

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

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

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2020 and 2019	3
Statement of Activities for the year ended June 30, 2020	4
Statement of Activities for the year ended June 30, 2019	5
Statements of Functional Expenses for the years ended June 30, 2020 and 2019	6
Statements of Cash Flows for the years ended June 30, 2020 and 2019	7
Notes to Financial Statements for the years ended June 30, 2020 and 2019	8
Supplementary Information:	
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 <i>Government Auditing Standards</i>	13
Schedule of Findings and Responses for the year ended June 30, 2020	15
Schedules of Expenses for the years ended June 30, 2020 and 2019	16
Schedule of Capital Assets as of June 30, 2020	17
Schedule of Real Property Ownership Interest as of June 30, 2020	18
Schedule of Related Party Transactions as of June 30, 2020	19
Statements of Activities by Function for the years ended June 30, 2020 and 2019	20
Budgetary Comparison Schedule for the year ended June 30, 2020	21
Explanations for Budget Variances for the year ended June 30, 2020 (unaudited)	22

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Valor Texas Education Foundation (dba Valor Public Schools), which comprise the statements of financial position as of June 30, 2020 and 2019 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valor Texas Education Foundation (dba Valor Public Schools) as of June 30, 2020 and 2019 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.

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 21 is presented for purposes of additional analysis as required by the Texas Education Agency 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 on page 22 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the basic financial statements. The explanation for budget variances has 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 it.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020 on our consideration of Valor Texas Education Foundation's (dba Valor Public Schools) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valor Texas Education Foundation's (dba Valor Public Schools) internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valor Public Schools' internal control over financial reporting and compliance.

Blazek & Vetterling

November 2, 2020

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

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash	\$ 1,853,503	\$ 797,857
Government grants receivable	1,011,305	602,117
Prepaid expenses and other receivables	<u>90,162</u>	<u>45,350</u>
Total current assets	2,954,970	1,445,324
Cash restricted for property acquisition		300,000
Other assets	50,000	214,394
Property (<i>Note 4</i>)	<u>12,276,975</u>	<u> </u>
TOTAL ASSETS	<u>\$ 15,281,945</u>	<u>\$ 1,959,718</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 132,151	\$ 102,779
Accrued payroll expenses	165,687	108,803
Construction payable	438,910	
Accrued interest	<u>54,731</u>	<u> </u>
Total current liabilities	791,479	211,582
Notes payable, net (<i>Note 5</i>)	<u>9,868,857</u>	<u> </u>
Total liabilities	<u>10,660,336</u>	<u>211,582</u>
Net assets:		
Without donor restrictions	230,970	332,865
With donor restrictions (<i>Note 6</i>)	<u>4,390,639</u>	<u>1,415,271</u>
Total net assets	<u>4,621,609</u>	<u>1,748,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,281,945</u>	<u>\$ 1,959,718</u>

See accompanying notes to financial statements.

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

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Government grants <i>(Note 7)</i>		\$ 5,176,237	\$ 5,176,237
Contributions	\$ 226,737	2,480,000	2,706,737
Program service fees	<u>134,135</u>	<u> </u>	<u>134,135</u>
Total revenue	360,872	7,656,237	8,017,109
Net assets released from restrictions:			
Program expenditures	<u>4,680,869</u>	<u>(4,680,869)</u>	<u> </u>
Total	<u>5,041,741</u>	<u>2,975,368</u>	<u>8,017,109</u>
EXPENSES:			
Program expenses:			
Instructional program	4,386,127		4,386,127
Auxiliary services	<u>316,039</u>		<u>316,039</u>
Total program expenses	4,702,166		4,702,166
Supporting activities:			
Management and general	386,843		386,843
Fundraising	<u>54,627</u>		<u>54,627</u>
Total expenses	<u>5,143,636</u>		<u>5,143,636</u>
CHANGES IN NET ASSETS	(101,895)	2,975,368	2,873,473
Net assets, beginning of year	<u>332,865</u>	<u>1,415,271</u>	<u>1,748,136</u>
Net assets, end of year	<u>\$ 230,970</u>	<u>\$ 4,390,639</u>	<u>\$ 4,621,609</u>

See accompanying notes to financial statements.

