# Great Hearts America—Texas

Financial Report
June 30, 2021

## Contents

**Great Hearts America—Texas**

**Federal Employer Identification Number: 43-1973126**
**Certificate of Board**

We, the undersigned, certify that the attached Financial Report of Great Hearts America—Texas was reviewed and (check one) ___X____ approved _______ disapproved for the year ended June 30, 2021, at a meeting of the governing body of the charter holder on the ____day of ________, 2021.

| | |
|---|---|
| Jay Heiler | Shannon Sedgwick Davis |
| Board Secretary | Board President |

If the governing body of the charter holder disapproved the independent auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

**Independent Auditor's Report**

Board of Directors
Great Hearts America—Texas

**Report on the Financial Statements**
We have audited the accompanying financial statements of Great Hearts America—Texas (the Organization), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*; issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**
As discussed in Note 1 to the financial statements, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as of July 1, 2020. Our opinion is not modified with respect to this matter.

**Other Matter—Other Information**
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying Certificate of Board, as listed in the Table of Contents, has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
December 21, 2021

# Financial Statements

## Great Hearts America—Texas

### Exhibit A-1 Statements of Financial Position
### June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 20,191,656** | $ 15,971,602 |
| Cash and cash equivalents—restricted | **-** | 487,333 |
| Due from governmental agencies | **12,039,312** | 8,632,292 |
| Unconditional promises to give—current portion | **766,330** | 667,169 |
| Prepaid expenses | **730,993** | 327,879 |
| Other current assets | **-** | 41,554 |
| **Total current assets** | **33,728,291** | 26,127,829 |
| Noncurrent assets: | | |
| Cash and cash equivalents—restricted | **88,995,322** | 42,728,324 |
| Property and equipment, net | **132,681,729** | 91,349,512 |
| Lease deposits | **172,634** | 162,605 |
| Unconditional promises to give, net | **2,217,779** | 1,839,627 |
| Right-of-use operating leases asset, net | **5,766,365** | - |
| **Total noncurrent assets** | **229,833,829** | 136,080,068 |
| **Total assets** | **$ 263,562,120** | $ 162,207,897 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable | **$ 5,836,566** | $ 3,910,423 |
| Retainage payable | **1,136,400** | 913,205 |
| Accrued expenses | **4,094,045** | 2,723,465 |
| Due to related parties | **2,279,536** | 1,179,443 |
| Deferred revenues | **329,089** | 135,859 |
| Current liabilities—notes and bonds payable, net | **915,000** | 445,000 |
| Operating leases liability, current portion | **1,695,018** | - |
| **Total current liabilities** | **16,285,654** | 9,307,395 |
| Long-term liabilities—notes and bonds payable, net | **213,089,963** | 129,425,855 |
| Operating leases liability, less current portion | **4,439,990** | - |
| **Total liabilities** | **233,815,607** | 138,733,250 |
| Net assets: | | |
| Without donor restrictions | **10,737,147** | 9,451,786 |
| With donor restrictions | **19,009,366** | 14,022,861 |
| **Total net assets** | **29,746,513** | 23,474,647 |
| **Total liabilities and net assets** | **$ 263,562,120** | $ 162,207,897 |

See notes to financial statements.

## Great Hearts America—Texas

## Exhibit A-2 Statement of Activities
## Year Ended June 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues and other support: | | | |
| Local support: | | | |
| Contributions | $ 1,733,907 | $ 5,404,369 | $ 7,138,276 |
| Food service | - | 277,644 | 277,644 |
| Other revenue | 1,766,846 | - | 1,766,846 |
| **Total local support** | 3,500,753 | 5,682,013 | 9,182,766 |
| State program revenues: | | | |
| Foundation School Program—State of Texas | 58,720,848 | - | 58,720,848 |
| Other state aid | 2,284,519 | 353,338 | 2,637,857 |
| **Total state program revenues** | 61,005,367 | 353,338 | 61,358,705 |
| Federal program revenues: | | | |
| Title I, Part A—Improving Basic Programs | - | 351,254 | 351,254 |
| IDEA B Formula | - | 525,034 | 525,034 |
| Title II, Part A—Teacher and Principal Training and Recruiting | - | 31,175 | 31,175 |
| Charter School Program High Quality Replication Grant | - | 1,490,568 | 1,490,568 |
| Title III, Part A—English Language Acquisition and Language Enhancement | - | 6,335 | 6,335 |
| ESSER Grant | - | 289,300 | 289,300 |
| Child Nutrition cluster | - | 252,809 | 252,809 |
| Other federal aid | - | 117,283 | 117,283 |
| **Total federal program revenues** | - | 3,063,758 | 3,063,758 |
| Net assets released from restrictions—satisfied by payments | 4,112,604 | (4,112,604) | - |
| **Total revenues and other support** | 68,618,724 | 4,986,505 | 73,605,229 |
| Expenses: | | | |
| Program activities: | | | |
| Instruction and instruction-related services | 34,445,317 | - | 34,445,317 |
| Instructional and school leadership | 8,704,980 | - | 8,704,980 |
| Student support services | 1,888,973 | - | 1,888,973 |
| Support services—nonstudent-based | 10,518,033 | - | 10,518,033 |
| Ancillary services | 830,451 | - | 830,451 |
| Debt service | 2,607,576 | - | 2,607,576 |
| Supporting services: | | | |
| Management and general: | | | |
| Administrative support services | 5,667,398 | - | 5,667,398 |
| Support services—nonstudent-based | 1,210,419 | - | 1,210,419 |
| Fundraising | 1,460,216 | - | 1,460,216 |
| **Total expenses** | 67,333,363 | - | 67,333,363 |
| **Change in net assets** | 1,285,361 | 4,986,505 | 6,271,866 |
| Net assets at beginning of year | 9,451,786 | 14,022,861 | 23,474,647 |
| Net assets at end of year | $ 10,737,147 | $ 19,009,366 | $ 29,746,513 |

See notes to financial statements.

