VALOR COLLEGIATE ACADEMIES

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2017

And Report of Independent Auditor

For the Following Charter Schools:

Valor Collegiate Flagship
Valor Collegiate Voyager

Cherry Bekaert LLP
CPAs & Advisors

VALOR COLLEGIATE ACADEMIES

TABLE OF CONTENTS

VALOR COLLEGIATE ACADEMIES

TABLE OF CONTENTS (Continued)

VALOR COLLEGIATE ACADEMIES
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of June 30, 2017

Officers:
Bob Hannon, President
Justin Testerman, Secretary
Dave Hanson, Treasurer

Executive Staff
Todd Dickson, Chief Executive Officer
Thomas Branch, Chief Operating Officer
Seneca Rosenberg, Chief Academic Officer
Daren Dickson, Chief Culture Officer
Lauren Smith, Chief of Staff

Governance Committee:
Justin Testerman, Chair
Bob Hannon, Voting Member
Michael Harmon, Voting Member
Keaton Osborne, Associate Member
Chris Barbic, Advisory Member
Todd Dickson, Staff Liaison
Lauren Smith, Staff Liaison

Finance Committee:
Dave Hanson, Chair
Bobby Perry, Voting Member
Akele Parnell, Associate Member
Leslie Pack, Associate Member
Eugene Herrera, Advisory Member
Thomas Branch, Staff Liaison

Facilities Committee:
Brooks Smith, Voting Member
Will Carney, Advisory Member
Thomas Branch, Staff Liaison

Academic Performance and Growth:
Sylvia Flowers, Chair
Malika Anderson, Voting Member
Ben Schumacher, Associate Member
Jocelyn Logan-Friend, Advisory Member
Seneca Rosenberg, Staff Liaison
Daren Dickson, Staff Liaison

Development and Community Engagement:
Keith Meacham, Chair
Rascoe Dean, Voting Member
Gatluak Thach, Voting Member
Dave Goetz, Voting Member
Beth Jones, Voting Member
Tara Carney, Associate Member
Matt Beasley, Advisory Member
Ben Baden, Advisory Member
Lauren Smith, Staff Liaison
Kasar Abdulla, Staff Liaison

REPORT OF INDEPENDENT AUDITOR

To the Board of Directors of
Valor Collegiate Academies
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of charter schools comprised of Valor Collegiate Flagship and Valor Collegiate Voyager, collectively Valor Collegiate Academies as of June 30, 2017, and the related notes to the financial statements, which collectively comprise the Valor Collegiate Academies' basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Valor Collegiate Academies as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 – 10 and the schedules of proportionate share of the net pension liability (asset) and the schedules of employer contributions on pages 41 – 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valor Collegiate Academies' basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds,* and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in, all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017, on our consideration of Valor Collegiate Academies' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valor Collegiate Academies' internal control over financial reporting and compliance.

Cherry Bekaert LLP

Nashville, Tennessee
January 3, 2018

VALOR COLLEGIATE ACADEMIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Our discussion and analysis of Valor Collegiate Academies' (herein referred to as the "Organization") annual financial performance provides an overview of the Organization's financial activities for the year ended June 30, 2017. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Organization exceeded its liabilities and deferred inflows of resources by $2,015,627
- Net position decreased $394,609 during the year
- Outlays for new capital assets totaled $4,080,218
- Total revenues of $9,717,838 were comprised of District Funds – 72%, Federal and State Grants – 5%, and Private Contributions/Other Income – 23% for the year ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements, required supplementary information, and other information. The statements are organized so that the reader can understand the Organization as a whole and then proceed to a detailed look at specific financial activities of the Organization.

Reporting the Organization as a Whole

The statement of net position and statement of activities:

In general, users of these financial statements want to know if the Organization is better off or worse off as a result of the period's activities. The statement of net position and statement of activities report information about the Organization as a whole and about the Organization's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current period's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 11.

The statement of net position reports the Organization's net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources). Private sector entities would report retained earnings. The Organization's net position balance at year end represents available resources for future growth. The statement of activities reports the change in net position as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. The statement of activities provides the user a tool to assist in determining the direction of the Organization's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the Organization.

Reporting the Organization's Funds

Fund Financial Statements:

The Organization's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances of governmental funds, begin on page 13. They provide detailed information about the Organization's most significant funds, not the Organization as a whole. Funds are established by the Organization to help manage money for particular purposes and compliance with various grant provisions.

The Organization's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at period-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the Organization as a whole. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages 14 and 16.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The Organization's assets and deferred outflows of resources exceeded the Organization's liabilities and deferred inflows of resources at the close of the year, resulting in net position of $2,015,627.

