VALOR COLLEGIATE ACADEMIES

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2018

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

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF JUNE 30, 2018

Board of Directors

Justin Testerman	Chairman
Michael Harmon	Secretary
Dave Hanson	Treasurer
Sylvia Flowers	Board Member
Malika Anderson	Board Member
Trevor Brown	Board Member
Rascoe Dean	Board Member
Bob Hannon	Board Member
Matt Nicholson	Board Member
Leslie Pack	Board Member
Brandi Kellett	Board Member
Gatluak Thach	Board Member

Executive Staff

Todd Dickson	Chief Executive Officer
Thomas Branch	Chief Operating Officer

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
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, 2018, and the related notes to the financial statements, which collectively comprise 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, 2018, 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 4 through 8 and the schedules of proportionate share of the net pension liability (asset) and the schedules of employer contributions on pages 35 through 40 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,* 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 October 24, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valor Collegiate Academies' 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
October 24, 2018

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, 2018. 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 $4,768,589
- Net position increased $2,752,962 during the year
- Outlays for new capital assets totaled $7,055,746
- Total revenues of $14,583,802 were comprised of District Funds – 66%, Federal and State Grants – 5%, and Private Contributions/Other Income – 29% for the year ended June 30, 2018

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 year'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 year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 9.

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 11. 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 year-end that are available for spending in future years. 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 12 and 14.

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 $4,768,589.

As of June 30, 2018, the Organization had invested $24,753,723 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 2018-2019 school year as student enrollment increases at each grade level. The 2018-2019 school year will also be the first year of Valor College Prep, the new high school. With the additional students and location, 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 $20,812,457 of outstanding debt at June 30, 2018.

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:

	2018	2017
Current assets	$ 3,350,157	$ 1,893,935
Restricted assets	100,331	509,878
Capital assets, net	22,719,193	16,475,259
Net pension assets	68,484	22,401
Total assets	26,238,165	18,901,473
Deferred outflows of resources	661,295	363,337
Current liabilities	486,511	703,384
Long-term debt	20,812,457	15,990,486
Net pension liability	260,591	249,771
Total liabilities	21,559,559	16,943,641
Deferred inflows of resources	571,312	305,542
Net position:		
Net investment in capital assets	2,607,067	997,960
Restricted	1,387,815	732,279
Unrestricted	773,707	285,388
Total net position	$ 4,768,589	$ 2,015,627

Changes in Net Position

The Organization's total net position increased $2,752,962 during the year ended June 30, 2018. The increase in the Organization's net position indicates that the Organization had more incoming revenues than outgoing expenses during the year. The Organization budgeted an increase of approximately $1,400,000 for the year. Total revenues generated from government grants, governmental funds, foundation grants, and other sources were $14,583,802 during the year ended June 30, 2018.

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

	2018	2017
Revenues:		
District funding	$ 9,632,612	$ 7,031,372
Contributions	3,999,018	2,109,322
Federal and state funding	780,959	464,159
Other	171,213	112,985
	14,583,802	9,717,838
Expenses:		
Salaries, wages and benefits	7,018,124	5,855,343
Contracted services	2,342,427	1,968,265
Depreciation	811,812	814,941
Debt service	784,948	649,130
Supplies and materials	709,672	637,183
Insurance	109,218	53,102
Other	51,115	105,523
Equipment and maintenance	3,524	28,960
	11,830,840	10,112,447
Change in net position	$ 2,752,962	$ (394,609)

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

The Organization's funds, as presented on the balance sheet on page 11 reported a fund balance of $2,963,977. 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, 2018 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 2% in the State for academic growth, and in the top 3% in the State for academic achievement for the 2017-2018 school year (out of all 1,300+ middle schools and high schools). Valor Flagship was ranked #1 in the State in composite growth, out of all 1,300+ schools.