## Great Hearts America—Texas

## Exhibit A-2 Statement of Activities
## Year Ended June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues and other support: | | | |
| Local support: | | | |
| Contributions | $ 1,873,742 | $ 5,402,249 | $ 7,275,991 |
| Food service | - | 267,117 | 267,117 |
| Other revenue | 2,052,896 | - | 2,052,896 |
| **Total local support** | 3,926,638 | 5,669,366 | 9,596,004 |
| State program revenues: | | | |
| Foundation School Program—State of Texas | 42,121,226 | - | 42,121,226 |
| Other state aid | 862,729 | 321,298 | 1,184,027 |
| **Total state program revenues** | 42,983,955 | 321,298 | 43,305,253 |
| Federal program revenues: | | | |
| Title I, Part A—Improving Basic Programs | - | 111,867 | 111,867 |
| IDEA B Formula | - | 448,632 | 448,632 |
| Title II, Part A—Teacher and Principal Training and Recruiting | - | 15,900 | 15,900 |
| 2018-2020 Charter School Program High Quality Replication Grant | - | 1,756,681 | 1,756,681 |
| ESSER Grant | - | 185,000 | 185,000 |
| Child Nutrition cluster | - | 204,951 | 204,951 |
| **Total federal program revenues** | - | 2,723,031 | 2,723,031 |
| Net assets released from restrictions—satisfied by payments | 3,176,671 | (3,176,671) | - |
| **Total revenues and other support** | 50,087,264 | 5,537,024 | 55,624,288 |
| Expenses: | | | |
| Program activities: | | | |
| Instruction and instruction-related services | 22,756,403 | - | 22,756,403 |
| Instructional and school leadership | 6,938,838 | - | 6,938,838 |
| Student support services | 1,739,344 | - | 1,739,344 |
| Support services—nonstudent-based | 7,116,825 | - | 7,116,825 |
| Ancillary services | 563,476 | - | 563,476 |
| Debt service | 3,486,521 | - | 3,486,521 |
| Supporting services: | | | |
| Management and general: | | | |
| Administrative support services | 3,721,338 | - | 3,721,338 |
| Support services—nonstudent-based | 702,604 | - | 702,604 |
| Fundraising | 1,310,127 | - | 1,310,127 |
| **Total expenses** | 48,335,476 | - | 48,335,476 |
| Loss on extinguishment of debt | (1,500,669) | - | (1,500,669) |
| **Change in net assets** | 251,119 | 5,537,024 | 5,788,143 |
| Net assets at beginning of year | 9,200,667 | 8,485,837 | 17,686,504 |
| Net assets at end of year | $ 9,451,786 | $ 14,022,861 | $ 23,474,647 |

See notes to financial statements.

## Great Hearts America—Texas

## Exhibit A-3 Statements of Cash Flows
## Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 6,271,866 | $ 5,788,143 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,086,484 | 1,931,735 |
| Amortization of leases | 1,654,879 | - |
| Amortization of bond premium | (978,572) | (502,967) |
| Amortization of bond and loan issuance costs | 178,971 | 131,807 |
| Extinguishment of debt | - | 1,500,669 |
| Payment of operating lease liabiltiies | (1,286,236) | - |
| Changes in: | | |
| Due from governmental agencies | (3,407,020) | (2,662,083) |
| Unconditional promises to give | (477,313) | 670,442 |
| Prepaid expenses | (403,114) | 10,071 |
| Other current assets | 41,554 | (41,168) |
| Lease deposits | (10,029) | (4,336) |
| Accounts payable and retainage payable | 2,149,338 | 1,301,004 |
| Accrued expenses | 1,370,580 | 2,461,503 |
| Due to related parties | 1,100,093 | (899,844) |
| Deferred revenues | 193,230 | 32,758 |
| **Net cash provided by operating activities** | 9,484,711 | 9,717,734 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (44,418,701) | (30,366,732) |
| **Net cash used in investing activities** | (44,418,701) | (30,366,732) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from loans, notes and bonds payable | 89,576,702 | 76,938,854 |
| Payments on loans, notes and bonds payable | (445,000) | (73,847) |
| Loan issuance costs | (4,197,993) | (6,263,929) |
| Payment to escrow for extinguishment of debt | - | (328,893) |
| **Net cash provided by financing activities** | 84,933,709 | 70,272,185 |
| | | |
| **Net increase in cash and cash equivalents (unrestricted and restricted)** | 49,999,719 | 49,623,187 |
| | | |
| Cash and cash equivalents (unrestricted and restricted) | | |
| Beginning | 59,187,259 | 9,564,072 |
| Ending | $ 109,186,978 | $ 59,187,259 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $ 2,144,608 | $ 2,031,232 |
| Property and equipment purchased through draw on line of credit | $ - | $ (4,425,050) |
| Proceeds deposited into escrow for purposes of refunding notes payable | $ - | $ 61,178,834 |
| Retirement of existing notes payable from escrow | $ - | $ (60,607,670) |

See notes to financial statements.

## Note 1. Organization and Significant Accounting Policies

**Organization:** Great Hearts America—Texas (the Organization) is a nonprofit 501(c)(3) corporation established in the state of Texas to operate public charter schools with open admissions policies in Texas. The Organization was originally established in 2002 for the purpose of providing education under the name of Sister Creek Center for Liberal Arts. A Restated Certificate of Formation with New Amendments was filed on February 17, 2012, to change the Organization's name to Great Hearts America—Texas and amend its purpose to develop each student's academic potential, personal character and leadership qualities through an academically rigorous and content-rich educational program grounded in the classical liberal arts tradition and to strive to give every student the education he or she deserves and needs. The primary goal of the Organization is to graduate thoughtful leaders of character who will contribute to a more philosophical, humane and just society. No assets were transferred in the reformation process.

The Organization is the wholly owned subsidiary of Great Hearts America, an Arizona nonprofit 501(c)(3) corporation, as Great Hearts America is the sole corporate member of the Organization. This nonprofit corporate structure is intended to maintain the integrity of the national Great Hearts America academic and programmatic model, while also allowing for local input and control. The Organization is the charter holder for all campuses operated in Texas.

Pursuant to the bylaws of the Organization, the Board of Directors (the Board) will be comprised of not less than three and not more than seven members. Each director will serve a one-year term or until his or her successor is appointed, and a director whose term has expired may be appointed to succeed him or herself. The Board is responsible for the adoption and implementation of policy for the Organization and for the management, operation and accountability of the charter school. At June 30, 2021, there were six directors (three in 2020).

