Great Hearts America—Texas

Financial and Compliance Report
June 30, 2018

Contents

Great Hearts America—Texas

Federal Employer Identification Number: 43-1973126
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Great Hearts America—Texas was reviewed and (check one) __✓__ approved ______ disapproved for the year ended June 30, 2018, at a meeting of the governing body of the charter holder on the 11 day of November 2018

Michael J. Burke
Board Secretary

James J. Heiser
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

To the 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, 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
November 19, 2018

Financial Statements

Great Hearts America—Texas

Exhibit A-1 Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,236,721**	$ 3,140,801
Due from government agencies	**4,636,626**	3,234,470
Unconditional promises to give—current portion	**809,177**	1,378,975
Prepaid expenses	**442,741**	530,934
Other current assets	**-**	2,987
Total current assets	**11,125,265**	8,288,167
Noncurrent assets:		
Property and equipment, net	**31,209,453**	19,972,821
Lease deposits	**158,269**	145,410
Unconditional promises to give, net	**2,771,583**	2,072,778
Total noncurrent assets	**34,139,305**	22,191,009
Total assets	**$ 45,264,570**	$ 30,479,176
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 2,490,383**	$ 1,307,826
Retainage payable	**335,561**	406,515
Accrued expenses	**179,489**	9,034
Due to related party	**463,800**	94,178
Deferred revenues	**58,740**	22,678
Total current liabilities	**3,527,973**	1,840,231
Long-term liabilities—notes payable, net	**28,052,782**	18,200,890
Total liabilities	**31,580,755**	20,041,121
Net assets (deficit):		
Unrestricted	**2,174,213**	235,289
Temporarily restricted	**11,509,602**	10,202,766
Total net assets	**13,683,815**	10,438,055
Total liabilities and net assets	**$ 45,264,570**	$ 30,479,176

See notes to financial statements.

Great Hearts America—Texas

Exhibit A-2 Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Local support:			
Contributions	$ 1,878,060	$ 3,701,800	$ 5,579,860
Food service	-	171,589	171,589
Other revenue	1,348,912	-	1,348,912
Total local support	3,226,972	3,873,389	7,100,361
State program revenues:			
Foundation School Program—State of Texas	-	20,530,044	20,530,044
Other state aid	-	780,547	780,547
Total state program revenues	-	21,310,591	21,310,591
Federal program revenues:			
Title I, Part A—Improving Basic Programs	-	82,394	82,394
IDEA B Formula	-	324,971	324,971
Title II, Part A—Teacher and Principal Training and Recruiting	-	23,340	23,340
Title III, Part A—English Language Acquisition and Language Enhancement	-	1,156	1,156
Child Nutrition cluster	-	108,124	108,124
Total federal program revenues	-	539,985	539,985
Net assets released from restrictions—satisfied by payments	24,417,129	(24,417,129)	-
Total revenues and other support	27,644,101	1,306,836	28,950,937
Expenses:			
Instructional	11,884,889	-	11,884,889
Instructional resources and media services	1,233	-	1,233
Curriculum development and instructional staff development	197,067	-	197,067
Instructional leadership	310,175	-	310,175
School leadership	2,167,032	-	2,167,032
Guidance, counseling and evaluation services	92,833	-	92,833
Health services	248,756	-	248,756
Food services	350,246	-	350,246
Extracurricular activities	407,611	-	407,611
General administration	2,338,393	-	2,338,393
Plant maintenance and operations	3,961,386	-	3,961,386
Security and monitoring services	62,139	-	62,139
Data processing services	764,092	-	764,092
Community services	294,129	-	294,129
Debt service	1,106,186	-	1,106,186
Fundraising	1,519,010	-	1,519,010
Total expenses	25,705,177	-	25,705,177
Change in net assets	1,938,924	1,306,836	3,245,760
Net assets at beginning of year	235,289	10,202,766	10,438,055
Net assets at end of year	$ 2,174,213	$ 11,509,602	$ 13,683,815

See notes to financial statements.