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 33% white, 23% Middle Eastern, 20% Hispanic and Latino, 12% African American, 6% Asian, and 6% other, 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 2019 enrollment is projected to be 500 at each middle school (grades 5-8) and 220 at the high school, for a total of 1,220 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

YEAR ENDED JUNE 30, 2018

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 2,757,996
Accounts receivable	360,922
Other current assets	231,239
Restricted cash	100,331
Capital assets, net	22,719,193
Net pension asset	68,484
Total Assets	26,238,165
Deferred Outflows of Resources:	
Deferred outflows related to pension	661,295
Total Deferred Outflows of Resources	661,295
Liabilities:	
Accounts payable	263,391
Accrued expenses	223,120
Long-term debt, due within one year	371,244
Long-term debt, due in more than one year	20,441,213
Net pension liability	260,591
Total Liabilities	21,559,559
Deferred Inflows of Resources:	
Deferred inflows related to pension	571,312
Total Deferred Inflows of Resources	571,312
Net Position:	
Net investment in capital assets	2,607,067
Restricted	1,387,815
Unrestricted	773,707
Total Net Position	$ 4,768,589

VALOR COLLEGIATE ACADEMIES

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

		Functions		
	Total	Student Instruction and Services	Administration	Fundraising
Expenses:				
Salaries, wages, and benefits	$ 7,018,124	$ 5,780,734	$ 1,112,256	$ 125,135
Contracted services	2,342,427	1,959,393	373,657	9,377
Depreciation	811,812	811,812	-	-
Debt service	784,948	784,948	-	-
Supplies and materials	709,672	661,924	47,748	-
Insurance	109,218	57,709	50,101	1,408
Other	51,115	50,053	1,062	-
Equipment and maintenance	3,524	3,524	-	-
Total Expenses	11,830,840	10,110,097	1,584,824	135,920
Program Revenues:				
Program specific operating grants and contributions	469,959	469,959	-	-
Capital grants and contributions	311,000	311,000	-	-
Charges for services	126,682	126,682	-	-
Net Program Expenses	10,923,199	$ 9,202,456	$ 1,584,824	$ 135,920
General Revenues:				
Contributions	3,999,018			
District funding	9,632,612			
Other income	44,531			
Total General Revenues	13,676,161			
Change in net position	2,752,962			
Net position, beginning of year	2,015,627			
Net position, end of year	$ 4,768,589			

VALOR COLLEGIATE ACADEMIES

BALANCE SHEET

YEAR ENDED JUNE 30, 2018

	Valor Collegiate Flagship	Valor Collegiate Voyager	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 2,600,662	$ 157,334	$ 2,757,996
Accounts receivable	122,026	238,896	360,922
Due from other funds	223,855	-	223,855
Other current assets	112,899	118,340	231,239
Restricted cash	57,191	43,140	100,331
Total Assets	$ 3,116,633	$ 557,710	$ 3,674,343
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 148,586	$ 114,805	$ 263,391
Accrued expenses	111,560	111,560	223,120
Due to other funds	-	223,855	223,855
Total Liabilities	260,146	450,220	710,366
Fund Balances:			
Nonspendable	112,899	118,340	231,239
Restricted	157,191	1,162,140	1,319,331
Unassigned	2,586,397	(1,172,990)	1,413,407
Total Fund Balances	2,856,487	107,490	2,963,977
Total Liabilities and Fund Balances	$ 3,116,633	$ 557,710	$ 3,674,343

VALOR COLLEGIATE ACADEMIES

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES

YEAR ENDED JUNE 30, 2018

Total Governmental Fund Balances	$ 2,963,977
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.	22,719,193
Net pension assets are not current financial resources and are therefore not reported in the governmental fund balance sheet.	68,484
Net pension liabilities are not current financial resources and are therefore not reported in the governmental fund balance sheet.	(260,591)
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	661,295
Deferred inflows of resources related to pensions	(571,312)
Long-term debt reported in governmental activities is not reported in the governmental fund balance sheet.	(20,812,457)
Net Position of Governmental Activities	$ 4,768,589

VALOR COLLEGIATE ACADEMIES

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	Valor Collegiate Flagship	Valor Collegiate Voyager	Total Governmental Funds
Program Revenues:			
Federal and state grants	$ 356,199	$ 424,760	$ 780,959
Charges for services	63,465	63,217	126,682
General Revenues:			
Contributions	1,690,035	2,308,983	3,999,018
District funding	4,792,249	4,840,363	9,632,612
Other income	27,275	17,256	44,531
Total Revenues	6,929,223	7,654,579	14,583,802
Expenditures:			
Current:			
Student instruction and services	4,261,916	4,284,970	8,546,886
Administration	807,438	809,939	1,617,377
Fundraising	68,707	68,562	137,269
Debt service:			
Principal	98,035	2,126,404	2,224,439
Interest	250,858	534,090	784,948
Capital outlays	4,178	7,051,568	7,055,746
Total Expenditures	5,491,132	14,875,533	20,366,665
Other financing sources:			
Issuance of debt	-	7,046,411	7,046,411
Change in fund balances	1,438,091	(174,543)	1,263,548
Fund balances, beginning of year	1,418,396	282,033	1,700,429
Fund balances, end of year	$ 2,856,487	$ 107,490	$ 2,963,977

