

**VALOR ACADEMY OF LEADERSHIP
HIGH SCHOOL**

(A CHARTER SCHOOL UNDER PROPECTUS
LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the
District School Board of Duval County, Florida

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2016

King & Walker, CPAs, PL

Certified Public Accountants

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VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A Charter School and Component Unit of the District School Board of Duval County, Florida

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Independent Auditor's Report

To the Board of Directors of Valor Academy of Leadership High School
(A charter school under Profectus Learning Systems, Inc.)
a Charter School and Component Unit of the
District School Board of Duval County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valor Academy of Leadership High School ("School"), a charter school under Profectus Learning Systems, Inc., and component unit of the District School Board of Duval County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's 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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The School, as of June 30, 2016, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the accompanying financial statements referred to above present only the financial position of The School at June 30, 2016, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of Profectus Learning Systems, Inc. These financial statements do not purport to and do not present fairly the financial position of Profectus Learning Systems, Inc. as of June 30, 2016 and its changes in financial position for the year then ended in conformity 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, the Budgetary Comparison Schedule, and the Note to Required Supplementary Information, as listed in the table of contents, 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 historic 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of The School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The School's internal control over financial reporting and compliance.

Respectfully submitted,



November 18, 2016
Tampa, Florida

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL

(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

The Management’s Discussion and Analysis (MD&A) section of the annual financial report of the Valor Academy of Leadership High School (“School”) provides an overview of the School’s activities for the fiscal year ended June 30, 2016.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School’s financial statements and notes to financial statements as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2016, the School’s expenses exceeded revenue as shown on the School’s statement of activities by \$87,922.
- At June 30, 2016, the School reported a total Net Position deficit of \$54,209.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School’s overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of Net Position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of Net Position provides information about the government’s financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the Net Position, is a measure of the financial health of the School. The statement of activities presents information about the change in the School’s Net Position and the results of operations, during the fiscal year. An increase or decrease in Net Position is an indication of whether the School’s financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the School’s financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide financial statements.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund financial statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund financial statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates two funds: a General Fund and Special Revenue Fund. The School has elected to show each fund as a major fund.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund and the Major Special Revenue Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's Net Position as of June 30, 2015 and June 30, 2016:

	Net Position, End of Year		
	<u>Governmental Activities</u>		
	<u>6-30-15</u>	<u>6-30-16</u>	<u>Increase (Decrease)</u>
ASSETS			
Current and Other Assets	\$ 113,752	\$ 54,171	\$ (59,581)
Capital Assets, net	10,841	8,538	(2,303)
Total Assets	<u>124,593</u>	<u>62,709</u>	<u>(61,884)</u>
LIABILITIES			
Current Liabilities	79,204	110,862	31,658
Long Term Liabilities	11,676	6,056	(5,620)
Total Liabilities	<u>90,880</u>	<u>116,918</u>	<u>26,038</u>
NET POSITION			
Net Investment in Capital Assets	10,841	2,482	(8,359)
Unrestricted	<u>22,872</u>	<u>(56,691)</u>	<u>(79,563)</u>
Total Net Position	<u>\$ 33,713</u>	<u>\$ (54,209)</u>	<u>\$ (87,922)</u>

Assets consist of current assets, which are primarily amounts due from other agencies and amounts due from a related party, and capital assets consisting of furniture, fixtures, and equipment. Liabilities are comprised of accounts payable, accrued salaries and wages payable, a temporary overdraft payable, and a long term capital lease payable.

The key elements of the changes in the School's Net Position for the fiscal year ended June 30, 2015 and June 30, 2016 are as follows:

Operating Results for the Year			
Governmental Activities			
	6-30-15	6-30-16	Increase (Decrease)
Revenues:			
Federal Through State & Local	\$ 163,573	\$ 95,650	\$ (67,923)
State Sources	197,938	375,319	177,381
Local and Other	376,228	396,987	20,759
Total Revenues	737,739	867,956	130,217
Expenses:			
Instruction	334,940	346,901	11,961
Pupil Personnel Services	1,958	5,422	3,464
Instructional Media	1,970	959	(1,011)
Instructional Staff Training	2,122	315	(1,807)
Instructional Related Technology	9,219	16,246	7,027
Board of Education	2,446	16,058	13,612
General Administration	9,849	18,694	8,845
School Administration	191,578	214,764	23,186
Fiscal Services	6,278	2,229	(4,049)
Food Services	17,998	42,397	24,399
Pupil Transportation	49,651	81,417	31,766
Operation of Plant	53,982	183,580	129,598
Maintenance of Plant	21,563	23,677	2,114
Interest & Fiscal Charges	93	916	823
Unallocated Depreciation	679	2,303	1,624
Total Expenses	704,326	955,878	251,552
Increase/(Decrease) in Net Position	\$ 33,413	\$ (87,922)	\$ (121,335)

The main revenue source for the School is the State of Florida (44%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School.

