortized debt issuance costs of \$100,939 and \$138,791 at June 30, 2023 and 2022, respectively. The proceeds were 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.	2,072,165	2,034,312
A \$9.8 million loan agreement with a bank, net of unamortized debt issuance costs of \$78,327 at June 30, 2022. The proceeds were used to acquire, construct and renovate the Valor North Austin Campus. The loan bore interest at 4.29% and was secured by real property. In December 2022, the debt was retired.		9,537,115
A \$950,000 loan agreement with a charter school facility financing organization, net of unamortized debt issuance costs of \$37,650 at June 30, 2022. The proceeds were used to acquire, construct and renovate the Valor North Austin Campus. The loan bore interest at 6% and was secured by real property. In December 2022, the debt was retired.		898,329
Total notes payable	\$ 57,030,163	\$ 24,403,155

Capitalized interest on the bonds and notes payable totaled approximately \$51,900 and \$296,000 in 2023 and 2022, respectively. Interest on the bonds and notes payable recognized as expenses totaled approximately \$1,665,000 in 2023 and \$479,000 in 2022. Amortization of debt issuance costs recognized as expenses totaled approximately \$334,000 in 2023 and \$112,000 in 2022.

Maturities of bonds and notes payable are as follows:

	BONDS PAYABLE	NOTES PAYABLE	TOTAL
2024		\$ 691,952	\$ 691,952
2025	\$ 835,000	1,332,747	2,167,747
2026	905,000	18,383,612	19,288,612
2027	955,000	926,708	1,881,708
2028	1,005,000	918,507	1,923,507
Thereafter	57,925,000	36,037,301	93,962,301
Total principal payments due	61,625,000	58,290,827	119,915,827
Unamortized bond discount	(1,470,998)		(1,470,998)
Unamortized debt issuance costs	(1,307,121)	(1,260,664)	(2,567,785)
Total	\$ 58,846,881	\$ 57,030,163	\$115,877,044

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2023	2022
Subject to expenditure for specified purpose:		
Capital projects	$ 3,731,044	$ 6,311,471
Foundation School Program	2,242,159	4,579,331
Child nutrition program	10,379	63,318
Total net assets with donor restrictions	$ 5,983,582	$ 10,954,120

NOTE 10 – GOVERNMENT GRANTS

Valor is a party to contracts with federal, state, and local governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government grants recognized include the following:

	2023	2022
State grants:		
Foundation School Program	$ 19,724,952	$ 12,459,656
Other	2,706	161,760
Total state grants	19,727,658	12,621,416
Federal grants:		
U. S. Department of Education	918,450	835,249
U. S. Department of Agriculture	173,455	467,097
Federal Communications Commission	72,923	164,985
U. S. Department of Health and Human Services		42,080
Total federal grants	1,164,828	1,509,411
Total government grants	$ 20,892,486	$ 14,130,827

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 11 – COMMITMENTS

At June 30, 2023, Valor had outstanding commitments of approximately $21.7 million related to the construction of Valor North Austin Campus (Phase 2), Valor San Antonio Campus, and Valor Leander.

NOTE 12 – 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% in 2023 and 2022 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 non-OASDI payment for all TRS eligible employees of 1.8% in 2023 and 1.7% in 2022. Valor's contributions do not represent more than 5% of TRS' total contributions. For 2023 and 2022, Valor contributed $546,378 and $289,066, 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, 2022 and 2021 were $207.6 billion and $223.2 billion, respectively. Accumulated benefit obligations as of August 31, 2022 and 2021 were $243.6 billion and $227.3 billion, respectively. The plan was 79.0% funded at August 31, 2022 and 79.1% funded at August 31, 2021.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2023, 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 material impact on reported net assets or changes in net assets.

Valor Texas Education Foundation
(dba Valor Public Schools)

Supplemental Statement of Financial Position – Participating Campuses as of June 30, 2023

ASSETS	
Current assets:	
Cash	$ 4,994,009
Government grants receivable	1,240,649
Prepaid expenses and other receivables	131,536
Total current assets	6,366,194
Right-of-use assets	1,535,975
Contributions receivable restricted for capital projects, net	399,741
Reserves and capitalized interest	4,639,300
Bond and note proceeds held in trust	46,978,310
Property, net	32,163,535
TOTAL ASSETS	$ 92,083,055
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	$ 122,406
Accrued payroll expenses	270,259
Construction payable	1,158,886
Accrued interest	114,700
Other current liabilities	64,309
Lease liabilities	1,247,465
Current portion of bonds and notes payable	94,756
Total current liabilities	3,072,781
Lease liabilities	416,621
Bonds and notes payable, net	84,859,247
Unamortized debt issuance costs	(2,085,779)
Total liabilities	86,262,870
Net assets	5,820,185
TOTAL LIABILITIES AND NET ASSETS	$ 92,083,055

Other information:

Non-cash net working capital	$45,677,455
Days' cash	201 days

Valor Texas Education Foundation
(dba Valor Public Schools)

Supplemental Statement of Activities – Participating Campuses for the year ended June 30, 2023

REVENUE:	
State revenues	$ 6,882,710
Federal revenues	513,588
Contributions	3,910,248
Program service fees	338,529
Total revenue	11,645,075
EXPENSES:	
Salaries and benefits	4,554,699
Instructional and student support	1,463,544
Facilities-related expenses	1,289,842
Administrative and other expenses	535,538
Charter management (allocated) expenses	688,271
Parent-student organization expenses	24,804
Interest expense	518,691
Depreciation expense	1,282
Amortization expense	154,693
Total expenses	9,231,364
CHANGES IN NET ASSETS	2,413,711
Net assets, beginning of year	3,406,474
Net assets, end of year	$ 5,820,185

Other information:

Earnings before interest, depreciation and amortization (EBIDA)	$3,088,377
Debt service coverage ratio	5.95x
Debt burden	4.45%
Total cash debt service	$518,691