Great Hearts America—Texas

Exhibit A-2 Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Local support:			
Contributions	$ 1,290,714	$ 3,512,600	$ 4,803,314
Food service	-	182,202	182,202
Other revenue	1,235,871	-	1,235,871
Total local support	2,526,585	3,694,802	6,221,387
State program revenues:			
Foundation School Program—State of Texas	-	16,273,129	16,273,129
Other state aid	-	755,555	755,555
Total state program revenues	-	17,028,684	17,028,684
Federal program revenues:			
Title I, Part A—Improving Basic Programs	-	48,001	48,001
IDEA B Formula	-	348,919	348,919
Title II, Part A—Teacher and Principal Training and Recruiting	-	35,230	35,230
Title III, Part A—English Language Acquisition and Language Enhancement	-	5,808	5,808
Child Nutrition cluster	-	87,933	87,933
Total federal program revenues	-	525,891	525,891
Net assets released from restrictions—satisfied by payments	15,659,489	(15,659,489)	-
Total revenues and other support	18,186,074	5,589,888	23,775,962
Expenses:			
Instructional	9,144,124	-	9,144,124
Curriculum development and instructional staff development	78,150	-	78,150
School leadership	1,492,119	-	1,492,119
Guidance, counseling and evaluation services	46,848	-	46,848
Health services	166,913	-	166,913
Food services	360,063	-	360,063
Extracurricular activities	315,185	-	315,185
General administration	2,582,498	-	2,582,498
Plant maintenance and operations	2,909,269	-	2,909,269
Security and monitoring services	32,734	-	32,734
Data processing services	354,329	-	354,329
Community services	291,991	-	291,991
Debt service	766,279	-	766,279
Fundraising	1,131,310	-	1,131,310
Total expenses	19,671,812	-	19,671,812
Change in net assets	(1,485,738)	5,589,888	4,104,150
Net assets at beginning of year	1,721,027	4,612,878	6,333,905
Net assets at end of year	$ 235,289	$ 10,202,766	$ 10,438,055

See notes to financial statements.

Great Hearts America—Texas

Exhibit A-3 Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ 3,245,760**	$ 4,104,150
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**659,708**	301,212
Gain on sale of land	**-**	(109,521)
Amortization of loan issuance cost	**154,948**	93,031
Changes in:		
Due from governmental agencies	**(1,402,156)**	(547,758)
Prepaid expenses	**88,193**	(211,670)
Lease deposits	**(12,859)**	(4,770)
Unconditional promises to give	**(129,007)**	(810,374)
Other current assets	**2,987**	2,907
Accounts payable and retainage payable	**1,111,603**	(109,374)
Accrued expenses	**170,455**	(467,742)
Due to related party	**369,622**	(85,877)
Deferred revenue	**36,062**	(81,934)
Net cash provided by operating activities	**4,295,316**	2,072,280
Cash flows from investing activities:		
Purchase of property and equipment	**(11,896,340)**	(7,464,897)
Proceeds from sale of land	**-**	377,399
Net cash used in investing activities	**(11,896,340)**	(7,087,498)
Cash flows from financing activities:		
Proceeds from loans and notes payable	**10,052,952**	6,068,435
Loan issuance costs	**(356,008)**	-
Net cash provided by financing activities	**9,696,944**	6,068,435
Net increase in cash and cash equivalents	**2,095,920**	1,053,217
Cash and cash equivalents at beginning of year	**3,140,801**	2,087,584
Cash and cash equivalents at end of year	**$ 5,236,721**	$ 3,140,801
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 1,249,098**	$ 752,147

See notes to financial statements.

Note 1. Organization and Significant Accounting Policies

Organization: Great Hearts America—Texas (the Organization) is a not-for-profit 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 not-for-profit 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, 2018 and 2017, there are five directors.

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) 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 as unrestricted, temporarily restricted and permanently restricted based upon the following criteria.

Revenues and other support are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, as applicable, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Unrestricted: Unrestricted net assets consist of net assets that are not subject to donor-imposed stipulations. Unrestricted net assets result from operating revenues, unrestricted contributions and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board.

Temporarily restricted: Temporarily restricted net assets are those assets subject to donor-imposed restrictions that will be satisfied by the actions of the Organization or the passage of time. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The temporarily restricted description requires the Organization to use state funding for the benefit of educating students enrolled in the Organization's schools. At fiscal year-end, temporarily restricted net assets represent the food service fund, which must be used for future food service activities; state funds, that may be used in the following fiscal years; and any unspent state foundation monies and other private foundation monies.