The largest concentration of expenses is Instruction, which accounted for 36% of total expenditures.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined fund balance deficit of \$56,691.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2016, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Refer to the Budgetary Comparison Schedule for additional information.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

The School's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$8,538 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment. Additional information regarding the School's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At June 30, 2016, the School had \$6,056 in long-term debt outstanding. Additional information about the School's long-term debt is presented in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Valor Academy of Leadership High School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Valor Academy of Leadership High School 4819 Soutel Drive, Jacksonville, FL 32208.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Due from Other Agency	\$ 26,157
Due from Related Party	19,264
Deposits Receivable	8,750
Capital Assets:	
Furniture, Fixtures, & Equipment, Net	8,538
Total Capital Assets, Net	<u>8,538</u>
TOTAL ASSETS	<u><u>62,709</u></u>
LIABILITIES	
Accounts Payable	94,847
Salary & Wages Payable	10,846
Temporary Overdraft Payable	4,913
Due to Other Agency	256
Long Term Liabilities:	
Note Payable, due within one year	6,056
TOTAL LIABILITIES	<u><u>116,918</u></u>
NET POSITION	
Net Investment in Capital Assets	2,482
Unrestricted	(56,691)
TOTAL NET POSITION	<u><u>\$ (54,209)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expenses)	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes Net Position Governmental Activities	
Governmental Activities:						
Instruction	\$ 346,901	\$ -	\$ 45,635	\$ -	\$ (301,266)	\$ (301,266)
Pupil Personnel Services	5,422				(5,422)	(5,422)
Instructional Media	959		959			-
Instructional Staff Training	315				(315)	(315)
Instructional Related Technology	16,246				(16,246)	(16,246)
Board of Education	16,058		6,500		(9,558)	(9,558)
General Administration	18,694				(18,694)	(18,694)
School Administration	214,764				(214,764)	(214,764)
Fiscal Services	2,229				(2,229)	(2,229)
Food Services	42,397	1,713	42,556		1,872	1,872
Pupil Transportation	81,417				(81,417)	(81,417)
Operation of Plant	183,580				(183,580)	(183,580)
Maintenance of Plant	23,677				(23,677)	(23,677)
Debt Service - Interest & Fiscal Charges	916				(916)	(916)
Unallocated Depreciation	2,303				(2,303)	(2,303)
Total Governmental Activities	\$ 955,878	\$ 1,713	\$ 95,650	\$ -	(858,515)	(858,515)
General Revenues:						
State Sources					375,319	375,319
Local and Other					395,274	395,274
Total General Revenues					<u>770,593</u>	<u>770,593</u>
Change in Net Position					(87,922)	(87,922)
Net Position - July 1, 2015					33,713	33,713
Net Position - June 30, 2016					<u>\$ (54,209)</u>	<u>\$ (54,209)</u>

The accompanying notes to the financial statements are an integral part of this statement.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Due from Other Agency	\$ -	\$ 26,157	\$ 26,157
Due from Related Party	19,264		19,264
Deposits Receivable	8,750		8,750
Due from Other Funds	26,157		26,157
Total Assets	\$ 54,171	\$ 26,157	\$ 80,328
LIABILITIES			
Accounts Payable	\$ 94,847	\$ -	\$ 94,847
Salary & Wages Payable	10,846		10,846
Temporary Overdraft Payable	4,913		4,913
Due to Other Agency	256		256
Due to Other Funds		26,157	26,157
Total Liabilities	110,862	26,157	137,019
FUND BALANCES			
Nonspendable	8,750		8,750
Unassigned	(65,441)		(65,441)
Total Fund Balances	(56,691)	-	(56,691)
Total Liabilities and Fund Balances	\$ 54,171	\$ 26,157	\$ 80,328