VALOR COLLEGIATE ACADEMIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2017

As of June 30, 2017, the Organization had invested $17,697,977 in capital assets. This investment includes buildings and improvements, instructional and support furniture, instructional computers for teachers, student computer labs, and maintenance equipment for instructional purposes. The Organization expects additional capital asset investments in the 2017-2018 school year as student enrollment increases at each grade level. With the additional students, there will be continued requirements for furniture, computers and equipment.

The Organization has purchased its facilities through the issuance of long-term debt. The Organization had $15,990,486 of outstanding debt at June 30, 2017.

Additional information on capital assets is located in the notes to the financial statements.

A summary of the Organization's net position is as follows as of June 30:

	2017	2016
Current assets	$ 1,893,935	$ 1,463,037
Restricted assets	509,878	4,205,073
Capital assets, net	16,475,259	13,209,982
Net pension assets	22,401	3,525
Total assets	18,901,473	18,881,617
Deferred outflows of resources	363,337	420,432
Current liabilities	703,384	531,297
Long-term debt	15,990,486	16,157,418
Net pension liability	249,771	95,476
Total liabilities	16,943,641	16,784,191
Deferred inflows of resources	305,542	107,622
Net position:		
Net investment in capital assets	997,960	1,347,617
Restricted	732,279	4,205,073
Unrestricted	285,388	(3,142,454)
Total net position	$ 2,015,627	$ 2,410,236

Changes in Net Position

The Organization's total net position decreased $394,609 during the year ended June 30, 2017. The decrease in the Organization's net position indicates that the Organization had more outgoing expenses than incoming revenues during the period. The Organization budgeted an increase of approximately $500,000 for the period. Total revenues generated from government grants, governmental funds, foundation grants and other sources were $9,717,838 during the year ended June 30, 2017.

A schedule of the Organization's revenue and expenses is as follows for the years ended June 30:

	2017	2016
Revenues:		
District funding	$ 7,031,372	$ 4,700,005
Contributions	2,109,322	1,554,846
Federal and state funding	464,159	352,819
Other	112,985	73,935
	9,717,838	6,681,605
Expenses:		
Salaries, wages and benefits	5,855,343	3,399,393
Contracted services	1,968,265	1,207,596
Depreciation	814,941	315,198
Debt service	649,130	287,033
Supplies and materials	637,183	336,100
Other	105,523	17,871
Insurance	53,102	51,288
Equipment and maintenance	28,960	1,595
	10,112,447	5,616,074
Change in net position	$ (394,609)	$ 1,065,531

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

The Organization's funds, as presented on the balance sheet on page 13 reported a fund balance of $1,700,429. The Organization's funds are reported as special revenue funds representing the operations of the Organization. Due to the different basis of accounting, there is a difference between the amounts reported under the Organization's funds and the amounts reported as school wide. For the June 30, 2017 year end, the difference consists of capital assets, net pension asset, net pension liability, long-term debt, deferred inflows of resources, and deferred outflows of resources which are not reported in the Organization's funds.

ORGANIZATION ACTIVITIES

The Organization exists to prepare a diverse student population for success in college and to empower each other to live inspired, purposeful lives. It offers a rigorous, college preparatory program in which students of all previous preparation levels will find success. Significant time and resources are invested into programs that develop scholars' social-emotional skills, character strengths, and physical health.

The Organization believes that its diversity makes it strong; that it enrolls families, not just scholars; that everyone deserves the opportunity to fulfill their potential and captain their destinies; that our humanity is found through relationships with others; that greatness comes from having a growth mindset and that effort, more than talent, matters in the end; that social justice is everyone's responsibility; that excellence is a habit developed through perfect practice; that great schools are fueled by joy; that everything can be done with kindness; and that it takes valor to be the best you can be.

What Makes Valor Unique?

High-quality academics, with results among the top in the state. In Valor's founding year, our scholars ranked #1 in 5th grade achievement of all middle schools in Nashville. Valor was also the only middle school in the state to be in the top 1% in both growth and achievement scores. Though Tennessee did not have state testing the following year, data from a nationally normed test showed both Valor schools in the top 8% of the 60 elite national charter school networks in the country in both growth and achievement. As a network, Valor ranked in the top 5 in the State for academic growth, and in the top 10 in the State for academic achievement for the 2016-2017 school year.

Balanced approach to education. We are passionate about creating an environment that sees our foundational responsibility as being far bigger than academics. We've created a development model, the Valor Compass, which helps to guide scholars to have a Noble Purpose, a Sharp Mind, a Big Heart, and Aligned Actions. Scholars are guided by a teacher through phases of the compass within single-gendered, heterogeneous, small "pride groups" of boys or girls.