Permanently restricted: Permanently restricted net assets consist of net assets required to be maintained in perpetuity with only the income to be used for the Organization's charter school activities due to grantor donor-imposed restrictions. The Organization had no permanently restricted net assets at June 30, 2018 and 2017.

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.

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 never experienced any losses due to nonpayment, none are expected 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 $24,000 as of June 30, 2018 ($-0- in 2017).

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
Building 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 recognized an impairment loss during the year ended June 30, 2018 of $95,068 ($-0- in 2017).

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, 2018 and 2017, totaled $297,860 and $81,398, 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.

Loan issuance costs: Loan 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 revenue: Amounts received for conditional promises to give for which the condition has not been met are recorded as deferred revenue. When the condition is met, the revenue 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 restricted support. When these restrictions are fulfilled, that is, when the stipulated time restriction ends or purpose restriction (i.e., eligible expenditures are incurred) is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted, temporarily restricted or permanently restricted support based on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted net assets 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, temporarily restricted net assets are reclassified to unrestricted net assets 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, 2018 and 2017.

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, 2018 and 2017.

State and federal program revenues: The Organization considers all government grants and contracts as exchange transactions rather than contributions. The Organization recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenue.

Regulated industry: The majority of the Organization’s activities and revenues are a result of contracts 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 not-for-profit 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, 2018 and 2017.

Note 1. Organization and Significant Accounting Policies (Continued)

The Organization's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2018 and 2017, 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.

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.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

Note 1. Organization and Significant Accounting Policies (Continued)

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. This ASU will be effective for the Organization for the year ending June 30, 2021.

In August 2016, the FASB issued ASU No. 2016-05, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Task Force)*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU No. 2016-15 will be effective for the Organization for fiscal years beginning after December 15, 2018.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance amends the requirements for financial statements and notes presented by a not-for-profit entity to: (a) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes; (b) present on the face of the statement of activities the amount of the change in either of the two classes of net assets rather than that of the currently required three classes; (c) provide enhanced disclosures in the notes to the financial statements; (d) report investment return net of external and direct internal investment expenses and (e) utilize, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU will be effective for the Organization for the year ending June 30, 2019. Early application is permitted. Retrospective application is required for many provisions of this guidance.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 will be effective for the Organization for fiscal year June 30, 2020. ASU No. 2018-08 should be applied on a modified prospective basis. Retrospective application is permitted.

The Organization has not yet selected a transition method for the recent accounting pronouncements above and is currently evaluating the effect these standards will have on its financial statements.

Subsequent events: The Organization has evaluated subsequent events through November 19, 2018, the date the financial statements were available to be issued. See Note 18 for subsequent events requiring disclosure.

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

Note 2. Functional Expenses

Functional expenses consist of the following:

	June 30	
	2018	2017
Program services:		
Instruction and instructional related services	$ 12,083,189	$ 9,222,274
Instructional and school leadership	2,477,207	1,492,119
Support services:		
Administrative support services	2,338,393	2,582,498
Ancillary services	294,129	291,991
Support services—nonstudent based	4,787,617	3,296,332
Support services—student (pupil)	1,099,446	889,009
Debt service	1,106,186	766,279
Fundraising	1,519,010	1,131,310
Total expenses	$ 25,705,177	$ 19,671,812

Note 3. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the *FASB Accounting Standards Codification* (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 4. Due From Government Agencies

Due from government agencies consists of the following:

	June 30	
	2018	2017
Due from state:		
Settlement of underpayment	$ 3,881,966	$ 2,803,091
State textbooks	321,884	-
Due from pass-through grants from TEA:		
Title I, Part A—Improving Basic Programs	82,394	48,001
IDEA B Formula	324,971	341,710
Title II, Part A—Teacher and Principal Training and Recruiting	23,340	35,230
Title III, Part A—English Language Acquisition and Language Enhancement	1,156	5,808
Due from pass-through grants from Region XX:		
State Supplemental Visually Impaired	915	630
Total due from government agencies	$ 4,636,626	$ 3,234,470

Note 5. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	June 30	
	2018	2017
Gross amounts due in:		
One year or less	$ 809,177	$ 1,378,975
One to five years	3,262,647	2,185,447
Total unconditional promises to give	4,071,824	3,564,422
Less discounts to net present value	467,064	112,669
Less allowance for doubtful accounts	24,000	-
Net unconditional promises to give	$ 3,580,760	$ 3,451,753

Discount rates used on long-term promises to give ranged from 0.98 percent to 2.73 percent in 2018 (0.48 percent to 2.07 percent in 2017).

