Great Hearts America—Texas

Financial Report
June 30, 2019

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) ___X___ approved _______ disapproved for the year ended June 30, 2019, at a meeting of the governing body of the charter holder on the 14 day of November, 2019.

Michael D. Burke
Board Secretary

James J. Heiler
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)

RSM US LLP

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter
As described in Note 20, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied to July 1, 2017, the earliest year presented. Our opinion is not modified with respect to this matter.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019, 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 21, 2019

Financial Statements

Great Hearts America—Texas

Exhibit A-1 Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,564,072**	$ 5,236,721
Due from government agencies	**5,970,209**	4,636,626
Unconditional promises to give—current portion	**708,731**	809,177
Prepaid expenses	**337,950**	442,741
Other current assets	**386**	-
Total current assets	**16,581,348**	11,125,265
Noncurrent assets:		
Property and equipment, net	**58,489,465**	31,209,453
Lease deposits	**158,269**	158,269
Unconditional promises to give, net	**2,468,507**	2,771,583
Total noncurrent assets	**61,116,241**	34,139,305
Total assets	**$ 77,697,589**	$ 45,264,570
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 2,718,317**	$ 2,490,383
Retainage payable	**804,307**	335,561
Accrued expenses	**261,962**	179,489
Due to related parties	**2,079,287**	463,800
Deferred revenues	**103,101**	58,740
Total current liabilities	**5,966,974**	3,527,973
Long-term liabilities—loans and notes payable, net	**54,044,111**	28,052,782
Total liabilities	**60,011,085**	31,580,755
Net assets:		
Without donor restrictions	**2,931,465**	1,924,213
With donor restrictions	**14,755,039**	11,759,602
Total net assets	**17,686,504**	13,683,815
Total liabilities and net assets	**$ 77,697,589**	$ 45,264,570

See notes to financial statements.

Great Hearts America—Texas

Exhibit A-2 Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Local support:			
Contributions	$ 1,386,820	$ 4,753,671	$ 6,140,491
Food service	-	265,326	265,326
Other revenue	1,709,551	-	1,709,551
Total local support	3,096,371	5,018,997	8,115,368
State program revenues:			
Foundation School Program—State of Texas	-	27,808,031	27,808,031
Other state aid	-	1,720,246	1,720,246
Total state program revenues	-	29,528,277	29,528,277
Federal program revenues:			
Title I, Part A—Improving Basic Programs	-	48,255	48,255
IDEA B Formula	-	312,979	312,979
Title II, Part A—Teacher and Principal Training and Recruiting	-	34,240	34,240
2018-2020 Charter School Program High Quality Replication Grant	-	352,752	352,752
Child Nutrition cluster	-	189,152	189,152
Total federal program revenues	-	937,378	937,378
Net assets released from restrictions—satisfied by payments	32,489,215	(32,489,215)	-
Total revenues and other support	35,585,586	2,995,437	38,581,023
Expenses:			
Program activities:			
Instruction and instruction related services	17,253,406	-	17,253,406
Instructional and school leadership	3,556,372	-	3,556,372
Student support services	1,527,701	-	1,527,701
Administrative support services	13,590	-	13,590
Support services—nonstudent based	5,124,871	-	5,124,871
Ancillary services	455,677	-	455,677
Debt service	1,863,983	-	1,863,983
Supporting services:			
Management and general:			
Administrative support services	3,060,800	-	3,060,800
Support services—nonstudent based	741,045	-	741,045
Ancillary services	807	-	807
Fundraising	980,082	-	980,082
Total expenses	34,578,334	-	34,578,334
Change in net assets	1,007,252	2,995,437	4,002,689
Net assets at beginning of year	1,924,213	11,759,602	13,683,815
Net assets at end of year	$ 2,931,465	$ 14,755,039	$ 17,686,504

See notes to financial statements.