In November 2012, the Texas State Board of Education (State Board) approved the Organization's first charter authorizing the opening of at least two K-12 campuses in and around San Antonio, Texas. Since then the Organization has grown to five campuses in Texas. According to the terms of the charter, the charter shall be in effect from the date of execution through July 31, 2018, unless renewed or terminated. In March 2018, the State Board approved the renewal of the Organization's charter for an additional 10 years. The Organization does not conduct any other charter or noncharter activities.

The Organization receives substantially all its funding from the Texas Education Agency (TEA), its cognizant state agency, based on the Organization's average daily attendance (ADA). Since the Organization receives funding from local, state and federal government sources, it must comply with the eligibility requirements of the entities providing those funds.

**Basis of presentation:** The financial statements of the Organization have been prepared on the accrual basis of accounting applicable to nonprofit organizations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing nonprofit accounting and financial reporting principles.

## Note 1. Organization and Significant Accounting Policies (Continued)

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows.

***Without donor restrictions:*** Funds consist of net assets that are not subject to donor-imposed restrictions. Net assets result from operating revenues, contributions without donor restrictions and dividend and interest income without donor restrictions. Net assets may be designated for specific purposes by action of the Board.

***With donor restrictions:*** Funds consist of net assets that are subject to donor-imposed restrictions. Donor-imposed stipulations can be temporary in nature (i.e., requiring the passage of time or the occurrence of a specified event) or perpetual in nature (i.e. stipulating that resources be held in perpetuity). When the donor restriction expires, net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenues and other support are reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, as applicable, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

The net assets with donor restrictions requires the Organization to use state funding for the benefit of educating students enrolled in the Organization’s schools.

**Cash and cash equivalents:** For financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

**Cash and cash equivalents—restricted:** Restricted cash is limited as to use under the terms of the bond indenture. The restricted cash represents amounts restricted for construction activity and debt service requirements for bonds. The amount of bond proceeds held in a trust account at U.S. Bank for the years ended June 30, 2021 and 2020, totaled $89.0 million and $42.7 million, respectively.

**Due from government agencies:** Due from government agencies is comprised of amounts due from state and pass-through grants from the TEA. Due from state consists of underpayments from the foundation school program made to the Organization from TEA. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as due from pass-through grants from TEA. Any of the government funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract. The Organization has not experienced any losses from government agencies due to nonpayment, none are expected by management and, therefore, an allowance for doubtful accounts has not been established.

**Allowance for doubtful accounts:** Management reviews accounts receivable (i.e., due from) and promises to give on a regular basis to determine if any receivable will potentially be uncollectible.

### Note 1. Organization and Significant Accounting Policies (Continued)

Management uses its judgment, based on the best available facts and circumstances, and records a specific reserve for each receivable to reduce the receivable to the amount that is expected to be collected. Factors such as the third-party organization's ability to meet its financial obligations and historical experience are used to determine the amount that is likely to be collected. Management includes receivable balances that are determined to be uncollectible in the allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The allowance for doubtful accounts totaled $281,129 as of June 30, 2021 ($69,114 in 2020).

**Prepaid items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

**Capital assets:** Capital assets, as defined by the Organization, are assets with individual cost of more than $5,000. Such assets are recorded at cost if purchased or fair value if donated. Depreciation is calculated on the straight-line method based on the following estimated useful lives of the respective assets. Construction in progress will be depreciated when placed into service.

| Asset Classification | Estimated Useful Lives |
|---|---|
| Buildings and improvements | 40 years |
| Furniture and equipment | 3-10 years |
| Computers and software | 3-5 years |

**Impairment of long-lived assets:** The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results; trends and prospects; and the effects of obsolescence, demand, competition and other economic factors. The Organization did not recognize an impairment loss during the years ended June 30, 2021 and 2020.

**Capitalized interest:** Interest expense during the construction period is capitalized as part of the cost of property and equipment. Capitalized interest for the years ended June 30, 2021 and 2020, totaled $3,922,277 and $951,670, respectively.

**Lease deposits:** The Organization paid deposits upon execution of several lease agreements for building space. The amounts will be refunded or expensed at the end of the lease term.

**Debt issuance costs:** Debt issuance costs are amortized over the term of the respective financing agreements and the unamortized balance is presented as a direct deduction of the debt liability.

**Deferred revenues:** Amounts received for conditional promises to give for which the condition has not been met are recorded as deferred revenues. When the condition is met, the revenues will be recognized.

**Revenue recognition:** Capitation received, including base capitation, entitlements and special services, is recognized in the period services are provided and eligibility requirements are met. Revenues from TEA are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

## Note 1. Organization and Significant Accounting Policies (Continued)

The Organization reports all its state funding and federal awards as support with donor restrictions. When these restrictions are fulfilled, that is, when the stipulated time restriction ends or purpose restriction (i.e., eligible expenditures are incurred) is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

***Local support revenue:*** Contributions from donors are recorded at fair value when the Organization is in possession of or receives an unconditional promise to give. Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions based on the existence and/or nature of any donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a donor restriction expires, that is, when a stipulated time restriction passes or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give, including contributions and pledges that are expected to be collected within one year, are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows based on the income approach.

Conditional promises to give are not included as revenues in the financial statements until such time as the conditions are met.

Donated services are recognized only if the services received either create or enhance assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No material amount of donated services was received during the years ended June 30, 2021 and 2020.

In-kind contributions of goods and services are recorded at fair value and recognized as revenue in the accounting period in which they are received. No in-kind contributions were received during the years ended June 30, 2021 and 2020.

***State and federal program revenues:*** The Organization receives a per pupil allocation from TEA to cover the cost of academic and facilities expenses. Pupil allocation revenue is recognized in the period in which performance obligations are met, which is the school year for which the allocation is made. Per pupil allocation has one performance obligation, to operate a school for students of certain ages in elementary school, middle school and high school grades. Therefore, performance obligations are satisfied for per pupil revenue over time, which aligns with the school year. The per pupil allocation does not include significant financing components, as performance obligations are satisfied within a year of receipt of the payment. There are no consideration amounts that are variable. As per pupil allocation is contractually due by year-end, the accounts receivable, if applicable, is an asset of the Organization as of June 30. Contract liabilities, if applicable, are classified on the balance sheet as deferred revenue, and includes unearned pupil allocation collections. Future cash flows depend on appropriations from TEA. While economic downturns may impact the Organization’s ability to attract and retain the number of students, TEA covers the cost of academic and facilities expenses for enrolled students.