An economically and culturally diverse learning environment. Valor was founded upon the belief that having a truly diverse community of families and learners in a thoughtfully designed model allows for everyone to have a higher quality and more meaningful experience. Our current scholar population is approximately 40% white, 20% Middle Eastern, 17% Hispanic and Latino, 15% African American, and 8% Asian, with approximately half of our scholars coming from lower income and half from middle income homes.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2018 enrollment is projected to be 500 at each middle school (grades 5-8) for a total of 1,000 students across the network. The Organization anticipates an increase in total Basic Education Program ("BEP") funding as a result of increased enrollment. As the Organization continues to grow, it is expected that added administrative staff, teachers, and other key personnel within the Organization will continue to provide the support necessary to accomplish our mission.

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding, and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the Organization's finances and to demonstrate the Organization's accountability of the money it receives. If you have questions about this report or need additional financial information, contact the Organization's Chief Operating Officer, Thomas Branch, at Valor Collegiate Academies, 4527 Nolensville Pike, Nashville, TN 37211, by telephone at (615) 823-7982 or email at tbranch@valorcollegiate.org.

VALOR COLLEGIATE ACADEMIES
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 1,888,922
Other current assets	5,013
Restricted cash	509,878
Capital assets, net	16,475,259
Net pension asset	22,401
Total assets	18,901,473
Deferred outflows of resources:	
Deferred outflows related to pension	363,337
Total deferred outflows of resources	363,337
Liabilities:	
Accounts payable	555,384
Accrued expenses	148,000
Long-term debt, due within one year	314,113
Long-term debt, due in more than one year	15,676,373
Net pension liability	249,771
Total liabilities	16,943,641
Deferred inflows of resources:	
Deferred inflows related to pension	305,542
Total deferred inflows of resources	305,542
Net position:	
Net investment in capital assets	997,960
Restricted	732,279
Unrestricted	285,388
Total net position	$ 2,015,627

See accompanying notes

VALOR COLLEGIATE ACADEMIES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

		Functions		
	Total	**Student Instruction and Services**	**Administration**	**Fundraising**
Expenses:				
Salaries, wages and benefits	$ 5,855,343	$ 4,585,776	$ 1,140,915	$ 128,652
Contracted services	1,968,265	1,567,662	399,551	1,052
Depreciation	814,941	814,941	-	-
Debt service	649,130	649,130	-	-
Supplies and materials	637,183	582,210	54,973	-
Other	105,523	14,618	90,905	-
Insurance	53,102	10,142	42,700	260
Equipment and maintenance	28,960	28,960	-	-
Total expenses	10,112,447	8,253,439	1,729,044	129,964
Program revenues:				
Program specific operating grants and contributions	322,159	322,159	-	-
Capital grants and contributions	142,000	142,000	-	-
Charges for services	50,516	50,516	-	-
Net program expenses	9,597,772	$ 7,738,764	$ 1,729,044	$ 129,964
General revenues:				
Contributions	2,109,322			
District funding	7,031,372			
Other income	62,469			
Total general revenues	9,203,163			
Change in net position	(394,609)			
Net position - beginning of year	2,410,236			
Net position - end of year	$ 2,015,627			

See accompanying notes

VALOR COLLEGIATE ACADEMIES
BALANCE SHEET
June 30, 2017

	Valor Collegiate Flagship	Valor Collegiate Voyager	Total Governmental Funds
Assets			
Assets:			
Cash and cash equivalents	$ 1,313,178	$ 575,744	$ 1,888,922
Due from other funds	283,418	-	283,418
Other current assets	2,507	2,506	5,013
Restricted cash	195,770	314,108	509,878
Total assets	$ 1,794,873	$ 892,358	$ 2,687,231
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 302,477	$ 252,907	$ 555,384
Accrued expenses	74,000	74,000	148,000
Due to other funds	-	283,418	283,418
Total liabilities	376,477	610,325	986,802
Fund balances:			
Nonspendable	2,507	2,506	5,013
Restricted	295,770	414,108	709,878
Unassigned	1,120,119	(134,581)	985,538
Total fund balances	1,418,396	282,033	1,700,429
Total liabilities and fund balances	$ 1,794,873	$ 892,358	$ 2,687,231

See accompanying notes

VALOR COLLEGIATE ACADEMIES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2017

Total Governmental Fund Balances	$ 1,700,429
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet.	16,475,259
Net pension assets are not current financial resources and are therefore not reported in the governmental fund balance sheet.	22,401
Net pension liabilities are not current financial resources and are therefore not reported in the governmental fund balance sheet.	(249,771)
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:	
Deferred outflows of resources related to pensions	363,337
Deferred inflows of resources related to pensions	(305,542)
Long-term debt reported in governmental activities is not reported in the governmental fund balance sheet.	(15,990,486)
Net Position of Governmental Activities	$ 2,015,627