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

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Government grants <i>(Note 7)</i>		\$ 4,221,607	\$ 4,221,607
Contributions	\$ 448,987	500,000	948,987
Program service fees	<u>146,845</u>	<u> </u>	<u>146,845</u>
Total revenue	595,832	4,721,607	5,317,439
Net assets released from restrictions:			
Program expenditures	<u>3,331,336</u>	<u>(3,331,336)</u>	<u> </u>
Total	<u>3,927,168</u>	<u>1,390,271</u>	<u>5,317,439</u>
EXPENSES:			
Program expenses:			
Instructional program	3,369,138		3,369,138
Auxiliary services	<u>243,014</u>		<u>243,014</u>
Total program expenses	3,612,152		3,612,152
Supporting activities:			
Management and general	365,597		365,597
Fundraising	<u>38,122</u>		<u>38,122</u>
Total expenses	<u>4,015,871</u>		<u>4,015,871</u>
CHANGES IN NET ASSETS	(88,703)	1,390,271	1,301,568
Net assets, beginning of year	<u>421,568</u>	<u>25,000</u>	<u>446,568</u>
Net assets, end of year	<u>\$ 332,865</u>	<u>\$ 1,415,271</u>	<u>\$ 1,748,136</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, 2020 and 2019

	PROGRAM EXPENSES	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL EXPENSES
Payroll and related benefits	\$ 2,785,807	\$ 116,360	\$ 39,140	\$ 2,941,307
Professional fees and contract labor	505,155	181,782	1,103	688,040
Rent	573,643	28,485	492	602,620
Supplies and materials	535,437	4,801	8,196	548,434
Utilities	118,072	6,214		124,286
Travel	44,667	20,016		64,683
Food	58,124			58,124
Insurance	37,667	1,982		39,649
Dues, memberships and subscriptions	9,092	8,344	660	18,096
Other	<u>34,502</u>	<u>18,859</u>	<u>5,036</u>	<u>58,397</u>
Total expenses	<u>\$ 4,702,166</u>	<u>\$ 386,843</u>	<u>\$ 54,627</u>	<u>\$ 5,143,636</u>

	PROGRAM EXPENSES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL EXPENSES
Payroll and related benefits	\$ 1,862,564	\$ 166,245	\$ 32,217	\$ 2,061,026
Professional fees and contract labor	403,660	139,970	925	544,555
Rent	542,343	28,468	120	570,931
Supplies and materials	574,166	7,651	3,193	585,010
Utilities	100,831	5,307		106,138
Travel	16,843	7,358	868	25,069
Food	78,463	502		78,965
Insurance	27,317	1,438		28,755
Dues, memberships and subscriptions	5,755	2,100		7,855
Other	<u>210</u>	<u>6,558</u>	<u>799</u>	<u>7,567</u>
Total expenses	<u>\$ 3,612,152</u>	<u>\$ 365,597</u>	<u>\$ 38,122</u>	<u>\$ 4,015,871</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,873,473	\$ 1,301,568
Contribution restricted for property acquisition	(1,420,000)	(500,000)
Amortization of debt issuance costs	23,195	
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Government grants receivable	(409,188)	(503,391)
Prepaid expenses and other receivables	(44,812)	315
Other assets	164,394	(214,394)
Accounts payable	29,372	65,721
Accrued payroll expenses	56,884	101,326
Accrued interest	54,731	
Net cash provided by operating activities	<u>1,328,049</u>	<u>251,145</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(1,760,450)</u>	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contribution restricted for property acquisition	1,420,000	500,000
Capitalized debt issuance costs	<u>(231,953)</u>	
Net cash provided by financing activities	<u>1,188,047</u>	<u>500,000</u>
NET CHANGE IN CASH	755,646	751,145
Cash, beginning of year	<u>1,097,857</u>	<u>346,712</u>
Cash, end of year	<u>\$ 1,853,503</u>	<u>\$ 1,097,857</u>
<i>Reconciliation of cash balances:</i>		
Cash	\$ 1,853,503	\$ 797,857
Cash restricted for property acquisition		<u>300,000</u>
Total cash	<u>\$ 1,853,503</u>	<u>\$ 1,097,857</u>
<i>Supplemental disclosure of cash flow information:</i>		
Purchase of property funded by notes payable	\$10,077,615	
Interest paid	\$161,559	

See accompanying notes to financial statements.