## Note 1. Organization and Significant Accounting Policies (Continued)

The Organization receives grants from federal agencies for various purposes. Grants received without conditions are treated consistently as unconditional contributions. Conditional grants are grants that contain a right of return or release by the resource provider and a barrier (performance obligations, control elements and/or the overall nature of the agreement). Receivables related to conditional grant awards are recorded to the extent unreimbursed expenditures have been incurred for the purposes specified by an approved grant or award. The Organization defers grant collections under approved awards from grantors to the extent amounts received exceed expenditures incurred for the purposes specified under the grant restrictions. These deferred amounts are included in deferred revenue, if applicable.

***Regulated industry:*** The majority of the Organization's activities and revenues are a result of contracts (charter) with TEA. The Organization operations are concentrated in the education field. As such, the Organization is subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules and regulations are subject to change by an act of Congress or act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

**Federal income tax:** The Organization is a nonprofit organization and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying financial statements. Uncertain tax provisions, if any, are recorded in accordance with accounting guidance for income taxes, which requires the recognition of a liability for tax provisions taken that do not meet the more likely than not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2021 and 2020.

The Organization's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2021 and 2020, no interest or penalties have been or are required to be accrued.

**Use of estimates:** The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Functional allocation of expenses:** The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Contingencies:** Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization, but which will only be resolved when one or more future events occur or fail to occur. The Organization's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

**Note 1. Organization and Significant Accounting Policies (Continued)**

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed in the notes to financial statements. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed in the notes to financial statements.

**Advertising costs:** The Organization expenses advertising costs when they are incurred. Advertising costs for the years ended June 30, 2021 and 2020, totaled $486,264 and $309,486, respectively.

**Subsequent events:** The Organization has evaluated subsequent events through December 21, 2021, the date the financial statements were available to be issued.

The Organization entered into a lease in May 2021 with a commencement date of July 1, 2021, that expires June 30, 2024. The lease will result in a right-of-use (ROU) asset and lease liability of $862,659, respectively.

**Reclassification:** Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

**Leases:** Leases with contractual terms longer than 12 months are classified as either finance or operating in accordance with Accounting Standards Codification (ASC) 842, Leases. Finance leases result when the Organization substantially utilizes or pays for an entire asset over its estimated life. All other leases are classified as operating. When lease contracts include obligations to pay for other services, such as maintenance, these costs are included as a component of the lease.

Lease assets represent the right to use an underlying asset for the lease term. Lease assets are recognized at commencement date based on the value of the lease liability and are adjusted for any lease payments made to the lessor at or before commencement date, minus any lease incentives received and plus any initial direct costs incurred by the lessee.

Lease liabilities represent the contractual obligation to make lease payments. At the commencement date, the lease liabilities equal the present value of minimum lease payments over the lease term. As the implicit interest rate is not readily identifiable in the leases, the Organization estimates its collateralized borrowing rate to calculate the present value of lease payments.

The lease term at the lease commencement date is determined based on the noncancelable period for which the Organization has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Organization is reasonably certain to exercise that option, and periods covered by an option to extend (or to not terminate) the lease in which the exercise of the option is controlled by the lessor. The Organization considers a number of factors when evaluating whether the options in its lease contracts are reasonably certain of exercise, such as the length of time before option exercise, expected value of the leased asset at the end of the initial term, importance of the lease to overall operations, lessor relationship, costs to negotiate a new lease and any contractual or economic penalties.

**Note 1. Organization and Significant Accounting Policies (Continued)**

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease. Finance lease assets are amortized within operating expenses on a straight-line basis over the shorter of the estimated useful lives of the assets or, in instances where the title does not transfer at the end of the lease term, the lease term. The interest component of a finance lease is included in interest expense and recognized using the effective interest method over the lease term.

**Adopted accounting pronouncement:** In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard was adopted by the Organization effective July 1, 2020, as discussed in Note 10.

**Recent accounting pronouncement:** The FASB recently issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* This ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The term nonfinancial asset includes fixed assets, use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. A not-for-profit entity also is required to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets.

For each category of contributed nonfinancial asset recognized, a not-for-profit entity is required to disclose:

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a not-for-profit entity also is required to disclose a description of the programs or other activities in which those assets were used.

- The not-for-profit entity’s policy, if any, about monetizing rather than utilizing contributed nonfinancial assets.

- A description of any donor restrictions associated with the contributed nonfinancial assets.

- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, of the ASC, at initial recognition.

- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit entity is prohibited by a donor-imposed restriction form selling or using the contributed nonfinancial assets.

### Note 1. Organization and Significant Accounting Policies (Continued)

The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Organization has not yet selected a transition method for this ASU, and is currently evaluating the effect this standard will have on its financial statements.

### Note 2. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures topic of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair Value Measurements and Disclosures also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels.

**Level 1:** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

**Level 2:** Inputs are observable, other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3:** Inputs are unobservable, are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Organization did not have any investments that are required to be measured at fair value.

**Financial instruments:** The fair value of the Organization's cash and cash equivalents, due from government agencies, prepaid expenses and deposits approximates the carrying amounts of such instruments due to their short maturity. The fair value of the debt approximates the carrying amount because the rate and terms currently available to the Organization approximate the rate and terms on the existing debt.

### Note 3. Due From Government Agencies

Due from government agencies consists of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Due from state: | | |
| Settlement of underpayment | $ 10,864,635 | $ 7,391,983 |
| Other | 693,771 | 305,146 |
| Due from pass-through grants from TEA: | | |
| Federal grants | 480,906 | 192,000 |
| Due from pass-through grants from Region XX: | | |
| Federal grants | - | 743,163 |
| Total due from government agencies | $ 12,039,312 | $ 8,632,292 |

### Note 4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Gross amounts due in: | | |
| One year or less | $ 766,330 | $ 667,169 |
| One to five years | 2,673,215 | 2,198,168 |
| Total unconditional promises to give | 3,439,545 | 2,865,337 |
| Less discounts to net present value | 174,307 | 289,427 |
| Less allowance for doubtful accounts | 281,129 | 69,114 |
| Net unconditional promises to give | $ 2,984,109 | $ 2,506,796 |

Discount rates used on long-term promises to give ranged from 2.23% to 0.98% in 2021 and 2020.