Great Hearts America—Texas

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Local support:			
Contributions	$ 1,628,060	$ 3,951,800	$ 5,579,860
Food service	-	171,589	171,589
Other revenue	1,348,912	-	1,348,912
Total local support	2,976,972	4,123,389	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	27,394,101	1,556,836	28,950,937
Expenses:			
Program activities:			
Instruction and instruction related services	12,137,275	-	12,137,275
Instructional and school leadership	2,477,204	-	2,477,204
Student support services	1,099,446	-	1,099,446
Administrative support services	2,390	-	2,390
Support services—nonstudent based	3,320,558	-	3,320,558
Ancillary services	293,594	-	293,594
Debt service	1,106,186	-	1,106,186
Supporting services:			
General and administrative			
Administrative support services	2,472,984	-	2,472,984
Support services—nonstudent based	1,447,268	-	1,447,268
Fundraising	1,348,272	-	1,348,272
Total expenses	25,705,177	-	25,705,177
Change in net assets	1,688,924	1,556,836	3,245,760
Net assets at beginning of year	235,289	10,202,766	10,438,055
Net assets at end of year	$ 1,924,213	$ 11,759,602	$ 13,683,815

See notes to financial statements.

Great Hearts America—Texas

Exhibit A-3 Statements of Cash Flows
Years Ended June 30, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Change in net assets	**$**	**4,002,689**	$	3,245,760
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		**1,068,390**		659,708
Amortization of loan issuance cost		**281,661**		154,948
Changes in:				
Due from governmental agencies		**(1,333,583)**		(1,402,156)
Unconditional promises to give		**403,522**		(129,007)
Prepaid expenses		**104,791**		88,193
Other current assets		**(386)**		2,987
Lease deposits		**-**		(12,859)
Accounts payable and retainage payable		**696,680**		1,111,603
Accrued expenses		**82,473**		170,455
Due to related parties		**1,615,487**		369,622
Deferred revenues		**44,361**		36,062
Net cash provided by operating activities		**6,966,085**		4,295,316
Cash flows from investing activities:				
Purchase of property and equipment		**(28,348,402)**		(11,896,340)
Net cash used in investing activities		**(28,348,402)**		(11,896,340)
Cash flows from financing activities:				
Proceeds from loans and notes payable		**26,780,640**		10,052,952
Payments on loans and notes payable		**(433,464)**		-
Loan issuance costs		**(637,508)**		(356,008)
Net cash provided by financing activities		**25,709,668**		9,696,944
Net increase in cash and cash equivalents		**4,327,351**		2,095,920
Cash and cash equivalents at beginning of year		**5,236,721**		3,140,801
Cash and cash equivalents at end of year	**$**	**9,564,072**	$	5,236,721
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**2,232,710**	$	1,249,098

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, 2019 and 2018, there were 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), its cognizant state agency, based on the Organization's average daily attendance (ADA). Since the Organization receives funding from local, state and federal government sources, it must comply with the eligibility requirements of the entities providing those funds.

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

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

Note 1. Organization and Significant Accounting Policies (Continued)

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

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

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

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

The net assets with donor restrictions requires the Organization to use state funding for the benefit of educating students enrolled in the Organization’s schools. At fiscal year-end, net assets with donor restrictions 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 local foundation monies.

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 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 $64,000 as of June 30, 2019 ($24,000 in 2018).

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.

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

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

Impairment of long-lived assets: The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results; trends and prospects; and the effects of obsolescence, demand, competition and other economic factors. The Organization did not recognize an impairment loss during the year ended June 30, 2019 ($95,068 in 2018).

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, 2019 and 2018, totaled $686,853 and $297,860, 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 revenues: Amounts received for conditional promises to give for which the condition has not been met are recorded as deferred revenues. When the condition is met, the revenues will be recognized.

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

Note 1. Organization and Significant Accounting Policies (Continued)

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

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

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

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

Donated services are recognized only if the services received either create or enhance assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No material amount of donated services was received during the years ended June 30, 2019 and 2018.

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, 2019 and 2018.

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 (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 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, 2019 and 2018.