VALOR COLLEGIATE ACADEMIES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Valor Collegiate Flagship	Valor Collegiate Voyager	Total Governmental Funds
Program revenues:			
Federal and state grants	$ 215,185	$ 248,974	$ 464,159
Charges for services	25,258	25,258	50,516
General revenues:			
Contributions	954,661	1,154,661	2,109,322
District funding	3,514,445	3,516,927	7,031,372
Other income	31,235	31,234	62,469
Total revenues	4,740,784	4,977,054	9,717,838
Expenditures:			
Current:			
Student instruction and services	3,236,433	3,248,397	6,484,830
Administration	782,877	868,081	1,650,958
Fundraising	61,191	60,963	122,154
Debt service:			
Principal	93,737	73,195	166,932
Interest	176,396	472,734	649,130
Capital outlays	338,476	3,741,742	4,080,218
Total expenditures	4,689,110	8,465,112	13,154,222
Change in fund balances	51,674	(3,488,058)	(3,436,384)
Fund balances - beginning of year	1,366,722	3,770,091	5,136,813
Fund balances - end of year	$ 1,418,396	$ 282,033	$ 1,700,429

See accompanying notes

VALOR COLLEGIATE ACADEMIES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net Change in Fund Balances - Total	
Governmental Funds	$ (3,436,384)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays, reported as expenditures in governmental funds are shown as capital assets in the statement of net position	4,080,218
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	(814,941)
Principal payments on long-term debt is reported as an expenditure in governmental funds, but the payments reduce long-term liabilities in the statement of net position	166,932
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Change in net pension asset	22,401
Change in net pension liability	(157,820)
Change in deferred outflows related to pensions	(57,095)
Change in deferred inflows related to pensions	(197,920)
Change in Net Position of Governmental Activities	$ (394,609)

See accompanying notes

VALOR COLLEGIATE ACADEMIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – REPORTING ENTITY

These financial statements present the charter schools managed by Valor Collegiate Academies, a Charter Management Organization. For Tennessee reporting purposes, a Charter School Management Organization ("CMO") is defined as a nonprofit entity that operates multiple charter schools at least one of which is in Tennessee. The charter schools included in the accompanying financial statements are Valor Collegiate Flagship ("Flagship") and Valor Collegiate Voyager ("Voyager").

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and procedures followed by Valor Collegiate Academies (the "Organization") are as follows:

Organization

The Organization currently operates two charter schools within Davidson County, Tennessee, Flagship and Voyager. Pursuant to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the "Act"), each school has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education.

The Organization entered into a Charter School Agreement with the Metropolitan Nashville Board of Education effective July 1, 2014, to operate Flagship as a charter school in Nashville, Tennessee. The school began classes in August 2014 and currently enrolls students in grades five through seven. The Organization plans to add a grade each year through 8th grade. Per Flagship's charter agreement, enrollment in the school is open to any student within the Metropolitan Nashville Public Schools ("MNPS") System who resides in Davidson County.

The Organization entered into a Charter School Agreement with the Metropolitan Nashville Board of Education effective January 16, 2015, to operate Voyager as a charter school in Nashville, Tennessee. The school began classes in August 2015 and currently enrolls students in grades five through seven. The Organization plans to add a grade each year through 8th grade. Per Voyager's charter agreement, enrollment in the school is open to any student within the MNPS System who resides in Davidson County.

Basis of Accounting

The Organization's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Organization, in accordance with governmental accounting standards, is considered a special purpose governmental entity that is engaged in both governmental and business type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

Basic Financial Statements

The Organization's basic financial statements include both government-wide (reporting the Organization as a whole) and fund financial statements (reporting the Organization's major funds). The Organization's primary activities are all considered to be governmental activities and are classified as such in the government-wide and fund financial statements.

The government-wide financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenses are recognized when the related liability is incurred.

Government-wide Financial Statements

The government-wide financial statements focus on the sustainability of the Organization as an entity and the change in the Organization's net position resulting from the current year's activities.

In the government-wide statement of net position, activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of net position presents the financial condition of the Organization at period-end.

Governmental accounting standards require the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investments in capital assets. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – this component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted assets are available for use, it is the Organization's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-wide statement of activities reports both the gross and net cost of the Organization's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district Basic Education Program funding and donations to the general fund). The statement of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The Organization allocated indirect cost between functions.

Fund Financial Statements

The financial transactions of the Organization are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balances, revenues and expenses.

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. Governmental accounting standards set forth minimum criteria for the determination of major funds. The Organization's only major fund is the general fund, which is also the Organization's primary operating fund. It accounts for all financial resources of the Organization, except those required to be accounted for in another fund. All of the Organization's financial resources were accounted for in the general fund as of June 30, 2017.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Organization follows governmental accounting standards that classify governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the Organization's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the Organization's policy to spend funds in the following order, committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable – This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

Restricted – This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – This classification consists of fund balances that can only be used for specific purposes established by formal action of the Organization's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts. There were no committed fund balances at June 30, 2017.