VALOR COLLEGIATE ACADEMIES

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total		
Governmental Funds	$	1,263,548
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		7,055,746
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities		(811,812)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuance of debt increases long-term obligations for governmental activities		(7,046,411)
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		2,224,439
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		46,084
Change in net pension liability		(10,820)
Change in deferred outflows related to pensions		297,958
Change in deferred inflows related to pensions		(265,770)
Change in Net Position of Governmental Activities	$	2,752,962

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. Subsequent to June 30, 2018, the Organization began operations at a third charter school within Davidson County, Tennessee, College Prep.

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 eight. 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.

Under the above agreement, the Organization will also operate College Prep. The school began classes in August 2018 with students in grade nine. The Organization plans to add a grade each year through 12th grade. Per the charter agreement, enrollment in the school is open to any student within the 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 eight. 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 (“GAAP”) as prescribed by the Governmental Accounting Standards Board.

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.

Note 2—Summary of significant accounting policies (continued)

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 year-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:

> *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.

Note 2—Summary of significant accounting policies (continued)

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, 2018.

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, 2018.

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, 2018.

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.

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, 2018, 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.

Note 2—Summary of significant accounting policies (continued)

Accounts Receivable – Accounts receivable represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts. Receivables balance as of June 30, 2018 totaled $360,922.

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 year 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 year 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.

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, 2018.

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:

<u>Certified Employees – Tennessee Consolidated Retirement System (“TCRS”) collectively the (“TCRS Plans”)</u>

- Teacher Legacy Pension Plan
- Teacher Retirement Plan

<u>Non-Certified Employees – Metropolitan Government of Nashville and Davidson County, Tennessee (“Metropolitan Government”)</u>

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

Note 2—Summary of significant accounting policies (continued)

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.

Estimates – The preparation of financial statements in conformity with GAAP 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 year. 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 October 24, 2018, the date the financial statements were available to be issued.

Note 3—Capital assets

Capital assets consist of the following:

	June 30, 2017	Additions	Deletions	June 30, 2018
Buildings and improvements	$ 13,394,195	$ -	$ -	$ 13,394,195
Furniture and fixtures	268,717	-	-	268,717
Computer equipment	422,468	8,355	-	430,823
Land	3,281,000	-	-	3,281,000
Construction in progress	331,597	7,047,391	-	7,378,988
	17,697,977	7,055,746	-	24,753,723
Accumulated depreciation	(1,222,718)	(811,812)	-	(2,034,530)
Capital assets, net	$ 16,475,259	$ 6,243,934	$ -	$ 22,719,193

Depreciation expense was charged to functions as follows:

Governmental activities:	
Student instruction and services	$ 811,812

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, 2018, 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 $3,785,645 at June 30, 2018.

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, 2018, 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 was paid in full during the year ended June 30, 2018.

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, 2018, 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 $9,780,401 at June 30, 2018.

In September 2017, the Organization entered into a loan agreement with Charter School Growth Fund. Under terms of the loan, the Organization received $400,000 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, 2023; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones.

Note 4—Long-term debt (continued)

In October 2017, the Organization entered into a loan agreement with Self-Help New Markets XIV, LLC ("SHNM") and Self-Help Credit Union ("SHCU") for the construction of property. The agreement is secured by a first priority lien on the premises and first priority perfected lien on all personal property of the Organization related to College Prep. Additionally, the agreement contains restrictive covenants. At June 30, 2018, 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 advances, Loan A and Loan B. Loan A represents the portion of the loan equal to $1,275,000 and is advanced from SHNM. Loan B represents the remainder of the loan up to $9,880,000 and is advanced from SHCU. The note requires monthly interest payments at 4.35% and 5.85% for Loan A and Loan B, respectively, through November 2018. Commencing December 1, 2018, the note requires monthly principal and interest payments based upon an amortization schedule of 25 years with any remaining principal and accrued and unpaid interest due on February 1, 2023. Amounts outstanding under this note totaled $3,646,411 at June 30, 2018.