### Note 5. Property and Equipment

Property and equipment consists of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Land and improvements | $ 22,598,465 | $ 18,345,219 |
| Buildings and improvements | 70,704,330 | 48,946,709 |
| Furniture and equipment | 3,765,904 | 3,033,780 |
| Computers and software | 1,795,624 | 997,510 |
| Textbooks | 254,589 | - |
| Leasehold improvements | 7,333,179 | - |
| Construction in progress | 33,582,155 | 24,292,326 |
| | 140,034,246 | 95,615,544 |
| Less accumulated depreciation | 7,352,517 | 4,266,032 |
| Net property and equipment | $ 132,681,729 | $ 91,349,512 |

Depreciation expense totaled $3,086,484 and $1,931,735, respectively, for the years ended June 30, 2021 and 2020.

### Note 6. Deferred Revenues

Deferred revenues consist of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Deferred grant revenue | $ 13,976 | $ 7,000 |
| After-school program deposits | 315,113 | 128,859 |
| Total deferred revenues | $ 329,089 | $ 135,859 |

## Note 7. Conditional Contributions

The Organization has conditional promises to give from philanthropic organizations as follows:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Conditioned on specific performance metrics and deliverables | $ 2,666,667 | $ 4,833,334 |
| Conditioned on donor's approval of the Organization's activities and raising matching funds within a specified time period | 3,712,500 | 6,309,999 |
| | $ 6,379,167 | $ 11,143,333 |

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2021, are as follows:

| | |
|---|---|
| Years ending June 30: | |
| 2022 | $ 3,522,917 |
| 2023 | 2,856,250 |
| | $ 6,379,167 |

Payments are contingent upon the Organization meeting certain criteria, items and conditions specified by the donors. As the conditions for payment from the donors have not been met as of June 30, 2021, the amounts have not been included in these financial statements.

## Note 8. Notes Payable

Notes payable consist of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Note payable in the original amount of $100,0000, including interest at 1.00%; due June 2024 | $ 101,707 | $ 100,700 |
| Note payable in the original amount of $300,0000, including interest at 1.00%; due June 2025 | 202,000 | 200,000 |
| Total notes payable | $ 303,707 | $ 300,700 |

Aggregate maturities required at June 30, 2021, were as follows:

| | |
|---|---|
| Years ending June 30: | |
| 2022 | $ - |
| 2023 | - |
| 2024 | 101,707 |
| 2025 | 202,000 |
| | $ 303,707 |

Interest expense totaled $0 and $390,137, respectively, for the years ended June 30, 2021 and 2020.

## Note 8. Notes Payable (Continued)

**Line of credit:** In June 2020, the Organization entered into a line of credit of up to $15,000,000 (ABT 2020-1) with Arizona Bank and Trust (AZBT). The line of credit bears an interest rate of the greater of 3.0% or *The Wall Street Journal* prime less 0.5%, and matures on June 1, 2023. The line of credit is used as short-term financing for the purpose of funding capital expenditures, including the purchase of real estate, and the costs of constructing, repairing, renovating, remodeling, improving and equipping educational facilities. As of June 30, 2021 and 2020, there were no amounts outstanding on the line of credit.

In June 2020, the Organization entered into a line of credit of up to $5,000,000 (ABT 2020-2) with AZBT. The line of credit bears an interest rate of the greater of 3.0% or *The Wall Street Journal* prime less 0.5%, and matures on June 1, 2023. The line of credit is used as short-term financing to fund capital expenditures and operating cash flow needs. As of June 30, 2021 and 2020, there were no amounts outstanding on the line of credit.

## Note 9. Bonds Payable

Bonds payable consists of the following:

| | June 30, 2020 | Additions | Retirements | June 30, 2021 |
|---|---|---|---|---|
| 2019 Bonds Series A Tax Exempt | $ 89,515,000 | $ - | $ - | $ 89,515,000 |
| 2019 Bonds Series B Taxable | 3,835,000 | - | (445,000) | 3,390,000 |
| 2020 Bonds Series A Tax Exempt | 30,590,000 | - | - | 30,590,000 |
| 2020 Bonds Series B Taxable | 75,000 | - | - | 75,000 |
| 2021 Bonds Series A Tax Exempt | - | 84,535,000 | - | 84,535,000 |
| Premium on bonds payable | 11,711,141 | 5,038,695 | (978,572) | 15,771,264 |
| Debt issuance costs | (6,155,986) | (4,197,993) | 178,971 | (10,175,008) |
| | 129,570,155 | $ 85,375,702 | $ (1,244,601) | 213,701,256 |
| Less current portion | 445,000 | | | 915,000 |
| Net long-term bonds payable | $ 129,125,155 | | | $ 212,786,256 |

Interest expense totaled $2,601,452 and $1,963,958, respectively, for the years ended June 30, 2021 and 2020.

**Series 2019 bonds:** On August 21, 2019, the Organization issued $89,515,000 of Education Revenue Bonds Series 2019A, and $3,835,000 of Taxable Education Revenue Bonds Series 2019B.

Proceeds of the Series 2019 bonds were for acquiring, improving, constructing and equipping certain properties and facilities to be used for educational, administrative, athletic, science and classroom purposes, to fund capitalized interest, and to pay costs of issuing the Bonds for various locations as listed in the bond agreement.

The Series 2019A bonds mature serially each August 15, starting 2023 through 2039, and term bond maturing August 15, 2044 through 2054, with a stated interest rate ranging from 3% to 5%. The Series 2019B bonds mature on August 15, 2023, with a stated interest rate of 2.45%.

**Note 9. Bonds Payable (Continued)**

As part of this issuance, the Organization defeased approximately $61,000,000 of notes payable. This resulted in a noncash loss on extinguishment of debt of $1,500,669, and an economic gain of $3,463,885.

**Series 2020 bonds:** On June 25, 2020, the Organization issued $30,590,000 of Education Revenue Bonds Series 2020A, and $75,000 of Taxable Education Revenue Bonds Series 2020B.

Proceeds of the Series 2020 bonds were for acquiring, improving, constructing and equipping certain properties and facilities to be used for educational, administrative, athletic, science and classroom purposes, to fund capitalized interest, and to pay costs of issuing the Bonds for various locations as listed in the bond agreement.