Valor Texas Education Foundation (dba Valor Public Schools)

Notes to Financial Statements for the years ended June 30, 2020 and 2019

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. The school is located in Austin, Texas and has approximately 530 students from kindergarten through 9th grade for the 2019-2020 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).

Concentration of credit risk – Bank deposits exceed the federally insured limit per depositor per institution.

Government grants 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. At June 30, 2020, all government grants receivable are expected to be collected within one year.

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, if donated, at fair value at the date of gift. Purchases of \$5,000 or more with a useful life of more than one year are capitalized. 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 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.

Grants and 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 2020, approximately 91% of contributions recognized are from one donor. During 2019, approximately 87% of contributions recognized are from two donors.

Program service fees are derived from after-school programs, food service fees and extracurricular programs. Program service fees are recognized at a point in time when the goods or services are provided to the student. All performance obligations related to program service fees are satisfied within the academic year which is contained within the fiscal year. Program service fees are due when the goods and services are provided to the student. There are no contract assets or liabilities resulting from other program fees at June 30, 2020, 2019 or 2018.

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 STANDARDS

Effective July 1, 2019, Valor adopted Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services using a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Simultaneously, Valor adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These ASU’s have been applied on a retrospective basis to the financial statements for the year ended June 30, 2019. Adoption of these standards had no impact on 2019 net assets or changes in net assets.

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>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 1,853,503	\$ 797,857
Government grants receivable	1,011,305	602,117
Other receivables	10,899	
Cash restricted for property acquisition	<u> </u>	<u>300,000</u>
Total financial assets	2,875,707	1,699,974
Less financial assets not available for general expenditure:		
Cash restricted for property acquisition	<u> </u>	<u>(300,000)</u>
Total financial assets available for general expenditure	<u>\$ 2,875,707</u>	<u>\$ 1,399,974</u>

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 – PROPERTY

Property at June 30, 2020 is comprised of the following:

Land	\$ 2,295,873
Buildings and improvements	8,154,947
Construction in progress	<u>1,826,155</u>
Total property	<u>\$ 12,276,975</u>

NOTE 5 – NOTES PAYABLE

Notes payable at June 30, 2020 consist of the following:

In December 2019, Valor entered into a \$9.8 million loan agreement with a bank, net of unamortized debt issuance costs of \$140,988 at June 30, 2020. The proceeds were used to acquire, construct and renovate 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 December 20, 2024. The loan is secured by real property.

\$ 8,986,627

In December 2019, Valor entered into a \$630,000 loan agreement with a charter school facility financing organization, net of unamortized debt issuance costs of \$67,770 at June 30, 2020. In April 2020, the loan increased to \$950,000. The proceeds were used to acquire, construct and renovate Valor North Campus. The loan bears interest at 6%, which is due monthly. Principal is due at maturity on December 20, 2024. The loan is secured by real property.

882,230

Total notes payable, net

\$ 9,868,857

Valor capitalized interest of \$216,290 in 2020.

Maturities of notes payable at June 30, 2020 are as follows:

2022	\$ 184,328
2023	229,944
2024	239,036
2025	<u>9,424,307</u>
Total principal payments due	10,077,615
Unamortized debt issuance costs	<u>(208,758)</u>
Total	<u>\$ 9,868,857</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Property acquisition	\$ 1,920,000	\$ 500,000
Foundation School Program	1,375,639	915,271
Valor North Campus start-up costs	1,040,000	
Other	<u>55,000</u>	<u> </u>
Total net assets with donor restrictions	<u>\$ 4,390,639</u>	<u>\$ 1,415,271</u>

NOTE 7 – GOVERNMENT GRANTS

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

	<u>2020</u>	<u>2019</u>
Foundation School Program	\$ 4,733,710	\$ 3,653,546
U. S. Department of Education	374,082	560,148
Other state funding	38,229	7,913
U. S. Department of Agriculture	<u>30,216</u>	<u> </u>
Total government grants	<u>\$ 5,176,237</u>	<u>\$ 4,221,607</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 8 – MULTIEMPLOYER PENSION PLAN

Valor full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by Valor, but are the liability of the State of Texas. Plan members contributed 7.7% of their annual covered salary in 2020 and 2019. Valor contributes 6.8% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, Valor makes a 1.5% non-OASDI payment for all TRS eligible employees. Valor's contributions do not represent more than 5% of the TRS' total contributions. For 2020 and 2019, Valor contributed \$120,019 and \$71,945, 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, 2019 were \$181.8 billion. Accumulated benefit obligations as of August 31, 2019 were \$209.9 billion. The plan was 76.4% funded at August 31, 2019.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 2, 2020, which is the date that the financial statements were available for issuance. No events were identified that are required to be disclosed or would have material impact on reported net assets or changes in net assets.