In October 2017, the Organization entered into a loan agreement with Charter School Growth Fund Facility Fund III LLC for the development of a new public school facility. The note ranks junior to all of the Organization's deposit accounts, senior debt obligations, amounts owed to general trade creditors and all other unconditional, unsecured, senior and subordinated debt obligations. Additionally, the agreement contains restrictive covenants. At June 30, 2018, the Organization was in compliance with these covenants. The note requires a principal payment of $1,500,000 plus all unpaid accrued interest at 2.75% on October 31, 2020 with the remaining balance and accrued unpaid interest due on February 1, 2023. Amounts outstanding under this note totaled $3,000,000 at June 30, 2018.

Future principal payments on the notes are as follows at June 30, 2018:

Years Ending June 30,	
2019	$ 371,244
2020	519,747
2021	2,040,458
2022	462,195
2023	17,418,813
Thereafter	-
	$ 20,812,457

Note 5—Concentrations

The Organization received 66% 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, 2018 was $9,632,612.

Note 6—Retirement plans

Teacher Legacy Pension Plan of TCRS

General Information about the Pension Plan

Plan Description – Teachers with membership in the 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 five 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% 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%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. 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.

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% of salary. The 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 year ended June 30, 2018 to the Teacher Legacy Pension Plan were $115,247 which is 9.08% 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 Legacy Pension Plan of TCRS (continued)

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

Pension Liabilities (Assets) – At June 30, 2018, the Organization reported a liability (asset) of ($8,799) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial value as of that date. The Organization's proportion of the net pension liability (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, 2017, the Organization's proportion was 0.026887%. The proportion measured as of June 30, 2016 was 0.014077%.

Pension Expense – For the year ended June 30, 2018, the Organization recognized pension expense of $42,708.

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2018, 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	$ 5,304	$ 181,619
Changes in assumptions	74,507	-
Net difference between projected and actual earnings on pension plan investments	1,335	-
Changes in proportion of Net Pension Liability (Asset)	154,865	-
LEA's contributions subsequent to the measurement date of June 30, 2017	115,247	(not applicable)
	$ 351,258	$ 181,619

Note 6—Retirement plans (continued)

<u>Teacher Legacy Pension Plan of TCRS</u> (continued)

The Organization's employer contributions of $115,247, 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 ending June 30, 2019. 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,		
2019	$	(20,342)
2020		69,654
2021		19,935
2022		(14,855)
2023		-
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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.25%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decrease the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

Note 6—Retirement plans (continued)

Teacher Legacy Pension Plan of TCRS (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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31.00%
Developed market international equity	5.29%	14.00%
Emerging market international equity	6.36%	4.00%
Private equity and strategic lending	5.79%	20.00%
U.S. fixed income	2.01%	20.00%
Real estate	4.32%	10.00%
Short-term securities	0.00%	1.00%
		100.00%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the factors described above.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. 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 Legacy Pension Plan of TCRS (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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability (asset)	$ 789,354	$ (8,799)	$ (668,521)

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, 2018, the Organization reported a payable of $15,186 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Teacher Retirement Plan

General Information about the Pension Plan

Plan Description – Teachers with membership in the 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 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.

Note 6—Retirement plans (continued)

Teacher Retirement Plan of TCRS (continued)

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 five 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% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic 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 CPI during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. 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 or by automatic cost controls set out in law. Teachers contribute 5% of salary. The 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 4.00%, 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, 2018 to the Teacher Retirement Plan were $101,087, which is 4.00% 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 (Assets) – At June 30, 2018, the Organization reported a liability (asset) of ($59,685) for its proportionate share of the net pension liability (asset). The net pension asset was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial value as of that date. The Organization's proportion of the net pension liability (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, 2017, the Organization's proportion was 0.226226%. The proportion measured as of June 30, 2016 was .215182%.

Pension Expense – Since the measurement date is June 30, 2018, the Organization recognized pension expense of $26,649.

