

# **Great Hearts America—Texas**

Financial Report  
June 30, 2022

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**Great Hearts America—Texas**

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


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We, the undersigned, certify that the attached Financial Report of Great Hearts America—Texas was reviewed and (check one)  approved \_\_\_\_\_ disapproved for the year ended June 30, 2022, at a meeting of the governing body of the charter holder on the 16 day of December, 2022.

*Michael Burke*  
Michael Burke (Dec 16, 2022 17:33 CST)

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Mike Burke  
Board Vice President

  
shannon sedgwick davis (Dec 16, 2022 17:13 CST)

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Shannon Sedgwick Davis  
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

RSM US LLP

Board of Directors  
Great Hearts America—Texas

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of Great Hearts—America Texas (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenses, Schedule of Capital Assets and Budgetary Comparison Schedule are presented for purposes of additional analysis and are 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.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the Certificate of the Board, Schedule of Real Property Ownership Interest, Schedule of Related Party Transactions and J-4 Schedule, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022, 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 the 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 16, 2022

## **Financial Statements**

Great Hearts America—Texas

Exhibit A-1 Statements of Financial Position  
June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,457,535	\$ 20,191,656
Due from governmental agencies	16,176,603	12,039,312
Investments	5,723,841	-
Unconditional promises to give—current portion	656,056	766,330
Prepaid expenses	1,277,481	730,993
<b>Total current assets</b>	<b>39,291,516</b>	<b>33,728,291</b>
Noncurrent assets:		
Cash and cash equivalents—restricted	25,042,682	88,088,074
Investments—restricted	23,689,237	4,829,525
Property and equipment, net	178,146,691	128,759,452
Lease deposits	197,634	172,634
Unconditional promises to give, net	700,174	2,217,779
Right-of-use operating leases asset, net	5,360,286	5,766,365
<b>Total noncurrent assets</b>	<b>233,136,704</b>	<b>229,833,829</b>
<b>Total assets</b>	<b>\$ 272,428,220</b>	<b>\$ 263,562,120</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 6,129,666	\$ 5,836,566
Retainage payable	1,985,119	1,136,400
Accrued expenses	6,006,770	4,094,045
Due to related parties	2,651,875	2,279,536
Deferred revenues	189,937	329,089
Current liabilities—notes, line of credit and bonds payable, net	1,710,000	915,000
Operating leases liability, current portion	2,209,052	1,695,018
<b>Total current liabilities</b>	<b>20,882,419</b>	<b>16,285,654</b>
Long-term liabilities—notes, line of credit and bonds payable, net	215,980,806	213,089,963
Operating leases liability, less current portion	3,540,284	4,439,990
<b>Total liabilities</b>	<b>240,403,509</b>	<b>233,815,607</b>
Net assets:		
Without donor restrictions	17,551,601	10,737,147
With donor restrictions	14,473,110	19,009,366
<b>Total net assets</b>	<b>32,024,711</b>	<b>29,746,513</b>
<b>Total liabilities and net assets</b>	<b>\$ 272,428,220</b>	<b>\$ 263,562,120</b>

See notes to financial statements.