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valor Texas Education Foundation (dba Valor Public Schools) (Valor), which comprise the statement of financial position as of June 30, 2020 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 2, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blazek & Vetterling

November 2, 2020

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

Schedule of Findings and Responses for the year ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? yes no

Section II – Financial Statement Findings

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

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

Schedules of Expenses for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
EXPENSES:		
6100 Payroll costs	\$ 2,941,307	\$ 2,061,026
6200 Professional and contracted services	1,414,946	1,221,623
6300 Supplies and materials	606,558	663,974
6400 Other operating costs	157,630	69,248
6500 Interest expense	<u>23,195</u>	<u> </u>
Total expenses	<u>\$ 5,143,636</u>	<u>\$ 4,015,871</u>

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

Schedule of Capital Assets as of June 30, 2020

		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 2,295,873		
1520	Buildings and improvements	8,154,947		
1580	Construction in progress	<u>1,826,155</u>	<u> </u>	<u> </u>
Total capital assets		<u>\$ 12,276,975</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

Schedule of Real Property Ownership Interest as of June 30, 2020

<u>DESCRIPTION</u>	<u>PROPERTY ADDRESS</u>	TOTAL ASSESSED <u>VALUE</u>	<u>OWNERSHIP INTEREST</u>		
			<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
Lot 2 and 3, Block B, Wells Branch Phase U	14200 N. Interstate Hwy. 35, Austin TX, 78728	\$ 8,025,392	\$ 8,025,392		
Total		\$ 8,025,392	\$ 8,025,392	\$ 0	\$ 0

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

Schedule of Related Party Transactions as of June 30, 2020

<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 William	Member of LLC	Financial	IP licensing agreement	Local	Semi-annually	\$ 15,000	
Total							\$ 15,000	\$ 0

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

Statements of Activities by Function for the years ended June 30, 2020 and 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2020	2019
REVENUE:				
Local program revenue:				
5740 Other revenue from local sources	\$ 333,634	\$ 2,480,000	\$ 2,813,634	\$ 1,056,700
5750 Revenue from co-curricular or enterprising services or activities	<u>27,238</u>		<u>27,238</u>	<u>39,132</u>
Total local program revenue	<u>360,872</u>	<u>2,480,000</u>	<u>2,840,872</u>	<u>1,095,832</u>
State program revenue:				
5810 Foundation School Program		4,733,710	4,733,710	3,653,546
5820 State program revenue distributed by Texas Education Agency (TEA)		<u>38,229</u>	<u>38,229</u>	<u>7,913</u>
Total state program revenue		<u>4,771,939</u>	<u>4,771,939</u>	<u>3,661,459</u>
Federal program revenue:				
5920 Federal revenue distributed by TEA		<u>404,298</u>	<u>404,298</u>	<u>560,148</u>
Total federal program revenue		<u>404,298</u>	<u>404,298</u>	<u>560,148</u>
Net assets released from restrictions:				
Program expenditures	<u>4,680,869</u>	<u>(4,680,869)</u>		
Total revenue	<u>5,041,741</u>	<u>2,975,368</u>	<u>8,017,109</u>	<u>5,317,439</u>
EXPENSES:				
11 Instruction	2,545,175		2,545,175	2,096,402
13 Curriculum development	321,604		321,604	42,024
21 Instructional leadership	33,000		33,000	46,750
23 School leadership	685,515		685,515	411,371
33 Health services	47,375		47,375	41,611
35 Food services	66,719		66,719	86,298
36 Extracurricular activities	137,658		137,658	89,590
41 General administration	345,079		345,079	324,061
51 Plant maintenance and operations	793,570		793,570	791,312
52 Security and monitoring services	755		755	3,616
53 Data processing services	40,963		40,963	35,815
61 Community services	48,401		48,401	8,899
71 Debt service	23,195		23,195	
81 Fundraising	<u>54,627</u>		<u>54,627</u>	<u>38,122</u>
Total expenses	<u>5,143,636</u>		<u>5,143,636</u>	<u>4,015,871</u>
CHANGES IN NET ASSETS	(101,895)	2,975,368	2,873,473	1,301,568
Net assets, beginning of year	<u>332,865</u>	<u>1,415,271</u>	<u>1,748,136</u>	<u>446,568</u>
Net assets, end of year	<u>\$ 230,970</u>	<u>\$ 4,390,639</u>	<u>\$ 4,621,609</u>	<u>\$ 1,748,136</u>