The accompanying notes to the financial statements are an integral part of this statement.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
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DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total Fund Balances - Governmental Funds	\$ (56,691)
Amounts reported for governmental activities in the statement of Net Position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.	8,538
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(6,056)</u>
Total Net Position - Governmental Activities	<u><u>\$ (54,209)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues	<u> </u>	<u> </u>	<u> </u>
Intergovernmental:			
Federal Through State and Local	\$ -	\$ 95,650	\$ 95,650
State Sources	375,319		375,319
Local and Other	395,274	1,713	396,987
Total Revenues	<u>770,593</u>	<u>97,363</u>	<u>867,956</u>
Expenditures			
Current - Education:			
Instruction	301,266	45,635	346,901
Pupil Personnel Services	5,422		5,422
Instructional Media		959	959
Instructional Staff Training	315		315
Instructional Related Technology	16,246		16,246
Board of Education	9,558	6,500	16,058
General Administration	18,694		18,694
School Administration	214,764		214,764
Fiscal Services	2,229		2,229
Food Services		42,397	42,397
Pupil Transportation	81,417		81,417
Operation of Plant	183,580		183,580
Maintenance of Plant	23,677		23,677
Debt Service:			
Principal	5,620		5,620
Interest & Fiscal Charges	916		916
Total Expenditures	<u>863,704</u>	<u>95,491</u>	<u>959,195</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(93,111)</u>	<u>1,872</u>	<u>(91,239)</u>
Other Financing Sources (Uses):			
Transfers In/(Out)	1,872	(1,872)	-
Total Other Financing Sources (Uses)	<u>1,872</u>	<u>(1,872)</u>	<u>-</u>
Net Change in Fund Balances	(91,239)	-	(91,239)
Fund Balances, July 1, 2015	34,548	-	34,548
Fund Balances, June 30, 2016	<u>\$ (56,691)</u>	<u>\$ -</u>	<u>\$ (56,691)</u>

The accompanying notes to financial statements are an integral part of this statement.

**VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
 (A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
 A CHARTER SCHOOL AND COMPONENT UNIT OF THE
 DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2016**

Net Change in Fund Balances - Governmental Funds	\$	(91,239)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense (\$2,303) in excess of capital outlays (\$0) in the current year.</p>		
		(2,303)
<p>Principal payments on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position.</p>		
		5,620
Change in Net Position - Governmental Activities	\$	(87,922)

The accompanying notes to the financial statements are an integral part of this statement.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

Valor Academy of Leadership High School (“School”), a charter school under Profectus Learning Systems, Inc., is a component unit of the District School Board of Duval County, Florida. The School’s charter is held by Profectus Learning Systems, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of not less than three members.

The basic financial statements of the School present only the balances, activity and disclosures related to the School. They do not purport to, and do not, present fairly the financial position of Profectus Learning Systems, Inc. as of June 30, 2016, and its changes in financial position or budgetary comparisons, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the Duval County School Board, Florida, (“District”). The current charter is effective until June 30, 2019, and is subject to annual review and may be renewed by mutual agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter. In this case, the District is required to notify the school in writing at least 90 days prior to the charter’s expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Basis of Presentation

Government-wide Financial Statements: Government-wide financial statements, including the statement of Net Position and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements: Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The School considers all of its funds as major governmental funds:

- General Fund: to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue Fund: to account for certain Federal grant program resources.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal

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A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Cash and Cash Equivalents**

Cash and cash equivalents are defined as demand deposits, money market accounts, and short term investments with original maturities of eight months or less from date of acquisition. The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company up to \$250,000.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of Net Position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	3-7 years

Current-year information relative to changes in capital assets is described in a subsequent note.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
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➤ **Long-term Debt**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Current-year information relative to changes in long-term debt is described in subsequent notes.

➤ **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The School does not have any items that qualify for reporting in this category.

➤ **Net Position and Fund Balance Classification**

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for

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resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.

- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

➤ **Order of Fund Balance Spending Policy**

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for non-general fund.

➤ **Revenue Sources**

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students (FTE) and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during designated full-time equivalent student survey periods. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School’s compliance in determining and reporting FTE and related data. Normally, such

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adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplies by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the fiscal year ended June 30, 2016, the School reported 58.12 unweighted FTE and 58.41 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

The School receives federal or state awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal or state awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based upon a capital outlay plan submitted to the District and are to be used for lease, rent or construction of school facilities. The School also receives funding through donations and fundraising efforts, school lunch sales and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

A schedule of revenue sources for the current year is presented in a subsequent note.