Assigned – This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the Organization intends to use for specific purposes are also classified as assigned. The Organization gives the authority to assign amounts to specific purposes to the Organization's Founder and CEO and personnel under the supervision of the Founder and CEO tasked with financial recording responsibilities. There were no assigned fund balances at June 30, 2017.

Unassigned – This classification consists of all fund balances in the general fund that are not reported as nonspendable, restricted, committed or assigned.

Functional Allocation of Expenses

The costs of providing various programs and other services have been reported on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs, general and administrative, and fundraising, based on estimates made by management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Organization considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of June 30, 2017, the Organization's cash and cash equivalents were deposited in one financial institution. The Organization routinely maintains deposit balances in excess of federally insured limits with certain financial institutions.

Receivables

Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts. There were no receivables as of June 30, 2017.

Capital Assets

Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures which materially extend the economic lives, change capacities, or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The Organization follows the practice of capitalizing all expenditures for property and equipment items over $5,000.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Organization reports the following deferred outflow of resources related to the pensions: Contributions made subsequent to the pension measurement date, difference between expected and actual experience, difference between projected and actual investment earnings, and changes in proportionate share of the net pension liability.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Organization also reports the following deferred inflow of resources related to pensions: differences between expected and actual experience and differences between projected and actual investment earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants

The Organization received Federal financial assistance through state agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Organization as of June 30, 2017.

Income Taxes

The Organization is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes.

Pensions

The Academy participates in the following three defined benefit pension plans:

Certified Employees – Tennessee Consolidated Retirement System ("TCRS") Collectively the ("TCRS Plans")

- Teacher Legacy Pension Plan
- Teacher Retirement Plan

Non-Certified Employees – Metropolitan Government of Nashville and Davidson County, Tennessee ("Metropolitan Government")

- Metro Pension Plan of the Metropolitan Employees Benefit Trust (the "Metro Plan")

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS and the Metropolitan Government. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Legacy Pension Plan, the Teacher Retirement Plan, and the Metro Pension Plan. Investments are reported at fair value.

VALOR COLLEGIATE ACADEMIES
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Comparison Statement

The Organization is not required to adopt a legally binding budget; therefore no budgetary comparison statement of the General Fund has been presented.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Subsequent Events

The Organization has evaluated subsequent events for potential recognition and disclosure through January 3, 2018, the date the financial statements were available to be issued.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following:

	June 30, 2016	Additions	Deletions	June 30, 2017
Buildings and improvements	$ 6,323,102	$ 7,071,093	$ -	$ 13,394,195
Furniture and fixtures	268,717	-	-	268,717
Computer equipment	297,377	125,091	-	422,468
Land	3,281,000	-	-	3,281,000
Construction in progress	3,447,563	-	(3,115,966)	331,597
	13,617,759	7,196,184	(3,115,966)	17,697,977
Accumulated depreciation	(407,777)	(814,941)	-	(1,222,718)
Capital assets, net	$ 13,209,982	$ 6,381,243	$ (3,115,966)	$ 16,475,259

NOTE 3 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
Student instruction and services	$ 814,941

NOTE 4 – LONG-TERM DEBT

In November 2014, the Organization entered into a loan agreement with Charter School Growth Fund. Under terms of the loan, the Organization received $100,000 to be used for general support and management of the Organization. The note bears interest at 1.00%. The entire principal amount plus any accrued and unpaid interest is due on June 30, 2020; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones.

In June 2015, the Organization entered into a loan agreement with Charter School Growth Fund. Under terms of the loan, the Organization received $100,000 to be used for general support and management of the Organization. The note bears interest at 1.00%. The entire principal amount plus any accrued and unpaid interest is due on June 17, 2021; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones.

In February 2015, the Organization entered into a loan agreement with Self-Help New Markets XIV, LLC for the purchase of certain real estate. The agreement is secured by a first priority lien on the Organization's real estate and other personal property related to Flagship. Additionally, the agreement contains restrictive covenants. At June 30, 2017, the Organization was in compliance with these covenants. The note required monthly interest payments at 4.43% through August 2015. Commencing on September 1, 2015, the note requires monthly principal and interest payments of $22,540 with any remaining principal and accrued and unpaid interest due on December 1, 2022. Amounts outstanding under this note totaled $3,883,680 at June 30, 2017.