Note 6—Retirement plans (continued)

<u>Teacher Retirement Plan</u> (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2018, 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	$ 2,092	$ 4,489
Net difference between projected and actual earnings on pension plan investments	-	3,212
Changes in assumptions	5,244	-
Changes in proportion of Net Pension Liability (Asset)	-	4,550
LEA's contributions subsequent to the measurement date of June 30, 2017	101,087	(not applicable)
	$ 108,423	$ 12,251

The Organization's employer contributions of $101,087, 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 ending June 30, 2019. 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,	
2019	$ (709)
2020	(709)
2021	(893)
2022	(1,719)
2023	(205)
Thereafter	(680)

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.25%

Note 6—Retirement plans (continued)

<u>Teacher Retirement Plan</u> (continued)

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decrease the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31.00%
Developed market international equity	5.29%	14.00%
Emerging market international equity	6.36%	4.00%
Private equity and strategic lending	5.79%	20.00%
U.S. fixed income	2.01%	20.00%
Real estate	4.32%	10.00%
Short-term securities	0.00%	1.00%
		100.00%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the factors described above.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. 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)

<u>Teacher Retirement Plan</u> (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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability (asset)	$ 11,908	$ (59,685)	$ (112,202)

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, 2018, the Organization reported a payable of $12,839 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Defined Contribution Portion of the Plan – A portion of the Teacher Retirement Plan is a defined contribution plan administered by Great-West Life & Annuity Insurance Company. Under the defined contribution portion of this plan, employees contribute 2.00% of their salary, which employees can opt out of if they choose, and the Organization is required to contribute 5.00% of active member's annual payroll. For the year ended June 30, 2018, employer contributions totaled $126,358, which is 5.00% of covered payroll.

<u>Metro Plan</u>

<u>General Information about the Pension Plan</u>

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.

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.

Note 6—Retirement plans (continued)

Metro Plan (continued)

Normal retirement for employees participating in the Metro Plan occurs at the unreduced retirement age which 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 five years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75% of average earnings based upon the previous 60 consecutive months of credit service which product the highest earnings. Benefits fully best on completing ten 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 ten 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% for the non-certificate employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metropolitan Government employees. Employer contributions for the year ended June 30, 2018 to the Metro Plan were $126,358, which is 12.340% of covered payroll.

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

Pension Liabilities – At June 30, 2018, the Organization reported a liability of $260,591 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial value as of July 1, 2017. 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, 2018, the Organization's proportion was 0.319322%. The proportion measured as of June 30, 2017 was 0.396137%.

Pension Expense – For the year ended June 30, 2018, the Organization recognized pension expense of $81,796.

Note 6—Retirement plans (continued)

Metro Plan (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2018, 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	$ -	$ 60,743
Net difference between projected and actual earnings on pension plan investments	-	187,699
Changes in assumptions	201,614	-
Changes in proportion of Net Pension Liability (Asset)	-	129,000
	$ 201,614	$ 377,442

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,	
2019	$ (18,300)
2020	(48,280)
2021	(130,779)
2022	(36,964)
2023	14,281
Thereafter	44,214

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, 2017. Actuarial assumptions are summarized below:

Inflation	2.50%
Salary increases	4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	1.25%

Note 6—Retirement plans (continued)

Metro Plan (continued)

Mortality rates are customized based on the 115% RP-2014 Blue Collar Mortality Table for Males and Females, as determined by the period actuarial experience study. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period 2012 to 2017.

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	5.10%	24.00%
International equity	5.30%	16.00%
Private equity	7.90%	10.00%
Equity hedge	7.90%	10.00%
Real estate	4.90%	10.00%
Core plus fixed income	2.30%	20.00%
Fixed income alternatives	2.70%	10.00%
		100.00%

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension	$ 1,437,103	$ 260,591	$ (798,504)

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.

Note 6—Retirement plans (continued)

Metro Plan (Continued)

Payable to the Pension Plan – At June 30, 2018, the Organization reported a payable of $12,915 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Note 7—Restricted cash

Restricted cash totaling $100,331 at June 30, 2018, 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, 2018, the Organization has not experienced any losses in such accounts and considers this to be a normal business risk. Uninsured balances total $2,871,617 at June 30, 2018.

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.