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➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles in the United States management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management determined there are no subsequent events which require disclosure.

2. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School does not have a custodial credit risk policy. All cash deposits are held in banks that qualify as public depositories under Florida law. All such deposits are insured by federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

3. DUE FROM OTHER AGENCY

The amounts Due from Other Agency included in the accompanying statement of Net Position and balance sheet – governmental funds consists of expenditures awaiting reimbursement for the Charter School Implementation Grant and the National School Lunch Program recorded in the Special Revenue Fund. These receivables are considered to be fully collectible and as such, no allowance for uncollectibles is accrued.

4. DUE FROM RELATED PARTY

The School reported a receivable \$19,264 from Profectus Learning Systems, Inc., the School's charter-holder and a related party through common control of affiliated charter schools, in its statement of net position and balance sheet – governmental funds. This amount represents funds held on behalf of the School.

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A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities:</u>				
Furniture, Fixtures and Equipment	\$ 11,520	\$ -	\$ -	\$ 11,520
Total Capital Assets Being Depreciated	11,520	-	-	11,520
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	(679)	(2,303)	-	(2,982)
Total Accumulated Depreciation	(679)	(2,303)	-	(2,982)
Governmental Activities Capital Assets, net	\$ 10,841	\$ (2,303)	\$ -	\$ 8,538

All depreciation expense was shown as unallocated on the Statement of Activities.

6. DUE TO OTHER AGENCY

The amount for Due from Other Agency included in the accompanying statement of Net Position and balance sheet – governmental funds is an amount due to the District for FEFP overpayment.

7. TEMPORARY OVERDRAFT PAYABLE

Temporary overdraft payable, as reported on the statement of net position and balance sheet governmental funds, represents \$2,559 of checks presented to the bank in excess of available funds, and represents \$2,354 of checks written and still on hand at the School.

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2016, the General Fund was due \$26,157 from the Special Revenue Fund for expenditures awaiting reimbursement from other agencies. The Special Revenue Fund transferred \$1,872 to the General Fund to provide financial support for the School's general operations. These amounts of interfund receivables, payables, and transfers are netted together and not reported in the statement of net position and statement of activities.

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A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

9. NOTES PAYABLE

The notes payable consists of the following:

<u>Notes Payable - CIT Finance LLC</u>	<u>Balance at</u>
	<u>6-30-16</u>
\$18,109 Borrowed September 2014, to finance the purchase of non-capitalized computer equipment. Three payments of \$6,526 including principal and interest are due annually. The maturity date of the Note is October 2016.	\$ 6,056
Total Loan Payable	<u><u>\$ 6,056</u></u>

Future amounts payable for the promissory note payable is as follows:

Fiscal Year	Total	Principal	Interest
<u>Ending June 30</u>	<u> </u>	<u> </u>	<u> </u>
2017	<u>\$ 6,526</u>	<u>\$ 6,056</u>	<u>\$ 470</u>
Total	<u><u>\$ 6,526</u></u>	<u><u>\$ 6,056</u></u>	<u><u>\$ 470</u></u>

10. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>	<u>Due in</u>
	<u>Balance</u>			<u>Balance</u>	<u>One Year</u>
GOVERNMENTAL ACTIVITIES:					
Loan Payable	<u>\$ 11,676</u>	<u>\$ -</u>	<u>\$ (5,620)</u>	<u>\$ 6,056</u>	<u>\$ 6,056</u>
Total Governmental Activities	<u><u>\$ 11,676</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (5,620)</u></u>	<u><u>\$ 6,056</u></u>	<u><u>\$ 6,056</u></u>

11. PENSION PLAN

The School participates in a defined contribution tax sheltered annuity 401(k) plan for all employees upon employment with the School. Contributions made by the School for the year ended June 30, 2016 were computed at 3% of employee's deferral of wages for each participating employee. Contributions are directed to individual employee's accounts, and the individual employees allocate contributions and account balances among various available investment choices, therefore, the School has no liability for the administration or payments of benefits of the plan, and accordingly, the present value of the related benefits is not reflected in these financial statements. The rate of contribution is set annually by the School's Board of Directors.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
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A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue:

Source	Amount
Florida Education Finance Program	\$ 209,446
ESE Guaranteed Allocation	80,241
Class Size Reduction	53,110
Supplementary Academic Instruction	13,168
Transportation	12,084
Instructional Materials	4,298
Safe School	1,572
Florida Teachers' Lead Program	1,400
Total State Revenue	<u>\$ 375,319</u>

As provided in the charter school contract, the District has charged the School an administrative fee totaling \$18,694.