## Great Hearts America—Texas

### Exhibit A-2 Statement of Activities Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Local support:			
Contributions	\$ 2,298,589	\$ 4,022,917	\$ 6,321,506
Food service	-	16,480	16,480
Other revenue	3,492,933	-	3,492,933
Investment return	(1,399,400)	-	(1,399,400)
<b>Total local support</b>	<b>4,392,122</b>	<b>4,039,397</b>	<b>8,431,519</b>
State program revenues:			
Foundation School Program—State of Texas	70,486,629	-	70,486,629
Other state aid	3,433,498	228,642	3,662,140
<b>Total state program revenues</b>	<b>73,920,127</b>	<b>228,642</b>	<b>74,148,769</b>
Federal program revenues:			
Title I, Part A—Improving Basic Programs	-	367,225	367,225
IDEA B Formula	-	1,024,004	1,024,004
Title II, Part A—Teacher and Principal Training and Recruiting	-	29,748	29,748
ESSER Grant	-	3,174,134	3,174,134
Title III, Part A—English Language Acquisition and Language Enhancement	-	1,174	1,174
Child Nutrition Cluster	-	2,791,363	2,791,363
Other federal aid	-	256,182	256,182
<b>Total federal program revenues</b>	<b>-</b>	<b>7,643,830</b>	<b>7,643,830</b>
Net assets released from restrictions—satisfied by payments	16,448,125	(16,448,125)	-
<b>Total revenues and other support</b>	<b>94,760,374</b>	<b>(4,536,256)</b>	<b>90,224,118</b>
Expenses:			
Program activities:			
Instruction and instruction-related services	45,022,334	-	45,022,334
Instructional and school leadership	10,891,608	-	10,891,608
Student support services	5,002,379	-	5,002,379
Support services—nonstudent-based	13,238,187	-	13,238,187
Ancillary services	1,278,812	-	1,278,812
Debt service	3,286,543	-	3,286,543
Supporting services:			
Management and general:			
Administrative support services	6,866,513	-	6,866,513
Support services—nonstudent-based	1,147,211	-	1,147,211
Fundraising	1,212,333	-	1,212,333
<b>Total expenses</b>	<b>87,945,920</b>	<b>-</b>	<b>87,945,920</b>
<b>Change in net assets</b>	<b>6,814,454</b>	<b>(4,536,256)</b>	<b>2,278,198</b>
Net assets at beginning of year	10,737,147	19,009,366	29,746,513
Net assets at end of year	<b>\$ 17,551,601</b>	<b>\$ 14,473,110</b>	<b>\$ 32,024,711</b>

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
<b>Revenues and other support:</b>			
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
<b>Total local support</b>	<b>3,500,753</b>	<b>5,682,013</b>	<b>9,182,766</b>
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
<b>Total state program revenues</b>	<b>61,005,367</b>	<b>353,338</b>	<b>61,358,705</b>
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
<b>Total federal program revenues</b>	<b>-</b>	<b>3,063,758</b>	<b>3,063,758</b>
Net assets released from restrictions—satisfied by payments	4,112,604	(4,112,604)	-
<b>Total revenues and other support</b>	<b>68,618,724</b>	<b>4,986,505</b>	<b>73,605,229</b>
<b>Expenses:</b>			
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	10,300,605	-	10,300,605
Ancillary services	830,451	-	830,451
Debt service	2,607,576	-	2,607,576
Supporting services:			
Management and general:			
Administrative support services	5,609,151	-	5,609,151
Support services—nonstudent-based	1,419,923	-	1,419,923
Fundraising	1,526,387	-	1,526,387
<b>Total expenses</b>	<b>67,333,363</b>	<b>-</b>	<b>67,333,363</b>
<b>Change in net assets</b>	<b>1,285,361</b>	<b>4,986,505</b>	<b>6,271,866</b>
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-3 Statements of Cash Flows Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 2,278,198	\$ 6,271,866
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,275,040	3,086,484
Amortization of leases	2,077,945	1,654,879
Amortization of bond premium	(1,626,670)	(978,572)
Amortization of bond and loan issuance costs	298,911	178,971
Realized and unrealized loss on investments	1,521,705	-
Payment of operating lease liabilities	(2,057,539)	(1,286,236)
Changes in:		
Due from governmental agencies	(4,137,291)	(3,407,020)
Unconditional promises to give	1,627,879	(477,313)
Prepaid expenses	(546,481)	(403,114)
Other current assets	-	41,554
Lease deposits	(25,000)	(10,029)
Accounts payable and retainage payable	1,141,819	2,149,338
Accrued expenses	1,912,725	1,370,580
Due to related parties	372,339	1,100,093
Deferred revenues	(139,158)	193,230
<b>Net cash provided by operating activities</b>	<b>6,974,422</b>	<b>9,484,711</b>
Cash flows from investing activities:		
Purchase of property and equipment	(53,662,279)	(40,496,424)
Purchases of investments	(73,678,622)	(4,829,525)
Proceeds from sales/maturities of investments	47,573,364	-
<b>Net cash used in investing activities</b>	<b>(79,767,537)</b>	<b>(45,325,949)</b>
Cash flows from financing activities:		
Proceeds from loans, notes and bonds payable	5,928,602	89,576,702
Payments on loans, notes and bonds payable	(915,000)	(445,000)
Loan issuance costs	-	(4,197,993)
<b>Net cash provided by financing activities</b>	<b>5,013,602</b>	<b>84,933,709</b>
<b>Net increase (decrease) in cash and cash equivalents (unrestricted and restricted)</b>	<b>(67,779,513)</b>	<b>49,092,471</b>
Cash and cash equivalents (unrestricted and restricted)		
Beginning	108,279,730	59,187,259
Ending	<u>\$ 40,500,217</u>	<u>\$ 108,279,730</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 4,609,052</u>	<u>\$ 2,601,452</u>
Property and equipment purchased through draw on line of credit	<u>\$ 5,916,940</u>	<u>\$ -</u>