	June 30, 2018		
	Custodial Credit Risk Category		
	1	2	3
Uninsured cash and cash equivalents	$ 2,871,617	$ -	$ -

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

JUNE 30, 2018

	2014	2015	2016	2017
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.000000%	0.005938%	0.014077%	0.026887%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	$ -	$ 2,433	$ 87,972	$ (8,799)
Valor Collegiate Academy's covered payroll	$ -	$ 222,306	$ 508,144	$ 950,458
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%	(0.93%)
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%	100.14%

*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

JUNE 30, 2018

	2014	2015	2016	2017	2018
Contractually required	$ -	$ 20,096	$ 45,936	$ 85,922	$ 115,247
Contribution in relation to the contractually required contribution	-	20,096	45,936	85,922	115,247
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Valor Collegiate Academy's covered payroll	$ -	$ 222,306	$ 508,144	$ 950,458	$ 1,269,240
Contributions as a percentage of Valor Collegiate Academy's covered payroll	0.00%	9.04%	9.04%	9.04%	9.08%

*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

JUNE 30, 2018

	2015	2016	2017
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.085807%	0.215182%	0.226226%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	$ (3,525)	$ (22,401)	$ (59,685)
Valor Collegiate Academy's covered payroll	$ 182,043	$ 946,813	$ 1,484,814
Valor Collegiate Academy's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(1.94%)	(2.37%)	(4.02%)
Plan fiduciary net position as a percentage of the total pension liability	127.46%	121.88%	126.81%

*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

JUNE 30, 2018

	2015	2016	2017	2018
Contractually required contribution	$ 4,551	$ 23,701	$ 59,392	$ 101,087
Contribution in relation to the contractually required contribution	7,282	37,872	59,392	101,087
Contribution deficiency (excess)	$ (2,731)	$ (14,171)	$ -	$ -
Valor Collegiate Academy's covered payroll	$ 182,043	$ 946,813	$ 1,484,814	$ 2,527,175
Contributions as a percentage of Valor Collegiate Academy's covered payroll	4.00%	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

JUNE 30, 2018

	2015	2016	2017	2018
Valor Collegiate Academy's proportion of the net pension liability (asset)	0.000000%	0.001984%	0.396137%	0.319322%
Valor Collegiate Academy's proportionate share of the net pension liability (asset)	$ -	$ 93,043	$ 161,799	$ 260,591
Valor Collegiate Academy's covered payroll	$ 297,615	$ 888,614	$ 1,457,164	$ 1,023,971
Valor Collegiate Academy's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	10.47%	11.10%	25.45%
Plan fiduciary net position as a percentage of the total pension liability	97.57%	92.39%	98.64%	97.45%

*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

JUNE 30, 2018

	2014	2015	2016	2017	2018
Contractually required	$ -	$ 53,532	$ 137,824	$ 179,814	$ 126,358
Contribution in relation to the contractually required contribution	-	53,532	137,824	179,814	126,358
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Valor Collegiate Academy's covered payroll	$ -	$ 297,615	$ 888,614	$ 1,457,164	$ 1,023,971
Contributions as a percentage of Valor Collegiate Academy's covered payroll	0.00%	17.987%	15.510%	12.340%	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 AND NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

JUNE 30, 2018

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	$ 139,672
Supporting Effective Instruction State Grant (Passed through Metro Nashville Public Schools)	84.367	N/A	16,412
Higher Education Institutional Aid (Passed through Metro Nashville Public Schools)	84.031A	N/A	8,904
Special Education Grants to States (Passed through State of Tennessee Department of Education)	84.027	N/A	179,204
Total U.S. Department of Education			344,192
U.S. Department of Agriculture:			
National School Lunch Program (Passed through State of Tennessee Department of Education)	10.555	N/A	103,201
School Breakfast Program (Passed through State of Tennessee Department of Education)	10.553	N/A	22,566
Total U.S. Department of Agriculture			125,767
Total Federal Awards			469,959
STATE FINANCIAL ASSISTANCE			
State of Tennessee Department of Education:			
Basic Education Program - Capital Outlay	N/A	N/A	186,000
Facilities Grant	N/A	N/A	125,000
Total State Financial Assistance			311,000
Total Federal Awards and State Financial Assistance			$ 780,959

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 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 amounts presented in, or used in the preparation of, the financial statements.

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
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, 2018, and the related notes to the financial statements, which collectively comprise Valor Collegiate Academies' basic financial statements, and have issued our report thereon dated October 24, 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
October 24, 2018

None.

JUNE 30, 2018

None.