The Series 2020A bonds mature serially each August 15, starting 2023 through 2036, and term bond maturing August 15, 2033 through 2055, with a stated interest rate ranging from 3% to 5%. The Series 2020B bonds mature on August 15, 2023, with a stated interest rate of 2%.

**Series 2020 bonds:** On June 9, 2021, the Organization issued $84,535,000 of Education Revenue Bonds Series 2021A.

Proceeds of the Series 2021 bonds were for acquiring, improving, constructing and equipping certain properties and facilities to be used for educational, administrative, athletic, science and classroom purposes, to fund capitalized interest, and to pay costs of issuing the Bonds for various locations as listed in the bond agreement.

The Series 2021A bonds mature serially each August 15, starting 2024 through 2056, with a stated interest rate of 4%.

Debt service requirements for bonds payable for the year ended June 30, 2021, are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Years ending June 30: | | | |
| 2022 | $ 915,000 | $ 7,181,430 | $ 8,096,430 |
| 2023 | 1,385,000 | 6,700,772 | 8,085,772 |
| 2024 | 1,845,000 | 6,952,651 | 8,797,651 |
| 2025 | 2,915,000 | 6,826,862 | 9,741,862 |
| 2026 | 3,555,000 | 6,668,081 | 10,223,081 |
| Thereafter | 197,490,000 | 106,716,264 | 304,206,264 |
| | $ 208,105,000 | $ 141,046,060 | $ 349,151,060 |

**Covenants:** In accordance with the master trust indenture and security agreement, the Organization is required to maintain a debt service coverage ratio of not less than 1.10 and cash on hand of 45 days. In addition, there are negative covenants that preclude the Organization from selling, leasing or transferring its assets or collateral; making material alternations, modifications or substitutions to the collateral without prior consent or changing the use for which the property was intended. As of June 30, 2021, the Organization was in compliance with these covenants.

## Note 10. Operating Leases

Effective July 1, 2020, the Organization adopted ASC Topic 842, Leases, under the modified retrospective transition approach with application as of the date of adoption. Consistent with this approach, the comparative 2020 prior period was not restated. As a result of the adoption of the new standard, an ROU asset of $7,421,244 and lease liability of $7,804,797 was recorded as of July 1, 2020, related to facility leases. The standard includes several transition practical expedients to relieve the administrative burden of the standard, including the carryforward of prior lease classifications and the use of hindsight in determining the lease term. The Organization elected the hindsight practical expedient whereby hindsight is used in determining the lease term including the likelihood of renewals.

The Organization leases building space pursuant to noncancelable operating lease agreements expiring through 2025.

One of the lease agreements requires the Organization to obtain a letter of credit that can be used in the event the Organization cannot pay the required lease payments. On March 2, 2015, a third-party nonprofit corporation entered into a letter of credit reimbursement agreement for the Organization to meet this requirement. There were no outstanding amounts on the letter of credit as of June 30, 2021 and 2020.

For leases with terms of 12 months or less (short-term), the Organization has elected the practical expedient to exclude them from the consolidated balance sheets and recognize expense on a straight-line basis over the lease term. Rent expense for the year ended June 30, 2021, includes $21,972 on leases considered short-term.

Total rent expense was $2,159,899 and $2,024,641 for the years ended June 30, 2021 and 2020, respectively, and is included in program support services—nonstudent based, in the accompanying statements of activities.

The following table summarizes the annual operating lease obligations for the year:

| | | |
|---|---|---|
| Years ending June 30: | | |
| 2022 | $ | 1,695,018 |
| 2023 | | 1,761,865 |
| 2024 | | 1,749,454 |
| 2025 | | 814,703 |
| 2026 | | 142,462 |
| Total lease payments | | 6,163,502 |
| Less amounts representing interest | | (28,494) |
| Lease liabilities | $ | 6,135,008 |

The ROU assets for the operating leases is net of $1,654,879 of accumulated amortization at June 30, 2021. Amortization of the operating leases ROU assets and interest on the lease liabilities were $1,672,895 and $1,672,895, respectively, for the year ended June 30, 2021. On the operating leases, the weighted-average remaining lease term at June 30, 2021, is three years and the weighted-average discount rate is 0.22%.

## Note 11. Commitments and Contingencies

The Organization receives a portion of its funding from federal and state programs that are governed by various rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

At June 30, 2021 and 2020, the Organization had contracts to perform construction on new schools. The construction commitment balance and retainage payable totaled $41,190,941 and $1,136,400, respectively, at June 30, 2021 ($2,495,569 and $913,205, respectively, at June 30, 2020).

## Note 12. Net Assets

Net assets with donor restrictions consist of the following:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Subject to expenditure for a specified purpose: | | |
| Charter school development and expansion | $ 19,009,366 | $ 14,022,861 |

Net assets are released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Child Nutrition cluster | $ 563,387 | $ 472,067 |
| Title I, Part A—Improving Basic Programs | 351,254 | 111,867 |
| IDEA B formula | 525,034 | 448,632 |
| Title II, Part A—Teacher and Principal Training and Recruiting | 31,175 | 15,900 |
| Charter School Program High Quality Replication Grant | 1,490,568 | 1,756,681 |
| ESSER Grant | 289,300 | 185,000 |
| Charter school development and expansion | 358,723 | 186,524 |
| Title III, Part A—English Language Acquisition and Language Enhancement | 6,335 | - |
| Other releases | 496,828 | |
| Total net assets released from restrictions | $ 4,112,604 | $ 3,176,671 |

## Note 13. Related-Party Transactions

In the ordinary course of business, the Organization received various services from the sole member of its corporation, Great Hearts America. The amount due to related parties at June 30, 2021, totaled $2,279,536 ($1,179,443 in 2020). These transactions represent the 2.5% service fee, reimbursement for expenses incurred by Great Hearts America on behalf of Great Hearts America—Texas and benefit premium payments to the self-insured, self-funded plan (see Note 16).

### Note 14. Cash Balance and Credit Risk

The Organization maintains a balance at a bank in excess of the federally insured limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash deposits and investment holdings.