Accounting policies relating to certain State revenue sources are described in Note 1.

13. OPERATING LEASE

Profectus Learning Systems, Inc. entered into a 3 year noncancelable operating lease with Williams Scotsman, Inc. for modular classrooms through July 31, 2017. The modular classrooms are being used exclusively for the operation of Valor Academy of Leadership High School, as well as Valor Academy of Leadership Middle School. The School's portion of rental expenditures under this lease agreement for the fiscal year was \$105,510.

14. DEFICIT FUND BALANCE AND NET POSITION

The School reported a deficit unrestricted net position and total fund balance of \$56,691 at June 30, 2016. Management expects increased FEFP revenue and the periodic monitoring of expenses throughout the new school year will alleviate the deficit by the end of the 2016-17 fiscal year.

15. RISK MANAGEMENT PROGRAMS

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

16. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2016, may be impaired.

In the opinion of the School, there are no significant liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

17. FUNDING AND CREDIT CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

18. LEGAL MATTERS

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. The School has no legal actions or pending proceedings in progress.

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND & MAJOR SPECIAL REVENUE FUND - (UNAUDITED)
For the Fiscal Year Ended June 30, 2015

	General Fund			Special Revenue Fund		
	Original / Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original / Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:						
Intergovernmental:						
Federal Through State and Local	\$ -	\$ -	\$ -	238,134	\$ 95,650	\$ (142,484)
State Sources	600,261	375,319	(224,942)		-	-
Local and Other	127,000	395,274	268,274		1,713	1,713
Total Revenues	727,261	770,593	43,332	238,134	97,363	(140,771)
Expenditures:						
Current - Education:						
Instruction	253,612	301,266	(47,654)	166,202	45,635	120,567
Pupil Personnel Services	37,922	5,422	32,500		-	-
Instructional Media		-	-		959	(959)
Instructional Staff Training		315	(315)		-	-
Instructional Related Technology		16,246	(16,246)		-	-
Board of Education	14,000	9,558	4,442		6,500	(6,500)
General Administration		18,694	(18,694)		-	-
School Administration	183,574	214,764	(31,190)		-	-
Fiscal Services	7,690	2,229	5,461		-	-
Food Services		-	-	71,932	42,397	29,535
Pupil Transportation	58,566	81,417	(22,851)		-	-
Operation of Plant	107,602	183,580	(75,978)		-	-
Maintenance of Plant	25,380	23,677	1,703		-	-
Debt Service:						
Principal		5,620	(5,620)	-	-	-
Interest & Fiscal Charges		916	(916)	-	-	-
Total Expenditures	688,346	863,704	(175,358)	238,134	95,491	142,643
Excess (Deficiency) of Revenues						
Over/(Under) Expenditures	38,915	(93,111)	(132,026)	-	1,872	1,872
Other Financing Sources (Uses):						
Transfers In/(Out)	-	1,872	(1,872)	-	(1,872)	(1,872)
Total Other Financing Sources (Uses)	-	1,872	-	-	(1,872)	(1,872)
Net Change in Fund Balances	38,915	(91,239)	(130,154)	-	-	-
Fund Balances, July 1, 2015	34,548	34,548	-	-	-	-
Fund Balances, June 30, 2016	\$ 73,463	\$ (56,691)	\$ (130,154)	\$ -	\$ -	\$ -

See Independent Auditor's Report

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.

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

To the Board of Directors of Valor Academy of Leadership High School
(A charter school under Profectus Learning Systems, Inc.)
a Charter School and Component Unit of the
District School Board of Duval County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valor Academy of Leadership High School, a charter school under Profectus Learning Systems, Inc., and component unit of the District School Board of Duval County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 18, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We did note one deficiency that we considered a significant deficiency in internal control shown on the *Schedule of Findings and Recommendations* as item finding 2016-02 and 2016-04.

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are shown on the *Schedule of Findings and Recommendations* as item finding 2016-03.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

November 18, 2016
Tampa, Florida



Members:
Florida Institute of CPAs
American Institute of CPAs
Government Audit Quality Center

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**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of Valor Academy of Leadership High School
(A charter school under Profectus Learning Systems, Inc.)
a Charter School and Component Unit of the
District School Board of Duval County, Florida

Report on the Financial Statements

We have audited the financial statements of Valor Academy of Leadership High School (“School”), a charter school under Profectus Learning Systems, Inc. and component unit of the District School Board of Duval County, Florida, as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated November 18, 2016.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated November 18, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The following is the status of the prior audit findings:

FINDING NO.