See notes to financial statements.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### 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, 2022, there were six directors (six in 2021).

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.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### 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, 2022 and 2021, totaled approximately \$25.0 million and \$89.0 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.

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 \$302,379 as of June 30, 2022 (\$281,129 in 2021).

## Great Hearts America—Texas

### Notes to Financial Statements

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

**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.

**Property and equipment:** Property and equipment, 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

**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

**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, 2022 and 2021.

## Great Hearts America—Texas

### Notes to Financial Statements

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

**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, 2022 and 2021, totaled \$2,239,209 and \$3,922,277, 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. Bond premium or discount is amortized based on the amount of premium or discount for each tranche of bonds when sold and when the bonds principal amount is due. The unamortized balance of bond premium is presented as an increase to the bond liability and unamortized discount is presented as a deduction from bond 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.

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.

**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

## Great Hearts America—Texas

### Notes to Financial Statements

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

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.

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, 2022 and 2021.

The Organization's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2022 and 2021, 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. 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).



## Great Hearts America—Texas

### Notes to Financial Statements

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

**Advertising costs:** The Organization expenses advertising costs when they are incurred. Advertising costs for the years ended June 30, 2022 and 2021, totaled \$611,194 and \$486,264, respectively.

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

**Risks and uncertainties:** The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which the coronavirus impacts the Organization's results will depend on future development, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Organization, but such an impact could have material adverse effects on the financial condition of the Organization.

**Adopted accounting pronouncement:** The FASB recently issued Accounting Standards Update (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 nonprofit 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 nonprofit 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 nonprofit entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

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 adopted ASU 2020-07 as of June 30, 2022, with no material impact.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### 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 as of June 30, 2021.

The following table represents all assets measured at fair value on a recurring basis, as of June 30, 2022 and by level within the fair value measurement hierarchy.

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Fixed Income	\$ 24,928,281	\$ 24,928,281	\$ -	\$ -
Equities	4,484,797	4,484,797	-	-
	<u>\$ 29,413,078</u>	<u>\$ 29,413,078</u>	<u>\$ -</u>	<u>\$ -</u>

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Fixed Income	\$ 4,829,525	\$ 4,829,525	\$ -	\$ -
	<u>\$ 4,829,525</u>	<u>\$ 4,829,525</u>	<u>\$ -</u>	<u>\$ -</u>

**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.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 3. Due From Government Agencies

Due from government agencies consists of the following:

	June 30	
	2022	2021
Due from state:		
Settlement of underpayment	\$ 13,630,995	\$ 10,864,635
Other	900,610	693,771
Due from pass-through grants from TEA:		
Federal grants	1,644,998	480,906
Total due from government agencies	<u>\$ 16,176,603</u>	<u>\$ 12,039,312</u>

#### Note 4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	June 30	
	2022	2021
Gross amounts due in:		
One year or less	\$ 656,056	\$ 766,330
One to five years	1,093,689	2,673,215
Total unconditional promises to give	<u>1,749,745</u>	<u>3,439,545</u>
Less discounts to net present value	91,136	174,307
Less allowance for doubtful accounts	302,379	281,129
Net unconditional promises to give	<u>\$ 1,356,230</u>	<u>\$ 2,984,109</u>

Discount rates used on long-term promises to give ranged from 1.55% to 2.73% in 2022 and 2021.