In February 2016, the Organization entered into a loan agreement with Charter School Growth Fund Revolving Facilities Loan Fund, LLC for the purchase of certain real estate. The agreement is secured by the Organization's real estate and other personal property related to Flagship but is subordinate to the loan discussed above. Additionally, the agreement contains restrictive covenants. At June 30, 2017, the Organization was in compliance with these covenants. The note required a principal payment of $1,600,000 plus all unpaid accrued interest at 2.75% upon the initial disbursement of construction funding from the senior lender. The note requires 50% of the remaining balance plus all unpaid accrued interest to be paid February 5, 2019, with the remaining 50% balance and all unpaid accrued interest due on February 5, 2021. Amounts outstanding under this note totaled $1,900,000 at June 30, 2017.

NOTE 4 – NOTES PAYABLE (Continued)

In February 2016, the Organization entered into a loan agreement with Self-Help Ventures Fund for the purchase of certain real estate and construction of property. The agreement is secured by a first priority lien on the Organization's real estate and other personal property related to Voyager. Additionally, the agreement contains restrictive covenants. At June 30, 2017, the Organization was in compliance with these covenants. The funds were placed in a disbursement account by the lender and released as requested for payment of construction progress. The loan is composed of two tranches, Tranche A and Tranche B. Tranche A represents the portion of the loan equal to $6,300,000 and Tranche B represents the remainder of the loan, up to the maximum loan amount of $10,080,000. The note requires monthly interest payments at 4.00% and 6.26% for Tranche A and Tranche B, respectively, through February 2017. Commencing March 1, 2017, the note requires monthly principal and interest payments of $58,434 with any remaining principal and accrued and unpaid interest due on January 1, 2023. Amounts outstanding under this note totaled $10,006,806 at June 30, 2017.

Future principal payments on the notes are as follows at June 30, 2017:

Years Ending June 30,	
2018	$ 314,113
2019	1,279,260
2020	445,139
2021	1,411,786
2022	379,236
Thereafter	12,160,952
	$ 15,990,486

NOTE 5 – CONCENTRATIONS

The Organization received 72% of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program ("BEP"). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2017 was $7,031,372.

NOTE 6 – RETIREMENT PLANS

Teacher Legacy Pension Plan of TCRS

General Information about the Pension Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Organization for the period ended June 30, 2017 to the Teacher Legacy Pension Plan were $84,194 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities. At June 30, 2017, the Organization reported a liability of $87,972 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial value as of that date. The Organization's proportion of the net pension liability was based on the Organization's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016, the Organization's proportion was 0.014077 percent. The proportion measured as of June 30, 2015 was 0.005938 percent.

Pension expense. For the year ended June 30, 2017, the Organization recognized pension expense of $35,413.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the period ended June 30, 2017, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,702	$ 106,505
Net difference between projected and actual earnings on pension plan investments	98,222	-

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Changes in proportion of Net Pension Liability (Asset)	112,527	-
LEA's contributions subsequent to the measurement date of June 30, 2016	84,194	(not applicable)
Total	$ 298,645	$ 106,505

The Organization's employer contributions of $84,194, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2018	$ 8,584
2019	8,584
2020	55,702
2021	29,671
2022	5,405
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.5 percent

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability (asset)	$ 483,072	$ 87,972	$ (239,310)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2017, the Organization reported a payable of $15,447 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Teacher Retirement Plan

General Information about the Pension Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of State Department of Education are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred

NOTE 6 – RETIREMENT PLANS (Continued)

<u>Teacher Retirement Plan of TCRS</u> (Continued)

to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with give years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2017 to the Teacher Retirement Plan were $58,853, which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension assets. At June 30, 2017, the Organization reported an asset of $22,401 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. The Organization's proportion of the net pension asset was based on the Organization's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016, the Organization's proportion was 0.215182 percent. The proportion measured as of June 30, 2015 was .085807 percent.

Pension Expense. Since the measurement date is June 30, 2017, the Organization recognized pension expense of $18,452.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the period ended June 30, 2017, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,171	$ 2,583
Net difference between projected and actual earnings on pension plan investments	3,668	-
Changes in proportion of Net Pension Liability (Asset)	-	3,629
LEA's contributions subsequent to the measurement date of June 30, 2016	58,853	(not applicable)
Total	$ 64,692	$ 6,212

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

The Organization's employer contributions of $58,853, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,		
2018	$	604
2019		604
2020		604
2021		431
2022		(356)
Thereafter		(2,260)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability (asset)	$ 10,578	$ (22,401)	$ (46,700)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2017, the Organization reported a payable of $15,097 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

The Teacher Retirement Plan also includes a 401(k) component whereby employer contributions are made at 5 percent of covered payroll. Employer contributions to this plan component totaled $73,565 for the year ended June 30, 2017.

Metro Plan

General Information about the Pension Plan

Plan description. The Metro Plan is established under the authority of the Metropolitan Charter, Article XIII. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also required that the pension plan be actuarially sound. Administrative costs of the plan are financed through plan assets. The plan is managed by the Metropolitan Employee Benefit Board, an independent board, created by the Metropolitan Charter. The Board is composed of ten members as follows: Finance Director, Human Resources Director, three members appointed by the Mayor, and five members selected by the employees and retirees of the Metropolitan Government. Additional information about the Metro Plan can be found in the publically available comprehensive annual financial report of the Metropolitan Government. That report may be obtained at www.nashville.gov.