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, 2019 and 2018, 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: Effective July 1, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this ASU did not have an effect on total net assets, but did result in certain changes. See Note 20 for details.

In May 2014, the FASB issued 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 has been delayed by FASB and is now effective on January 1, 2021, with early adoption permitted.

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 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 21, 2019, the date the financial statements were available to be issued. See Note 17 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. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the *FASB Accounting Standards Codification* 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.

Note 2. Fair Value Measurements and Disclosures (Continued)

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

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

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

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

Note 3. Due From Government Agencies

Due from government agencies consists of the following:

	June 30	
	2019	2018
Due from state:		
Settlement of underpayment	$ 4,931,547	$ 3,881,966
MSF special education allotment	27,744	-
State textbooks	728,891	321,884
Due from pass-through grants from TEA:		
Title I, Part A—Improving Basic Programs	48,255	82,394
IDEA B Formula	139,036	324,971
Title II, Part A—Supporting Effective Instruction	34,240	23,340
Title III, Part A—English Language Acquisition	-	1,156
Due from pass-through grants from Region XX:		
State Supplemental Visually Impaired	297	915
2018-2020 Charter School Program High Quality Replication Grant	60,199	-
Total due from government agencies	$ 5,970,209	$ 4,636,626

Note 4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	June 30	
	2019	2018
Gross amounts due in:		
One year or less	$ 708,731	$ 809,177
One to five years	2,924,968	3,262,647
Total unconditional promises to give	3,633,699	4,071,824
Less discounts to net present value	392,461	467,064
Less allowance for doubtful accounts	64,000	24,000
Net unconditional promises to give	$ 3,177,238	$ 3,580,760

Discount rates used on long-term promises to give ranged from 0.98% to 2.73% in 2019 and 2018.

Note 5. Property and Equipment

Property and equipment consists of the following:

	June 30	
	2019	2018
Land and improvements	$ 10,682,479	$ 4,684,570
Buildings and improvements	27,194,087	17,699,218
Furniture and equipment	1,663,770	935,328
Computers and software	533,483	242,776
Construction in progress	20,749,942	8,917,377
	60,823,761	32,479,269
Less accumulated depreciation	2,334,296	1,269,816
Net property and equipment	$ 58,489,465	$ 31,209,453

Depreciation expense totaled $1,068,390 and $659,708, respectively, for the years ended June 30, 2019 and 2018.

Note 6. Deferred Revenues

Deferred revenues consist of the following:

	June 30	
	2019	2018
Deferred grant revenue	$ 16,549	$ 5,000
After school program deposits	86,552	53,740
Total deferred revenues	$ 103,101	$ 58,740

Note 7. Conditional Contributions

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

	June 30	
	2019	2018
Conditioned on specific performance metrics and deliverables	$ 7,500,000	$ 4,500,000
Conditioned on donor's approval of the Organization's activities and raising matching funds within a specified time period	8,907,500	11,505,000
	$ 16,407,500	$ 16,005,000

The future payments under the conditional promises to give from philanthropic organizations at June 30, 2019, are as follows:

Years ending June 30:	
2020	$ 4,764,167
2021	4,764,166
2022	4,022,917
2023	2,856,250
	$ 16,407,500

Payment is contingent upon the Organization meeting certain criteria, items and conditions specified by the donors. As the condition for payment from the donors has not been met as of June 30, 2019, the amount has not been included in these financial statements.

Note 8. Loans and Notes Payable

Notes payable consist of the following:

	June 30	
	2019	2018
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	$ 15,319,258	$ 15,752,722
Subordinate note payable in the original amount of $4,192,200, including interest at 8.00%; due December 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	8,744,302	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	3,275,000
Debt instrument payable to Mutual of Omaha in the maximum amount of $12,120,000, including interest at 5.00%; due September 2023; collateralized by property	8,761,346	-

Note 8. Notes Payable (Continued)