#### Note 5. Property and Equipment

Property and equipment consists of the following:

	June 30	
	2022	2021
Land and improvements	\$ 25,980,844	\$ 22,598,465
Buildings and improvements	102,446,092	70,704,330
Furniture and equipment	4,285,029	3,765,904
Computers and software	2,075,670	1,795,624
Textbooks	603,183	254,589
Leasehold improvements	816,761	3,410,902
Construction in progress	53,566,668	33,582,155
	<u>189,774,247</u>	<u>136,111,969</u>
Less accumulated depreciation	11,627,556	7,352,517
Net property and equipment	<u>\$ 178,146,691</u>	<u>\$ 128,759,452</u>

Depreciation expense totaled \$4,275,040 and \$3,086,484, respectively, for the years ended June 30, 2022 and 2021.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 6. Deferred Revenues

Deferred revenues consist of the following:

	June 30	
	2022	2021
Deferred grant revenue	\$ -	\$ 13,976
After-school program deposits	189,937	315,113
Total deferred revenues	<u>\$ 189,937</u>	<u>\$ 329,089</u>

#### Note 7. Conditional Contributions

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

	June 30	
	2022	2021
Conditioned on specific performance metrics and deliverables	\$ 1,000,000	\$ 2,666,667
Conditioned on donor's approval of the Organization's activities and raising matching funds within a specified time period	1,856,250	3,712,500
	<u>\$ 2,856,250</u>	<u>\$ 6,379,167</u>

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2022 are \$2,856,250 for 2023.

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, 2022, the amounts have not been included in these financial statements.

#### Note 8. Notes Payable

Notes payable consist of the following:

	June 30	
	2022	2021
Line of credit	\$ 5,925,609	\$ -
Note payable in the original amount of \$100,0000, including interest at 1.00%; due June 2024	102,700	101,707
Note payable in the original amount of \$300,0000, including interest at 1.00%; due June 2025	204,000	202,000
Total notes payable	<u>\$ 6,232,309</u>	<u>\$ 303,707</u>

## Great Hearts America—Texas

### Notes to Financial Statements

#### Note 8. Notes Payable (Continued)

Aggregate maturities required at June 30, 2022, were as follows:

Years ending June 30:		
2023	\$	-
2024		6,019,640
2025		212,669
	\$	<u>6,232,309</u>

Interest expense totaled \$2,993 and \$0, respectively, for the years ended June 30, 2022 and 2021.

**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, 2022 and 2021, there was \$5,925,609 and \$0, respectively, 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, 2022 and 2021, there were no amounts outstanding on the line of credit.

#### Note 9. Bonds Payable

Bonds payable consists of the following:

	June 30, 2021	Additions	Retirements	June 30, 2022
2019 Bonds Series A Tax Exempt	\$ 89,515,000	\$ -	\$ -	\$ 89,515,000
2019 Bonds Series B Taxable	3,390,000	-	(915,000)	2,475,000
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	15,771,264	-	(1,626,670)	14,144,594
Debt issuance costs	(10,175,008)	-	298,911	(9,876,097)
	<u>213,701,256</u>	<u>\$ -</u>	<u>\$ (2,242,759)</u>	<u>211,458,497</u>
Less current portion	915,000			1,710,000
Net long-term bonds payable	<u>\$ 212,786,256</u>			<u>\$ 209,748,497</u>

## Great Hearts America—Texas

### Notes to Financial Statements

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

	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)
	<u>129,570,155</u>	<u>\$ 85,375,702</u>	<u>\$ (1,244,601)</u>	<u>213,701,256</u>
Less current portion	445,000			915,000
Net long-term bonds payable	<u>\$ 129,125,155</u>			<u>\$ 212,786,256</u>

Interest expense totaled \$4,609,052 and \$2,601,452, respectively, for the years ended June 30, 2022 and 2021.

**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%.

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.