Note 6. Property and Equipment

Property and equipment consist of the following:

	June 30	
	2018	2017
Land and improvements	$ 4,684,570	$ 2,404,878
Building and improvements	17,699,218	8,329,104
Furniture and equipment	935,328	521,663
Computers and software	242,776	68,334
Construction in progress	8,917,377	9,258,949
	32,479,269	20,582,928
Less accumulated depreciation	1,269,816	610,107
Net property and equipment	$ 31,209,453	$ 19,972,821

Depreciation expense totaled $659,708 and $301,212, respectively, for the years ended June 30, 2018 and 2017.

Note 7. Deferred Revenues

Deferred revenues consist of the following:

	June 30	
	2018	2017
Deferred grant revenue	$ 5,000	$ -
After school program deposits	53,740	22,678
Total deferred revenues	$ 58,740	$ 22,678

Note 8. Conditional Contributions

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

	June 30	
	2018	2017
Ewing Halsell Foundation	$ 4,500,000	$ -
Walton Family Foundation	5,630,000	-
Kleinheinz Family Foundation	2,815,000	-
Sid W. Richardson Foundation	3,060,000	-
The Harold W. Siebens Charitable Foundation, Inc.	-	70,000
	$ 16,005,000	$ 70,000

Note 8. Conditional Contributions (Continued)

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2018, are as follows:

Years ending June 30:	
2019	$ 3,339,167
2020	3,339,167
2021	3,339,166
2022	2,993,750
2023	2,993,750
	$ 16,005,000

Payment is contingent upon the Organization meeting certain criteria specified by the donors. As the condition for payment from the donors has not been met as of June 30, 2018, the amount has not been included in these consolidated financial statements.

Note 9. Notes Payable

Notes payable consist of the following:

	June 30	
	2018	2017
Debt instrument payable to Mutual of Omaha in the maximum amount of $16,768,800, including interest at 3.98%; due June 2021; collateralized by property	$ 15,752,722	$ 14,405,152
Subordinate note payable in the original amount of $4,192,200, including interest at 8.00%; due November 2021; collateralized by property	4,192,200	4,192,200
Debt instrument payable to Mutual of Omaha in the maximum amount of $9,200,000, including interest at 4.50%; due August 2022; collateralized by property	5,430,382	-
Subordinate note payable in the original amount of $3,275,000, including interest at 8.00%; due February 2023; collateralized by property	3,275,000	-
Total notes payable	28,650,304	18,597,352
Less loan issuance cost	597,522	396,462
Notes payable, net	$ 28,052,782	$ 18,200,890

Note 9. Notes Payable (Continued)

Aggregate maturities required at June 30, 2018, were as follows:

Years ending June 30:	
2019	$ -
2020	50,138
2021	15,847,252
2022	4,128,839
2023	8,624,075
	$ 28,650,304

Interest expense totaled $951,238 and $670,749, respectively, for the years ended June 30, 2018 and 2017.

Covenants: In accordance with the long-term debt instruments, the Organization is required to maintain a debt service coverage ratio of not less than 1.20. 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.

Note 10. Operating Leases

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, 2018 and 2017.

Future minimum lease payments under noncancelable operating leases as of June 30, 2018, were as follows:

Years ending June 30:	
2019	$ 1,491,832
2020	903,383
2021	932,146
2022	841,877
2023	862,405
Thereafter	1,700,991
Future minimum lease payments	$ 6,732,634

Rent expense totaled $1,307,464 and $1,130,418 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017, the Organization had contracts to perform construction on new schools. The construction commitment balance and retainage payable totaled $1,107,766 and $335,561, respectively, at June 30, 2018, and $857,217 and $406,515, respectively, at June 30, 2017.

Note 12. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of assets that are subject to grantor or donor-imposed stipulations that require the passage of time or the occurrence of a specified event.