### Note 15. Pension Plan Obligations

***Plan description:*** The Organization participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's board of trustees does not have the authority to establish or amend benefit terms. The TRS plan does not include a collective-bargaining agreement.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard workload and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

The TRS plan differs from single employer plans in the following ways:

1. Charters are legally separate entities from the state and each other.

2. Assets contributed by one charter or independent school district (ISD) may be used for the benefit of an employee of another charter or ISD.

3. The unfunded obligations get passed along to other charters or ISDs.

4. There is not a withdrawal penalty for leaving the TRS system.

The TRS plan information for the year ended June 30, 2021, is outlined in the table below:

| Pension Fund | Total Plan Assets 2020 | Accumulation Benefit Obligation 2020 | Percent Funded | Surcharge Imposed |
|---|---|---|---|---|
| TRS | $ 184,361,870,581 | $ 218,974,205,084 | 75.54% | No |

Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at https://www.trs.texas.gov/TRS percent20Documents/cafr_2017.pdf; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698 or by calling (512) 542-6592.

**Note 15. Pension Plan Obligations (Continued)**

***Contributions:*** Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS during the fiscal year. Texas Government Code, Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code, Section 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code, Section 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contributors to the plan include members, the Organization and the state of Texas as the only nonemployer contributing entity (NECE). The state is the employer for senior colleges, medical schools and state agencies, including TRS. In each respective role, the state contributes to the plan in accordance with state statutes and the GAA.

As the NECE for public education and junior colleges, the state of Texas contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the Organization. The Organization is required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source or from noneducational and general or local funds.
- When the employing district is a public junior college or junior college district, the district shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

In addition to the Organization employer contributions listed below, when employing a retiree of TRS, the Organization shall pay both the member contribution and the state contribution as an employment after retirement surcharge. The Organization's contribution to TRS does not represent more than 5% of the total contributions to the TRS plan. There have been no changes that would affect the comparison of employer contributions from year to year.

## Note 15. Pension Plan Obligations (Continued)

| | 2021 | 2020 |
|---|---|---|
| Member (employees) | 7.7% | 7.7% |
| NECE | 7.5% | 6.8% |
| Employers | 7.5% | 6.8% |
| Employer contributions | $ 355,734 | $ 496,074 |
| Member contributions | 2,686,073 | 1,878,069 |
| Non-OASDI contributions | 401,907 | 365,222 |

## Note 16. Health Insurance

During the years ended June 30, 2021 and 2020, employees of the Organization were covered by a health insurance plan. In fiscal year 2020, the Organization contributed $392 to $1,120 per employee, per month depending on the employees' health insurance plan rate ($377 to $1,160) per employee, per month for 2020). Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. The Organization acquires its insurance coverage through and pays all premiums to Great Hearts America. Administration of the Great Hearts health program for fiscal year 2021 was contracted with CIGNA.

## Note 17. State Compliance Matters

**Budgetary matters:** In accordance with the TEA Special Supplement to the Financial Accountability System Resource Guide Charter Schools (FASRG), if the original and final budgeted amounts vary by more than 10% of the original budgeted amounts, a written statement discussing the causes of the variances is required.

The final budgeted amounts varied by more than 10% from the original budgeted amounts are as follows:

- Federal program revenues— The budget was adjusted due to Elementary and Secondary School Emergency Relief (ESSER) grants. The Organization added approximately $1.6 million in revenue from ESSER grants during fiscal year 2021.

- Function 13—The Talent team (Recruitment) paid by Great Heart America budgeted on a different "Function" but paid under function 13.

- Function 21—The budget was adjusted newly hired in administration (Deans and Assistant Head Masters) and for Dr. Rutherford, Director of Academics. It was also modified by additional leadership for the executive position leading online learning for four months.

- Function 23—Additional staff was hired (Deans, Assistant Head Masters and support staff) for online (not included in the budget) and incurred additional costs due to COVID-19.

- Function 35—COVID-19 impacted food services since most of the teaching was done remotely and many of the meals on campus were canceled.

- Function 36—School canceled many of the extracurricular activities due to COVID-19.

- Function 41—The original budget was adjusted for the retention bonus accrual. The accrual was not part of the original budget projection.

### Note 17. State Compliance Matters (Continued)

- Function 51—The Organization included hedge/contingency in this function when the original budget was created of $4.2 million. The Organization used approximately $1.9 million of the hedge to cover COVID-19-related expenses.

- Function 52—The difference to budget is due to additional expenses related to COVID such as cleaning, filters, sanitizing, desk shields, etc.

- Function 53—The Organization had an increase in internet costs (bandwidth) and equipment to support remote learning.

### Note 18. Classification of Expenses

The following reflects the classification of the Organization's expenses, by both the underlying nature of the expense and function, for the years ended of June 30, 2021 and 2020. Salaries, benefits and taxes have been allocated among the programs and supporting services benefited through the fund, department and location per assigned on hour employees' timesheets or assigned to salary employees annually. Costs including depreciation, amortization, printing, subscriptions, travel, transportation, insurance, professional fees and dues, interest, telephone and other expenses have been allocated based on location benefited (i.e., lead office versus campuses).

| | 2021 | | | |
|---|---|---|---|---|
| | | Supporting Services | | |
| | Program Activities | Management and General | Fundraising | Total |
| Salaries | $ 35,466,059 | $ 1,869,774 | $ 817,977 | $ 38,153,810 |
| Payroll taxes and benefits | 5,683,240 | 299,112 | 111,851 | 6,094,203 |
| Professional services | 1,815,485 | 2,295,134 | 604 | 4,111,223 |
| Facilities | 4,414,496 | 365,430 | - | 4,779,926 |
| Purchased services | 1,418,299 | 362,759 | 387,116 | 2,168,174 |
| Information technology | 1,504,293 | 883,610 | 14,312 | 2,402,215 |
| Supplies | 2,976,008 | 652,962 | 31,461 | 3,660,431 |
| Other | 29,514 | 149,036 | - | 178,550 |
| Interest, depreciation and amortization | 5,687,936 | - | - | 5,687,936 |
| Nonoperating expense | - | - | 96,895 | 96,895 |
| | $ 58,995,330 | $ 6,877,817 | $ 1,460,216 | $ 67,333,363 |