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

Budgetary Comparison Schedule for the year ended June 30, 2020

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FROM</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ACTUAL AND FINAL BUDGET</u>	
REVENUE:					
Local program revenue:					
5740	Other revenue from local sources	\$ 3,049,582	\$ 2,849,582	\$ 2,813,634	\$ (35,948)
5750	Revenue from co-curricular or enterprising services or activities	38,550	38,550	27,238	(11,312) (1)
State program revenue:					
5810	Foundation School Program	4,527,434	4,677,434	4,733,710	56,276
5820	State program revenue distributed by TEA			38,229	38,229
Federal program revenue:					
5920	Federal revenue distributed by TEA	<u>373,895</u>	<u>373,895</u>	<u>404,298</u>	<u>30,403</u>
	Total revenue	<u>7,989,461</u>	<u>7,939,461</u>	<u>8,017,109</u>	<u>77,648</u>
EXPENSES:					
11	Instruction	2,701,444	2,551,444	2,545,175	(6,269)
12	Instructional resource and media	5,000	5,000		(5,000) (2)
13	Curriculum development	220,068	345,068	321,604	(23,464)
21	Instructional leadership	63,000	33,000	33,000	
23	School leadership	845,057	715,057	685,515	(29,542)
31	Guidance counseling and evaluation services	8,000	8,000		(8,000) (2)
32	Social work services	5,000	5,000		(5,000) (2)
33	Health services	50,000	50,000	47,375	(2,625)
35	Food services	97,660	67,660	66,719	(941)
36	Extracurricular activities	134,187	144,187	137,658	(6,529)
41	General administration	548,385	348,385	345,079	(3,306)
51	Plant maintenance and operations	830,650	780,650	793,570	12,920
52	Security and monitoring services	15,000	3,000	755	(2,245) (2)
53	Data processing services	32,000	22,000	40,963	18,963 (3)
61	Community services	35,000	50,000	48,401	(1,599)
71	Debt service	649,356	229,356	23,195	(206,161) (4)
81	Fundraising	<u>62,268</u>	<u>62,268</u>	<u>54,627</u>	<u>(7,641) (2)</u>
	Total expenses	<u>6,302,075</u>	<u>5,420,075</u>	<u>5,143,636</u>	<u>(276,439)</u>
CHANGES IN NET ASSETS					
		1,687,386	2,519,386	2,873,473	354,087
	Net assets, beginning of year	<u>1,748,136</u>	<u>1,748,136</u>	<u>1,748,136</u>	<u>0</u>
	Net assets, end of year	<u>\$ 3,435,522</u>	<u>\$ 4,267,522</u>	<u>\$ 4,621,609</u>	<u>\$ 354,087</u>

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

Explanations for Budget Variances for the year ended June 30, 2020 (unaudited)

- (1) The variance in co-curricular enterprising services or activities revenue was due to COVID-19 and Valor beginning to work remotely as of March 2020, which caused a reduction in fiscal year 2020 student food revenues.
 - (2) Valor spent less on instructional resource and media (function 12), guidance, counseling and evaluation services (function 31), social work services (function 32), security and monitoring services (function 52), and fundraising (function 81) than anticipated.
 - (3) The variance in data processing services was due to cabling and network infrastructure costs incurred in fiscal year 2020 at Valor North Campus ahead of its opening in fiscal year 2021.
 - (4) The variance in debt service was due to construction on Valor North Campus still being in process as of year end and fiscal year 2020 interest related to this construction being capitalized rather than incurred as an expense.
-