	June 30	
	2019	2018
Subordinate note payable in the original amount of $3,475,000, including interest at 8.38%; due March 2024; collateralized by property	3,475,000	-
Debt instrument payable to Unitranche Capital in the maximum amount of $13,050,000, including interest at 5.11%; due September 2023; collateralized by property	9,230,374	-
Subordinate note payable in the original amount of $2,000,000, including interest at 8.50%; due March 2024; collateralized by property	2,000,000	-
Total notes payable	54,997,480	28,650,304
Less loan issuance cost	953,369	597,522
Notes payable, net	$ 54,044,111	$ 28,052,782

Aggregate maturities required at June 30, 2019, were as follows:

Years ending June 30:	
2020	$ 1,249,216
2021	15,400,738
2022	4,854,594
2023	11,221,810
2024	14,161,055
Thereafter	8,110,067
	$ 54,997,480

Interest expense totaled $1,582,322 and $951,238, respectively, for the years ended June 30, 2019 and 2018.

Line of credit: In September 2017, the Organization entered into a line of credit of up to $2,000,000 with Mutual of Omaha. The line of credit bears an interest rate of 6.5%. The line of credit is used to manage the liquidity of the Organization as needed. As of June 30, 2019 and 2018, there were no amounts outstanding on the line of credit.

In July 2018, the Organization entered into a line of credit of up to $7,500,000 with Arizona Bank and Trust (AZBT). The line of credit bears an interest rate of the Wall Street Journal Prime less 0.5%. 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. As of June 30, 2019 and 2018, there were no amounts outstanding on the line of credit.

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 9. 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, 2019 and 2018.

Future minimum lease payments under noncancelable operating leases as of June 30, 2019, were as follows:

Years ending June 30:	
2020	$ 1,736,465
2021	1,792,891
2022	1,713,651
2023	1,937,504
2024	1,904,011
Thereafter	842,103
Future minimum lease payments	$ 9,926,625

Rent expense totaled $1,907,634 and $1,307,464 for the years ended June 30, 2019 and 2018, respectively.

Note 10. 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, 2019 and 2018, the Organization had contracts to perform construction on new schools. The construction commitment balance and retainage payable totaled $2,877,883 and $804,307, respectively, at June 30, 2019 ($1,107,766 and $335,561, respectively, at June 30, 2018).

Note 11. Net Assets

Net assets with donor restrictions consist of the following:

	June 30	
	2019	2018
Subject to expenditure for a specified purpose:		
Foundation School Program—State of Texas	$ 6,269,082	$ 6,372,179
Charter school development and expansion	8,485,957	5,387,423
Total net assets with donor restrictions	$ 14,755,039	$ 11,759,602

Note 11. Net Assets (Continued)

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

	June 30	
	2019	2018
Foundation School Program—State of Texas:		
Charter school activities	$ 27,094,262	$ 18,963,924
Special education	1,605,039	1,359,139
Compensatory education	447,420	369,424
Bilingual education	443,062	295,305
Child Nutrition cluster	454,478	279,712
Title I, Part A—Improving Basic Programs	48,255	82,394
IDEA B formula	312,979	324,971
Title II, Part A—Teacher and Principal Training and Recruiting	34,240	23,340
Charter School Program High Quality Replication Grant	352,752	-
Charter school development and expansion	1,696,728	2,718,920
Total net assets released from restrictions	$ 32,489,215	$ 24,417,129

Note 12. 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, 2019, totaled $2,079,287 ($463,800 in 2018). 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 (Note 15).

Note 13. 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 14. 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.

Note 14. Pension Plan Obligations (Continued)

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, 2019, is outlined in the table below:

Pension Fund	Total Plan Assets 2018	Accumulation Benefit Obligation 2018	Percent Funded	Surcharge Imposed
TRS	$ 176,942,453,923	$ 209,611,328,793	73.74%	No

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

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

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

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

Note 14. Pension Plan Obligations (Continued)

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.