## Great Hearts America—Texas

### Notes to Financial Statements

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

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, 2022, are as follows:

	Principal	Interest	Total
Years ending June 30:			
2023	\$ 1,710,000	\$ 7,006,509	\$ 8,716,509
2024	2,990,000	6,947,838	9,937,838
2025	2,990,000	6,821,238	9,811,238
2026	3,620,000	6,662,206	10,282,206
2027	3,795,000	6,493,819	10,288,819
Thereafter	192,085,000	100,071,620	292,156,620
	<u>\$ 207,190,000</u>	<u>\$ 134,003,230</u>	<u>\$ 341,193,230</u>

**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, 2022 and 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. 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. Right-of-use (ROU) asset and lease liability for the year ended June 30, 2022, was \$5,360,286 and \$5,749,336, respectively (\$5,766,365 and \$6,135,008, respectively, at June 30, 2021).

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

For leases with terms of 12 months or less (short-term), the Organization has elected the practical expedient to exclude them from the balance sheets and recognize expense on a straight-line basis over the lease term. Rent expense for the year ended June 30, 2022, includes \$1,831 (\$7,324, respectively, at June 30, 2021) on leases considered short-term.

Total rent expense was \$2,314,852 and \$2,159,899 for the years ended June 30, 2022, and 2021, respectively, and is included in program support services—nonstudent based, in the accompanying statements of activities.

## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 10. Operating Leases (Continued)

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

Years ending June 30:	
2023	2,224,921
2024	2,242,573
2025	982,295
2026	300,238
2027	28,584
Total lease payments	<u>5,778,611</u>
Less amounts representing interest	<u>(29,275)</u>
Lease liabilities	<u>\$ 5,749,336</u>

The ROU assets for the operating leases is net of \$2,077,945 of accumulated amortization at June 30, 2022 (\$1,654,879 in 2021). Amortization of the operating leases ROU assets and interest on the lease liabilities were \$2,064,525 and \$29,276, respectively, for the year ended June 30, 2022 (\$1,672,895 and \$28,494, respectively, at June 30, 2021). On the operating leases, the weighted-average remaining lease term at June 30, 2022, is 2 years and the weighted-average discount rate is 0.22% (22% in 2021).

#### Note 11. Commitments and 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 and its legal counsel assess 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.

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.

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.



## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 11. Commitments and Contingencies (Continued)

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, 2022 and 2021, the Organization had contracts to perform construction on new schools. The construction commitment balance and retainage payable totaled \$32,331,996 and \$2,002,705, respectively, at June 30, 2022 (\$41,190,941 and \$1,136,400, respectively, at June 30, 2021).

#### Note 12. Net Assets

Net assets with donor restrictions consist of the following:

	June 30	
	2022	2021
Subject to expenditure for a specified purpose:		
Charter school development and expansion	\$ 14,473,110	\$ 19,009,366

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

	June 30	
	2022	2021
Child Nutrition Cluster	\$ 2,488,374	\$ 563,387
Title I, Part A—Improving Basic Programs	367,225	351,254
IDEA B formula	1,024,004	525,034
Title II, Part A—Teacher and Principal Training and Recruiting	29,748	31,175
Charter School Program High Quality Replication Grant	385,492	1,490,568
ESSER Grant	3,174,134	289,300
Charter school development and expansion	64,000	358,723
Title III, Part A—English Language Acquisition and Language Enhancement	1,174	6,335
Other federal releases	256,182	-
Other state releases	228,642	-
Other releases from local sources	8,429,150	496,828
Total net assets released from restrictions	\$ 16,448,125	\$ 4,112,604

#### 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, 2022, totaled \$2,651,875 (\$2,279,536 in 2021). 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). The service fee paid to Great Hearts America at June 30, 2022, totaled \$1,854,000 (\$1,534,000 in 2021).

## Great Hearts America—Texas

### Notes to Financial Statements

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#### 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, 2022, is outlined in the table below:

Pension Fund	Total Plan Assets 2021	Accumulation Benefit Obligation 2021	Percent Funded	Surcharge Imposed
TRS	\$ 223,172,755,137	\$ 227,273,463,630	88.79%	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%20Documents/acfr-2021.pdf>; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698 or by calling (512) 542-6592.

**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.

## Great Hearts America—Texas

### Notes to Financial Statements

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

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.