	June 30	
	2018	2017
Foundation School Program—State of Texas	$ 6,372,179	$ 6,372,179
Charter school development, expansion and operations	5,137,423	3,830,587
	$ 11,509,602	$ 10,202,766

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

	June 30	
	2018	2017
Foundation School Program—State of Texas		
Charter school activities	$ 18,963,924	$ 12,710,897
Special education	1,359,139	612,439
Compensatory education	369,424	292,401
Bilingual education	295,305	165,350
Child Nutrition cluster	279,712	270,135
Title I, Part A—Improving Basic Programs	82,394	48,001
IDEA B formula	324,971	348,919
Title II, Part A—Teacher and Principal Training and Recruiting	23,340	35,230
Charter school development, expansion and operations	2,718,920	1,176,117
	$ 24,417,129	$ 15,659,489

Note 13. Related-Party Transactions

During the audit period, the Organization received donated administrative services from Great Hearts—Arizona (GHA—AZ). The amount of services received is minimal and, therefore, is not reflected in the financial statements. GHA—AZ is an Arizona not-for-profit 501(c)(3) corporation that manages a network of 22 academically rigorous classical liberal arts academies (serving grades K-12) in the Phoenix, Arizona, metropolitan area. The Organization and GHA—AZ are considered affiliates as of June 30, 2018 and 2017, since they have the same sole member, Great Hearts America. The amount due to related parties at June 30, 2018, totaled $463,800 ($94,178 in 2017). These transactions represent expenses incurred by GHA—AZ and Great Hearts America on behalf of Great Hearts America—Texas.

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 work load 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.

Note 15. Pension Plan Obligations (Continued)

The TRS plan information for the year ended June 30, 2018, is outlined in the table below:

Pension Fund	Total Plan Assets 2017	Accumulation Benefit Obligation 2017	Percent Funded	Surcharge Imposed
TRS	$ 165,379,341,964	$ 179,336,534,819	82.17%	No

Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) 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.

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 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent 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.

Note 15. Pension Plan Obligations (Continued)

- When the employing district is a public junior college or junior college district, the district shall contribute to TRS an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees and 100 percent 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 percent 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.

	2018	2017
Member (employees)	7.7%	7.2%
NECE	6.8%	6.8%
Employers	6.8%	6.8%
Employer contributions	$ 66,537	$ 78,960
Member contributions	964,562	769,524
Non-OASDI contributions	187,961	151,243

Note 16. Health Insurance

During the years ended June 30, 2018 and 2017, employees of the Organization were covered by a health insurance plan. The Organization contributed $287-$788 per employee, per month ($325-$920 per employee, per month for 2017) depending on the employees' health insurance plan rate. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. In September 2017, the Organization began participating in a self-insured, self-funded health program with Great Hearts America. All premiums paid for the health program are paid to Great Hearts America. Administration of the health program is contracted to CIGNA.

Note 17. State Compliance Matters

Budgetary matters: In accordance with the TEA Special Supplement to the Financial Accountability System Resource Guide Charter Schools, if the original and final budgeted amounts vary by more than 10 percent 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 percent from the original budgeted amounts are as follows:

- State program revenues—Final budget increase ($2,289,360) made to make budget within 5 percent of actual. While that was achieved, in actuality, the budget amendment could have been less, to include only the increase in budget due to enrollment increase of 5 percent ($1,015,134).

- Federal program revenues—Original budget was based on prior-year award, which included a significant carryover amount. Due to less carryover from the previous year, the budget needed to be decreased to reflect the awarded amounts.

- Function 12—No amount originally budgeted for this functional classification. There was $1,200 charged to this function as the beginning of a library at Monte Vista North campus.

Note 17. State Compliance Matters (Continued)

- Function 13—Final budgeted amounts were reduced due to fewer expenditures ($24,000) related to the beginning of the year Summit.

- Function 21—Increase in budget due to increased travel costs of $63,000 and consulting services for the Organization of $25,000.

- Function 31—Decrease of $15,000 due to savings in salaries and benefits due to an employee being on unpaid FMLA for four months at Monte Vista North.

- Function 33—Increase of $45,000 due to addition of a nurse position, which was not originally budgeted for at the Monte Vista North campus.