NOTE 6 – RETIREMENT PLANS (Continued)

<u>Metro Plan</u> (Continued)

Benefits provided. As of July 1, 1995, Division B of the Metro Plan was established for all non-certified employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metro Government employees. Employees with an effective hire date of July 1, 1995, or later are only eligible to participate in Division B of the Metro Plan.

Normal retirement for employees participating in the Metro Plan occurs at the unreduced retirement age with is the earlier of (a) the date when the employee's age plus the completed years of credited service equals 85, but not before age 60; or (b) the date when the employee reaches age 65 and completes 5 years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75 percent of average earnings based upon the previous 60 consecutive months of credit service which product the highest earnings. Benefits fully best on completing 10 years of service for employees and non-vested employees hired or rehired on or after January 1, 2013. An early retirement option, with reduced benefits, is available for retired employees if the termination occurs prior to the eligibility under normal retirement but after age 50 and after the completion of 10 years of credited employee service.

All assets of the Metropolitan Employees' Benefit Trust Fund may legally be used to pay benefits to any plan members or beneficiaries.

Contributions. The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All funding is provided under an actuarially recommended employee contribution rate of 12.340 percent for the non-certificate employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metropolitan Government employees. Employer contributions for the period ended June 30, 2017 to the Metro Plan were $179,814, which is 12.340 percent of covered payroll.

<u>Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

Pension liabilities. At June 30, 2017, the Organization reported a liability of $161,799 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial value as of July 1, 2016. The Organization's proportion of the net pension liability was based on the Organization's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2017, the Organization's proportion was 0.396137 percent. The proportion measured as of June 30, 2016 was 0.001984 percent.

Pension Expense. For the year ended June 30, 2017, the Organization recognized pension expense of $293,611.

NOTE 6 – RETIREMENT PLANS (Continued)

Metro Plan (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2017, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 192,825
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion of Net Pension Liability (Asset)	-	-
Total	$ -	$ 192,825

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2018	$ (7,681)
2019	(7,681)
2020	(34,759)
2021	(109,276)
2022	(24,539)
Thereafter	(8,889)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of July 1, 2016. Actuarial assumptions are summarized below:

Inflation	2.60 percent
Salary increases	4.00 percent
Investment rate of return	7.50 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	1.50 percent

NOTE 6 – RETIREMENT PLANS (Continued)

Metro Plan (Continued)

Mortality rates are customized based on the 110% RP-2000 Healthy Annuitant Mortality Table for Males and Females, as determined by the period actuarial experience study. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period 2007 to 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class from historical returns and consensus expectations of future returns. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Metro Plan's target asset allocation are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.60%	14.50%
International equity	10.10%	13.00%
Global equity	0.00%	10.00%
Equity hedge	5.80%	10.00%
Fixed income	1.80%	15.00%
Fixed income alternatives	5.60%	15.00%
Real estate	6.10%	12.50%
Private equity	7.60%	10.00%
		100%

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. Based on the Metro Plan assumptions and funding policy, the fiduciary net position for the plan was projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

NOTE 6 – RETIREMENT PLANS (Continued)

Metro Plan (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability (asset)	$ 1,619,909	$ 161,799	$ (1,150,555)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued Metropolitan Government financial report.

Payable to the Pension Plan

At June 30, 2017, the Organization reported a payable of $6,282 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

NOTE 7 – RESTRICTED CASH

Restricted cash totaling $509,878 at June 30, 2017, related to proceeds received under the Organization's notes payable to be used exclusively for ongoing construction and renovations of the Organization's schools.

NOTE 8 – RISK OF LOSS

Cash and Cash Equivalents

Custodial credit risk is the risk, that in the event of bank failure, the Organization's deposits may not be returned to it. The Organization does not have a policy for custodial risk. As of June 30, 2017, the Organization has not experienced any losses in such accounts and considers this to be a normal business risk. Uninsured balances total $1,658,554 at June 30, 2017.

Category 1 includes cash and cash equivalent balances that are uncollateralized. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution. Category 3 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's (Organization's) name.

NOTE 8 – RISK OF LOSS (Continued)

Cash and Cash Equivalents (Continued)

	June 30, 2017		
	Custodial Credit Risk Category		
	1	2	3
Uninsured cash and cash equivalents	$ 1,658,554	$ -	$ -

Insurance

The Organization is exposed to various risks of loss similar to a commercial business, such as general liability, errors and omissions, and other situations. The Organization purchases commercial insurance for the significant risks of loss. Settled claims have not exceeded the insurance coverage limits during the Organization's operation.