	2022	2021
Member (employees)	7.7%	7.7%
NECE	7.5%	7.5%
Employers	7.5%	7.5%
Employer contributions	\$ 289,455	\$ 355,734
Member contributions	3,639,344	2,686,073
Non-OASDI contributions	772,800	401,907

## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 16. Health Insurance

During the years ended June 30, 2022, and 2021, employees of the Organization were covered by a health insurance plan. In fiscal year 2022, the Organization contributed \$409 to \$1,183 per employee, per month depending on the employees' health insurance plan rate (\$392 to \$1,120 per employee, per month for 2021). 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 2022 was contracted with Blue Cross Blue Shield.

#### 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:

- Local program revenues—The budget was adjusted due to unrealized loss on investments.
- Federal program revenues—The budget was adjusted due to the free meal program, and the ESSER revenue not included in the original budget.
- Function 13—The Talent team (Recruitment) paid by Great Heart America budgeted on a different Function but paid under function 13.
- Function 21— The Talent team (Recruitment) paid by Great Heart America budgeted on a different Function but paid under function 21.
- Function 23—Additional staff was hired (Deans, Assistant Head Masters and support staff) to help with instructional gaps from COVID-19 years. In addition, some new upper schools added Athletic Directors to their staff.
- Function 31—Additional staff was hired to assist with special education.
- Function 33—Additional staff was hired to assist with COVID-19 procedures during student and class protocol.
- Function 35—Enrolled in the free lunch program after the budget was completed. The meal cost increased since many parents took advantage of the free meal program.
- Function 36—Underbudgeted Athletics and Clubs expenses coming from a COVID-19 year.
- Function 51—Cleaning services were underbudgeted for the amounts not covered by the ESSER funds as part of COVID-19. Depreciation expense was also underbudgeted for the new schools added.
- Function 61—The budget for After School (Athenaeum) was very conservative. To match the needs for the program for the additional enrollment, additional staff was hired.

## Great Hearts America—Texas

### Notes to Financial Statements

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

- Function 81—VP of development and other fundraising staff resigned during the year and were not replaced.

#### 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, 2022 and 2021. 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).

	2022			
	Program Activities	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 44,774,948	\$ 2,808,877	\$ 806,290	\$ 48,390,115
Payroll taxes and benefits	8,205,198	415,318	137,091	8,757,607
Professional services	2,735,724	2,575,578	14,359	5,325,661
Facilities	5,428,970	397,706	-	5,826,676
Purchased services	4,358,209	852,880	196,175	5,407,264
Information technology	2,302,753	447,244	16,901	2,766,898
Supplies	3,662,043	71,420	31,615	3,765,078
Other	15,068	99,478	590	115,136
Interest, depreciation and amortization	7,236,950	248,151	71,232	7,556,333
Nonoperating expense	-	97,072	(61,920)	35,152
	<u>\$ 78,719,863</u>	<u>\$ 8,013,724</u>	<u>\$ 1,212,333</u>	<u>\$ 87,945,920</u>

	2021			
	Program Activities	Supporting Services		Total
		Management and General	Fundraising	
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	5,470,508	151,257	66,171	5,687,936
Nonoperating expense	-	-	96,895	96,895
	<u>\$ 58,777,902</u>	<u>\$ 7,029,074</u>	<u>\$ 1,526,387</u>	<u>\$ 67,333,363</u>

## Great Hearts America—Texas

### Notes to Financial Statements

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#### Note 19. Financial Assets Available and Liquidity

The following reflects the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year.

	June 30	
	2022	2021
Cash and cash equivalents, including restricted cash	\$ 40,500,217	\$ 108,279,730
Due from government agencies	16,176,603	12,039,312
Unconditional promises to give, net	1,356,230	2,984,109
Financial assets as of June 30, 2022	<u>58,033,050</u>	<u>123,303,151</u>
Less:		
Amounts subject to donor restrictions	14,473,110	19,009,366
Contractually obligated financial assets	25,042,682	88,995,322
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,517,258</u>	<u>\$ 15,298,463</u>

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. Subsequent Events

The Organization has evaluated subsequent events through December 16, 2022, the date the financial statements were available to be issued.

On September 1, 2022, the Organization issued \$19,230,000 of Education Revenue Bonds Series 2022A, and \$200,000 of Taxable Education Revenue Bonds Series 2022B.

Proceeds of the Series 2022 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 2032 through 2057, with a stated interest rate of 4%-5%.