- Function 41—Increase of $800,389 due to the following:

  - $260,000 adjustment to budget related to salaries and benefits for positions which were occupied earlier than budgeted
  - $105,000 increase in the amount charged for real estate/expansion consultant not previously budgeted
  - $137,526 increase in corporate insurance costs not included in the budget
  - $86,000 increased costs related to service charges for merchant services due to increased online activity
  - $190,000 includes increased costs related to having a temporary employee in finance for the entire year and an added temp to help with the Powerschool transition for $135,000, $30,000 increase in management service fee due to increased enrollment and $25,000 costs associated with a scrapped project for Irving upper school.

- Function 51—Increase of $600,000 due the following:
-
  - Charges being expensed instead of capitalized related to an abandoned real estate project in a new region—$260,000
  - Increases in costs associated with janitorial expenses—$60,000 and under budget of janitorial expenses at a campus $42,000
  - $33,000 of unbudgeted expenses related to the HVAC system at one campus
  - $85,000 of increased rent expense due to increased enrollment at Monte Vista North site where rent is based on ADA
  - $120,000 in facilities related expenses at the Irving campus to meet standards established by the Las Colinas Association

- Function 52—$62,736 in expenses related to services performed at the Northern Oaks and Monte Vista South campuses for off duty police officers patrolling the campuses and performing traffic duties. Amount was originally budgeted in a separate function.

- Function 53—$147,000 in increased cost of purchase of new computer equipment throughout the district and $200,000 increase in costs associated with service provided by the information technology vendor due to increased charges and charges associated with new software/hardware.

Note 17. State Compliance Matters (Continued)

- Function 61—$76,000 in decreased costs due to personnel costs and related benefits due to fewer than budgeted Athenaeum positions needed due to lower than budgeted enrollment. Enrollment was less due to a change in the school schedules. The remaining $33,000 was due to fewer programs being needed and less supplies all due to the decreased enrollment.

- Function 71—$151,000 decrease in budget due to interest on Western Hills campus being capitalized during the construction period instead of being expensed during fiscal year 2017-2018.

- Function 81—$500,000 increase to budget due to the present value discount on pledges receivable associated with a $2,840,000 pledge received, which was recognized as revenue in the current fiscal year.

In accordance with the TEA Special Supplement to the Financial Accountability System Resource Guide Charter Schools, variances between the final budgeted amounts and the actual amounts that exceed 10 percent of the final budget amount also require a written statement discussing the cause of the variance.

- Function 81—varies from actual by $241,548 or 16 percent due to an adjustment, which decreased the actual expenses incurred from the present value discount calculation on pledges receivable for the fiscal year 2017-2018.

Note 18. Subsequent Events

In July 2018, the Organization entered into a line of credit of up to $7,500,000 with Arizona Bank and Trust. The line of credit bears an interest rate of the Wall Street Journal Prime less 0.500 percent. The line of credit is used as short-term financing on land purchases for future campuses. At the time of permanent financing, the line of credit will be paid off. The typical length of time on these financing arrangements will be approximately 90 days. On July 26, 2018, the Organization purchased the land for the permanent site of the Irving campus. The purchase price of the land was $2,820,000. The land was purchased using the line of credit established with Arizona Bank and Trust. The Organization financed $2,220,000 through the line of credit and paid the remaining $600,000 in cash.

On September 5, 2018, the Organization completed the financing arrangement for the fourth San Antonio campus location known as Forest Heights. The school is scheduled to open in the fall of 2019 with three sections in grades K-6 totaling 588 students. This financing included the purchase of the land and the construction of the lower school. To complete this transaction, the following instruments were issued:

- Long-term taxable debt instrument of up to $13,050,000 in principal (senior debt—Unitranche Capital Fund, LLC). The loan bears an interest rate of 5.11 percent and is scheduled to mature on September 5, 2023.

- Tax-exempt subordinate note of $2,000,000 in principal—the subordinate note bears an interest rate of 8.5 percent and is scheduled to mature on March 4, 2024.