2015-01 - Management Approval of Disbursements

Finding Corrected. In our review of disbursement transactions, we noted that the voucher packages included documentation to support pre-approval and authorization by the School’s management.

Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Valor Academy of Leadership High School.

Financial Condition

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School met one or more of the conditions described in Section 218.503(1), Florida Statutes. See *Schedule of Findings and Recommendations* item 2016-01.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have reported findings or recommendations on the *Schedule of Findings and Recommendations*.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and the District School Board of Duval County and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



November 18, 2016
Tampa, Florida

VALOR ACADEMY OF LEADERSHIP HIGH SCHOOL
(A CHARTER SCHOOL UNDER PROPECTUS LEARNING SYSTEMS, INC.)

A Charter School and Component Unit of the District School Board of Duval County, Florida

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2016

Finding No.

2016-01 Financial Emergency: The Rules of the Auditor General (Section 10.854(1)(e)2.), require that we make a statement as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School did meet one of the conditions described in Section 218.503(1), Florida Statutes. The School failed to pay uncontested claims from creditors within 90 days, as a result of a lack of funds. We recommend the School contact these vendors to make a formal arrangement for payment.

2016-02 Accounts Payable Processing: We noted the School's accounting records indicated accounts payable amount of approximately \$94,362 as of June 30, 2016. During the course of our audit, we noted the outstanding payables as of June 30, 2016 had been changed to \$30,372. Upon inquiry we were informed that these payables had been deleted from the accounting records with no reason to substantiate their payment. Further inquiry revealed that these some the deleted invoices were actually paid in the 2016-17 fiscal year. We recommend the School establish procedures to properly account for the recording of invoices.

2016-03 Financial Management/Budgeting: As prescribed by Chapter 1002.33(9)(h), Florida Statutes, the governing body of the Charter School shall annually adopt and maintain an operating budget. This budget should be a balanced budget whereby there are adequate resources to fund all budgeted appropriations. In addition, expenditures should not exceed appropriations authorized by the Board.

The School adopted an operating budget at the beginning of the year and later amended the budget based on the change in enrollment. As reported on the Budgetary Comparison Schedule (page 25), total General Fund expenditures exceeded budgetary appropriation by \$175,358.

We recommend the School's Board establish procedures to monitor its budget in order amend if necessary and to help the Board make more informed financial decisions.

2016-04 Overdrawn Bank Account: A review of the School's bank account reconciliations disclosed that the School's bank account was overdrawn by \$2,559 at June 30, 2016. An apparent internal control breakdown in monitoring the School's available cash balance led to instances of checks written and disbursed in amounts in excess of the available bank balance. Proper internal controls over monitoring the School's available funds is essential in order to maintain financial stability. We recommend the School implement procedures to prevent the writing of checks which exceed the available bank balance.

Board of Directors

Cleve Warren, Chairperson
Dr. Barbara Darby, Secretary
Janet Owens, Treasurer

Chief Executive Officer

Olatunji Williams

**Valor Academy of Leadership High School
2016 Audit Finding Responses****Response to Finding No, 2016-01:**

The School and board of directors accepts and agrees to the audit recommendation to contact vendors to make formal arrangement for payments over 90 days. Actions have already been taken to perfect a meaningful reduction in total operating costs; especially in the area of personnel costs, facilities costs, and transportation costs. In addition, the school and board have developed plans for an aggressive student recruitment effort, a variety of fundraising events, along with the solicitation of major gift from a core of benefactors.

Response to Finding No. 2016-02:

The School and board of directors accepts and agrees to the audit recommendation to establish procedures to properly account for and report the recording of accounts payable invoices. Internal accounting procedures will be significantly improved with the planned engagement of a professional accountant.

Response to Finding No. 2016-03:

The school and board of directors accepts and agrees to the audit recommendation to monitor its budget [and improve its financial reporting methods] in order to amend if necessary, and to make timely and informed decisions regarding the school's financial position and operation performance.

Response to Finding No. 2016-04:

The school and board of directors accept and agree to the audit recommendation to implement procedures to prevent the writing of checks that will exceed the available balance.