REQUIRED SUPPLEMENTARY INFORMATION

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
TEACHER LEGACY PENSION PLAN OF TCRS
Last Fiscal Year Ended June 30*

	2014	2015	2016
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.000000%	0.005938%	0.014077%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	-	$ 2,433	$ 87,972
Valor Collegiate Academy's covered payroll	-	$ 222,306	$ 508,144
Valor Collegiate Academy's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	1.09%	17.31%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS
Last Fiscal Year Ended June 30*

	2014	2015	2016	2017
Contractually required	$ -	$ 20,096	$ 45,936	$ 84,194
Contribution in relation to the contractually required contribution	$ -	$ 20,096	$ 45,936	$ 84,194
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Valor Collegiate Academy's covered payroll	-	$ 222,306	$ 508,144	$ 931,350
Contributions as a percentage of Valor Collegiate Academy's covered payroll	0.00%	9.04%	9.04%	9.04%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
TEACHER RETIREMENT PLAN OF TCRS
Last Fiscal Year Ended June 30*

	2015	2016
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.085807%	0.215182%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	$ (3,525)	$ (22,401)
Valor Collegiate Academy's covered payroll	$ 182,043	$ 946,813
Valor Collegiate Academy's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(1.94%)	(2.37%)
Plan fiduciary net position as a percentage of the total pension liability	127.46%	121.88%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS
Last Fiscal Year Ended June 30*

	2015	2016	2017
Contractually required contribution	$ 4,551	$ 23,701	$ 58,853
Contribution in relation to the contractually required contribution	$ 7,282	$ 37,872	$ 58,853
Contribution deficiency (excess)	$ (2,731)	$ (14,171)	$ -
Valor Collegiate Academy's covered payroll	$ 182,043	$ 946,813	$ 1,471,325
Contributions as a percentage of Valor Collegiate Academy's covered payroll	4.00%	4.00%	4.00%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
METRO PLAN
Last Fiscal Year Ended June 30*

	2015	2016	2017
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.000000%	0.001984%	0.396137%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	-	$ 93,043	$ 161,799
Valor Collegiate Academy's covered payroll	-	$ 297,615	$ 888,614
Valor Collegiate Academy's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	31.26%	18.20%
Plan fiduciary net position as a percentage of the total pension liability	97.57%	92.39%	98.64%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF CONTRIBUTIONS
METRO PLAN
Last Fiscal Year Ended June 30*

	2014	2015	2016	2017
Contractually required	$ -	$ 53,532	$ 137,824	$ 179,814
Contribution in relation to the contractually required contribution	$ -	$ 53,532	$ 137,824	$ 179,814
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Valor Collegiate Academy's covered payroll	-	$ 297,615	$ 888,614	$ 1,457,164
Contributions as a percentage of Valor Collegiate Academy's covered payroll	0.00%	17.987%	15.510%	12.340%

*GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to the previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

OTHER INFORMATION

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

Federal Grantor/ State Grantor/ Program Title/ Pass-through Grantor	CFDA#	Contract Number		Expenditures
FEDERAL AWARDS				
U.S. Department of Education:				
Title I Grants to Local Educational Agencies (Passed through Metro Nashville Public Schools)	84.010	N/A	$	129,786
Supporting Effective Instruction State Grant (Passed through Metro Nashville Public Schools)	84.367	N/A		11,154
Higher Education Institutional Aid (Passed through Metro Nashville Public Schools)	84.031A	N/A		7,392
Special Education Grants to States (Passed through State of Tennessee Department of Education)	84.027	N/A		91,954
Total U.S. Department of Education				240,286
U.S. Department of Agriculture:				
National School Lunch Program (Passed through State of Tennessee Department of Education)	10.555	N/A		81,873
Total Federal Awards				322,159
STATE FINANCIAL ASSISTANCE				
State of Tennessee Department of Education:				
Basic Education Program - Capital Outlay	N/A	N/A		142,000
Total State Financial Assistance				142,000
Total Federal Awards and State Financial Assistance			$	464,159

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of Valor Collegiate Academies under and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee Comptroller of the Treasury's Audit Manual. Therefore, some amounts presented in the schedule may differ from

NOTE 2 - INDIRECT COST ALLOCATION

The Organization did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

Cherry Bekaert LLP
CPAs & Advisors

REPORT OF INDEPENDENT AUDITOR 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 Collegiate Academies
Nashville, Tennessee

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 the governmental activities and each major fund of Valor Collegiate Academies as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Valor Collegiate Academies' basic financial statements, and have issued our report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Cherry Bekaert LLP

Nashville, Tennessee
January 3, 2018

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

None

VALOR COLLEGIATE ACADEMIES
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2017

None