Note 18. Subsequent Events (Continued)

On September 12, 2018, the Organization completed the financing arrangement—both construction of the upper school and land—for the permanent Irving campus site. The upper school is scheduled to open in the fall of 2019 with grades 7-11 totaling 355 students. This financing included the pay-off of the Arizona Bank and Trust line of credit, as mentioned above, for the land purchase ($2,220,000) and the construction of the upper school. To complete this transaction, the following instruments were issued:

- Tax-exempt debt instrument of up to $12,120,000 in principal (senior debt—Mutual of Omaha Bank). The loan bears an interest rate of 5.0 percent and is scheduled to mature on September 11, 2023.

- Tax-exempt subordinate note of $3,475,000 in principal—the subordinate note bears an interest rate of 8.375 percent and is scheduled to mature on March 11, 2024.

Other Supplemental Information

Great Hearts America—Texas

Schedules of Expenses
Years Ended June 30, 2018 and 2017

		2018	2017
	Expenses:		
6100	Payroll costs	**$ 15,340,546**	$ 12,337,112
6200	Professional and contracted services	**5,357,719**	4,168,855
6300	Supplies and materials	**1,769,907**	1,410,842
6400	Other operating costs	**2,130,819**	988,724
6500	Debt service costs	**1,106,186**	766,279
	Total expenses	**$ 25,705,177**	$ 19,671,812

Great Hearts America—Texas

Schedule of Capital Assets
June 30, 2018

	Asset Classification	Ownership Interest Local	State	Federal
	Property and equipment:			
1510	Land and improvements	$ -	$ 4,684,570	$ -
1520	Building and improvements	-	17,699,218	-
1530	Furniture and equipment	-	923,072	12,256
1532	Computers and software	-	242,776	-
1580	Construction in progress	-	8,917,377	-
	Total property and equipment	$ -	$ 32,467,013	$ 12,256

Great Hearts America—Texas

Budgetary Comparison Schedule
Year Ended June 30, 2018

		Budgeted Amounts			Variance With Final Budget
		Original	Final	Actual	Positive (Negative)
	Revenues and other support:				
5700	Local support	$ 6,248,941	$ 6,765,941	$ 7,100,361	$ 334,420
5800	State program revenues	19,693,600	21,982,960	21,310,591	(672,369)
5900	Federal program revenues	847,975	514,471	539,985	25,514
	Total revenues and other support	26,790,516	29,263,372	28,950,937	(312,435)
	Expenses:				
11	Instructional	11,425,381	11,425,381	11,884,889	(459,508)
12	Instructional resources and media services	-	1,200	1,233	(33)
13	Curriculum development and instructional staff development	236,475	206,475	197,067	9,408
21	Instructional leadership	222,977	308,977	310,175	(1,198)
23	School leadership	2,136,511	2,136,511	2,167,032	(30,521)
31	Guidance, counseling and evaluation services	112,395	97,395	92,833	4,562
33	Health services	190,691	235,691	248,756	(13,065)
35	Food services	330,146	330,146	350,246	(20,100)
36	Extracurricular activities	432,937	412,937	407,611	5,326
41	General administration	1,797,145	2,597,534	2,338,393	259,141
51	Plant maintenance and operations	3,175,378	3,775,378	3,961,386	(186,008)
52	Security and monitoring services	-	62,736	62,139	597
53	Data processing services	419,110	769,109	764,092	5,017
61	Community services	412,774	303,774	294,129	9,645
71	Debt service	1,282,464	1,116,992	1,106,186	10,806
81	Fundraising	1,260,564	1,760,558	1,519,010	241,548
	Total expenses	23,434,948	25,540,794	25,705,177	(164,383)
	Change in net assets	3,355,568	3,722,578	3,245,760	(476,818)
	Net assets at beginning of year	10,438,055	10,438,055	10,438,055	-
	Net assets at end of year	$ 13,793,623	$ 14,160,633	$ 13,683,815	$ (476,818)

Compliance Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Great Hearts America—Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Great Hearts America—Texas (the Organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 19, 2018.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
November 19, 2018

Great Hearts America—Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

II—Financial Statement Findings

None noted.

III—Federal Awards Findings and Questioned Costs

None noted.

Finding 2017-001: Financial Reporting

Prior-year finding: As a result of the audit procedures performed, we noted various accounts in the financial statements that required adjustments to properly reflect the year-end balance. Although adjustments were needed in various accounts, the deficiency appears to exist in the area of cut-off related to accounts payable and revenue recognition.

Status: The Organization has taken the recommended corrective action.

RSM