## Note 18. Classification of Expenses (Continued)

| | 2020 | | | |
|---|---|---|---|---|
| | | Supporting Services | | |
| | Program Activities | Management and General | Fundraising | Total |
| Salaries | $ 25,046,691 | $ 1,320,516 | $ 759,436 | $ 27,126,643 |
| Payroll taxes and benefits | 4,710,448 | 247,490 | 150,471 | 5,108,409 |
| Professional services | 2,493,585 | 1,993,072 | 1,440 | 4,488,097 |
| Facilities | 2,332,008 | 268,659 | - | 2,600,667 |
| Purchased services | 1,252,468 | 218,563 | 360,822 | 1,831,853 |
| Information technology | 342,665 | 76,819 | 973 | 420,457 |
| Supplies | 2,311,720 | 224,441 | 36,985 | 2,573,146 |
| Other | 197,152 | 74,382 | - | 271,534 |
| Interest, depreciation and amortization | 3,914,670 | - | - | 3,914,670 |
| | $ 42,601,407 | $ 4,423,942 | $ 1,310,127 | $ 48,335,476 |

## Note 19. Financial Assets Available and Liquidity

The following reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year.

| | June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Cash and cash equivalents, including restricted cash | $ 109,186,978 | $ 59,187,259 |
| Due from government agencies | 12,039,312 | 8,632,292 |
| Unconditional promises to give, net | 2,984,109 | 2,506,796 |
| Financial assets as of June 30, 2021 | 124,210,399 | 70,326,347 |
| Less: | | |
| Amounts subject to donor restrictions | 19,009,366 | 14,022,861 |
| Contractually obligated financial assets | 88,995,322 | 43,215,657 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 16,205,711 | $ 13,087,829 |

The Organization is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities. Therefore, financial assets may not be available for general expenditure within one year. The Organization structures its financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, the Organization has access to a $5.0 million line of credit with AZBT to draw upon as needed. See Note 8 for additional details.

The Organization's ABT 2020-1 line of credit with AZBT cannot be utilized to manage the Organization's liquidity, as it can only be drawn upon for capital expenditures while financing is being finalized. See Note 8 for additional details.

## Note 20. COVID-19

The continued global pandemic in 2020 has created substantial volatility in financial markets and the economy, including the geographical areas in which the Organization operates. While the Organization has mitigated the financial impact to its business, it is unknown how long these conditions will last and what the complete financial effect will be to the Organization.

Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.

# Other Supplemental Information

**Great Hearts America—Texas**

**Schedules of Expenses**
**Years Ended June 30, 2021 and 2020**

| | **2021** | 2020 |
|---|---|---|
| Expenses: | | |
| Payroll costs | **$ 44,253,282** | $ 32,253,200 |
| Professional and contracted services | **11,611,662** | 7,515,665 |
| Supplies and materials | **4,329,128** | 3,135,110 |
| Other operating costs | **4,537,839** | 3,448,566 |
| Debt service | **2,601,452** | 1,982,935 |
| **Total expenses** | **$ 67,333,363** | $ 48,335,476 |

**Great Hearts America—Texas**

**Schedule of Capital Assets**
**June 30, 2021**

| | Ownership Interest | | |
|---|---|---|---|
| Asset Classification | Local | State | Federal |
| Property and equipment: | | | |
| Land and improvements | $ - | $ 22,598,465 | $ - |
| Buildings and improvements | - | 70,401,015 | 303,315 |
| Furniture and equipment | - | 2,009,844 | 1,756,060 |
| Computers and software | - | 1,356,786 | 438,838 |
| Textbooks | - | 254,589 | 87,213 |
| Leasehold improvements | - | 7,333,179 | 175,710 |
| Construction in progress | - | 33,582,155 | - |
| **Total property and equipment** | $ - | $ 137,536,033 | $ 2,761,136 |

**Great Hearts America—Texas**

**Budgetary Comparison Schedule**
**Year Ended June 30, 2021**

| | | Budgeted Amounts | | | Variance With Final Budget |
|---|---|---|---|---|---|
| | | Original | Final | Actual | Positive (Negative) |
| | Revenues and other support: | | | | |
| 5700 | Local support | $ 9,428,982 | $ 9,188,982 | $ 9,182,766 | $ (6,216) |
| 5800 | State program revenues | 58,649,958 | 60,551,258 | 61,358,705 | 807,447 |
| 5900 | Federal program revenues | 2,724,191 | 5,000,000 | 3,063,758 | (1,936,242) |
| | **Total revenues and other support** | 70,803,131 | 74,740,240 | 73,605,229 | (1,135,011) |
| | Expenses: | | | | |
| 11 | Instructional | 33,210,950 | 34,310,950 | 34,300,849 | 10,101 |
| 13 | Curriculum development and instructional staff development | 26,080 | 146,080 | 144,466 | 1,614 |
| 21 | Instructional leadership | 1,444,670 | 1,244,670 | 1,268,902 | (24,232) |
| 23 | School leadership | 5,683,127 | 7,383,127 | 7,436,079 | (52,952) |
| 31 | Guidance, counseling and evaluation services | 215,483 | 235,483 | 235,809 | (326) |
| 33 | Health services | 609,498 | 609,498 | 614,798 | (5,300) |
| 35 | Food services | 744,890 | 594,890 | 589,862 | 5,028 |
| 36 | Extracurricular activities | 522,663 | 447,663 | 448,504 | (841) |
| 41 | General administration | 8,899,368 | 5,499,368 | 5,667,398 | (168,030) |
| 51 | Plant maintenance and operations | 8,482,176 | 9,732,176 | 9,716,063 | 16,113 |
| 52 | Security and monitoring services | 288,175 | 188,175 | 190,115 | (1,940) |
| 53 | Data processing services | 1,071,100 | 1,821,100 | 1,822,274 | (1,174) |
| 61 | Community services | 1,182,332 | 832,332 | 830,451 | 1,881 |
| 71 | Debt service | 2,488,320 | 2,488,320 | 2,607,577 | (119,257) |
| 81 | Fundraising | 1,524,299 | 1,524,299 | 1,460,216 | 64,083 |
| | **Total expenses** | 66,393,131 | 67,058,131 | 67,333,363 | (275,232) |
| | **Change in net assets** | 4,410,000 | 7,682,109 | 6,271,866 | (859,779) |
| | Net assets at beginning of year | 21,301,705 | 22,563,582 | 23,474,647 | - |
| | Net assets at end of year | $ 25,711,705 | $ 30,245,691 | $ 29,746,513 | $ (499,178) |