On November 14, 2022, the Organization entered into two agreements to purchase land totaling \$5,814,535. The lots are located in San Antonio and Irving, Texas and will be used for future school sites.

## **Other Supplemental Information**

**Great Hearts America—Texas**

**Schedules of Expenses  
Years Ended June 30, 2022 and 2021**

	<b>2022</b>	2021
Expenses:		
Payroll costs	<b>\$ 57,147,722</b>	\$ 44,253,282
Professional and contracted services	<b>19,326,499</b>	11,611,662
Supplies and materials	<b>3,765,078</b>	4,329,128
Other operating costs	<b>4,425,328</b>	4,537,839
Debt service	<b>3,281,293</b>	2,601,452
	<hr/>	<hr/>
<b>Total expenses</b>	<b>\$ 87,945,920</b>	<b>\$ 67,333,363</b>



**Great Hearts America—Texas**

**Schedule of Capital Assets  
June 30, 2022**

Asset Classification	Ownership Interest			
	Local	State	Federal	Total
Property and equipment:				
Land and improvements	\$ -	\$ 25,980,844	\$ -	\$ 25,980,844
Buildings and improvements	-	102,026,322	419,770	102,446,092
Furniture and equipment	-	2,949,987	1,335,042	4,285,029
Computers and software	-	1,636,832	438,838	2,075,670
Textbooks	-	515,970	87,213	603,183
Leasehold improvements	-	816,761	-	816,761
Construction in progress	-	53,566,668	-	53,566,668
<b>Total property and equipment</b>	<b>\$ -</b>	<b>\$ 187,493,384</b>	<b>\$ 2,280,863</b>	<b>\$ 189,774,247</b>

**Great Hearts America—Texas**

**Budgetary Comparison Schedule  
Year Ended June 30, 2022**

		Budgeted Amounts		Actual	Variance With Final Budget
		Original	Final		
Revenues and other support:					
5700	Local support	\$ 9,261,671	\$ 8,261,671	\$ 8,431,519	\$ 169,848
5800	State program revenues	75,886,037	73,886,037	74,148,769	262,733
5900	Federal program revenues	1,725,943	7,725,943	7,643,830	(82,113)
<b>Total revenues and other support</b>		<b>86,873,651</b>	<b>89,873,651</b>	<b>90,224,118</b>	<b>350,467</b>
Expenses:					
11	Instructional	43,909,689	43,909,689	44,401,981	(492,292)
13	Curriculum development and instructional staff development	171,517	571,517	620,353	(48,836)
21	Instructional leadership	1,692,331	1,342,331	1,236,170	106,161
23	School leadership	7,214,410	9,414,410	9,655,438	(241,028)
31	Guidance, counseling and evaluation services	162,414	222,414	332,388	(109,974)
33	Health services	787,713	1,037,713	1,073,385	(35,672)
35	Food services	638,358	2,438,358	2,492,161	(53,803)
36	Extracurricular activities	357,049	1,057,049	1,104,445	(47,396)
41	General administration	7,643,773	7,543,773	6,866,513	677,260
51	Plant maintenance and operations	9,721,231	11,321,231	11,346,306	(25,075)
52	Security and monitoring services	389,223	389,223	375,887	13,336
53	Data processing services	3,062,012	2,762,012	2,734,437	27,575
61	Community services	1,056,341	1,256,341	1,278,812	(22,471)
71	Debt service	3,623,387	3,573,387	3,286,543	286,844
81	Fundraising	2,006,065	1,206,065	1,141,101	64,964
<b>Total expenses</b>		<b>82,435,513</b>	<b>88,045,513</b>	<b>87,945,920</b>	<b>99,593</b>
<b>Change in net assets</b>		<b>4,438,137</b>	<b>1,828,137</b>	<b>2,278,198</b>	<b>250,874</b>
Net assets at beginning of year		29,746,513	29,746,513	29,746,513	-
Net assets at end of year		<b>\$ 34,184,650</b>	<b>\$ 31,574,650</b>	<b>\$ 32,024,711</b>	<b>\$ 450,061</b>

## **Other Information**

# GreatHearts

CLASSICAL EDUCATION. REVOLUTIONARY SCHOOLS.

**Great Hearts Texas - 015835**  
**Schedule of Real Property Ownership Interest**  
**Fiscal Year Ended June 30, 2022**

<b>B19 Schedule of Real Property Ownership Interest</b>					
1	2	3	4	5	6
Legal Description	Legal Description	Total Assessed Value	Ownership Interest - Local (Dollar Amount)	Ownership Interest - State (Dollar Amount)	Interest - Federal (Dollar Amount)
NCB 17725 BLK 1 LOT 21 (BULVERDE 17 ACRE TRACT)	17223 JONES MALTSBERGER RD SAN ANTONIO, TX 78247	\$16,367,150		\$16,367,150	
NCB 15329 (GREAT HEARTS-INGRAM), BLOCK 4 LOT 2	8702 INGRAM RD., SAN ANTONIO, TX 78245	\$13,514,320		\$13,514,320	
NCB 14705 BLK 5 LOT 20 (GREAT HEART-PRUE)	5538 Research Rd., San Antonio, TX 78240	\$6,748,810		\$6,748,810	
CB 5043A (GREAT HEARTS- GATEWAY), BLK LOT 1	7653 N LOOP 1604 E., LIVE OAK, TX 78233	\$9,634,400		\$9,634,400	
NCB 14867 BLK 3 LOT 37 (GREAT HEARTS-HELOTES)	12018 Bandera Rd., Helotes, TX 78023	\$1,071,630		\$1,071,630	
NCB 14867 BLK 2 LOT 4 (GREAT HEARTS-BANDERA)	12018 Bandera Rd., Helotes, TX 78023	\$3,398,230		\$3,398,230	
TAVOLO PARK Block 1 Lot 4	7633 Harris Parkway, Fort Worth, TX 76123	\$13,360,270		\$13,360,270	
GREAT HEARTS-COOPER Block 1 Lot 1	6701 S Cooper St., Arlington, TX 76001	\$16,477,482		\$16,477,482	
GREAT HEARTS-COOPER Block 1 Lot 2		\$254,668		\$254,668	
WALKER, JOSIAH SURVEY Abstract 1600 Tract 2A3A3 2F1C & RIDGEVIEW FARMS 34587 BLK 20 LT 5A. 14.4 Acres	US 287 & Harmon Rd, Fort Worth	\$450,510		\$450,510	
BLK A LT 1 ACS 8.665 INT201800202703 DD07262018 CO-DC 0745165100105 1CI07451651	3520 WORLD CUP WAY, Irving, TX 75038	\$17,147,270		\$17,147,270	
S12819 - NEW AMSTEL SEC 2 PH 1, BLOCK A, Lot 1, ACRES 12.483	1207 LIBERTY OAKS BLVD CEDAR PARK 78613	\$2,718,797		\$2,718,797	
		<b>\$101,143,537</b>		<b>\$101,143,537</b>	



CLASSICAL EDUCATION. REVOLUTIONARY SCHOOLS.

**Great Hearts Texas - 015835**  
**Schedule of Related Party Transactions**  
 Fiscal Year Ended June 30, 2022

<b>B20 Schedule of Related Party Transactions - GREAT HEARTS TEXAS 2021-22</b>								
1	2	3	4	5	6	7	8	9
Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During FY	Principal Balance Due
Great Hearts America	N/A	Affiliated Organization	Health Insurance (medical, dental, vision, life, etc), property insurance and invoices paid on Texas behalf for different systems.	Reimbursement of expenses	State Funds	Monthly	\$7,304,529	\$2,326,404
Great Hearts America	N/A	Affiliated Organization	MOU Fee	Reimbursement of expenses	State Funds	Monthly	\$1,595,423	\$325,471
							<b>\$8,899,952</b>	<b>\$2,651,875</b>



CLASSICAL EDUCATION. REVOLUTIONARY SCHOOLS.

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**J-4 Schedule**

**County District # 015835**

Data Codes	<b>Section A: Compensatory Education Programs</b>	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	YES
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	YES
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$2,688,520
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$949,963
<b>Section B: Bilingual Education Programs</b>		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	YES
AP6	Does the LEA have written policies and procedures for its bilingual education program?	YES
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$346,461
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$609,749

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