	2019	2018
Member (employees)	7.7%	7.7%
NECE	6.8%	6.8%
Employers	6.8%	6.8%
Employer contributions	$ 131,641	$ 66,537
Member contributions	1,358,513	964,562
Non-OASDI contributions	258,746	187,961

Note 15. Health Insurance

During the years ended June 30, 2019 and 2018, employees of the Organization were covered by a health insurance plan. In 2019, the Organization contributed $356-$1,085 per employee, per month depending on the employees' health insurance plan rate ($287-$788 per employee, per month for 2018). 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 with CIGNA.

Note 16. 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.

Note 16. State Compliance Matters (Continued)

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

- Local revenues—$876,563 in additional philanthropic dollars were received during the fiscal year that were not originally budgeted for.

- Federal program revenues—The original budget was based on prior-year awards. In the current fiscal year, the Organization received a Charter School Program High Quality Replication grant for its Western Hills location. The awarding of this grant was not known at the time of the original budget, and resulted in an increase of $335,888 in the final budget.

- Function 13—Final budget amount increased by $144,761 to cover the costs associated with the shared services Talent Team provided by Great Hearts America. Costs shared 50/50 between Great Hearts Texas and Great Hearts—Arizona.

- Function 21— Final budget amount increased by $218,563 due to the addition of an Executive Director in the San Antonio Region, which was not included in the original budget.

- Function 31— Final budget amount decreased by $19,772 due to a change in personnel in the North Texas Region.

- Function 36— Final budget amount increased by $214,744 due to increased costs associated with the athletic program, including stipends, facilities expense, participation fees and contracted services.

- Function 41—Final budget amount increased by $379,225 due to increased consulting services related to the issuance of the Organization’s first public bonds, travel for Home Office employees and fees paid for shared services to Great Hearts America.

- Function 51—Original budget was based on prior-year costs. Final budget amount increased by $725,400 due to additional Facility Tech at one campus and increased cost in janitorial services due to a change in vendor with budget based on prior-year costs.

- Function 52—Final budget amount increased by $49,822 due to increased security services at campuses both in the San Antonio and North Texas regions which were not originally budgeted.

- Function 53—Final budget amount decrease by $147,845 due to less first-year costs on systems than budgeted.

In accordance with the TEA Special Supplement to the FASRG, variances between the final budgeted amounts and the actual amounts that exceed 10% of the final budget amount also require a written statement discussing the cause of the variance.

- Function 81—Varies from actual by $273,702 due to reclassification of costs to be in compliance with presentation requirements under ASU No. 2016-14.

Note 17. Subsequent Events

On July 30, 2019, the Organization purchased land for the permanent site of the Great Hearts Live Oak (San Antonio) and Great Hearts Lakeside (Fort Worth) campuses. The purchase prices of the land were $2.43 million and $1.99 million, respectively. Both pieces of property were purchased using short-term financing with the Organization's $7.5 million line of credit from AZBT.

On August 21, 2019, the Organization completed its first publicly rated bond financing through Arlington Higher Education Finance Corporation as issuer—Great Hearts America—Texas Series 2019A and 2019B. The Organization used the proceeds of the bonds for (i) financing (Live Oak and Lakeside campuses, including pay-off of AZBT line of credit for land purchase) and (ii) refinancing (Northern Oaks, Western Hills, Forest Heights and Irving Upper) the cost of acquiring, improving, constructing and equipping certain properties and facilities to be used for educational, administrative, athletic, science and classroom purposes, to fund capitalized interest on construction and pay costs of issuing the bonds. The issue had a total par value of $93.3 million ($89.5 million nontaxable (2019A) and $3.8 million taxable (2019B)) plus a premium of $7.0 million for a total issue of $101.0 million. The total all in interest rate is 3.37% for 35 years with all bonds maturing by August 15, 2054.

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, 2019 and 2018. Salaries, benefits and taxes have been allocated among the programs and supporting services benefited. 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).

	2019			
		Supporting Services		
	Program Activities	Management and General	Fundraising	Total
Salaries	$ 16,915,364	$ 981,449	$ 698,116	$ 18,594,929
Payroll taxes and benefits	3,052,015	104,135	135,416	3,291,566
Advertising	-	161,655	-	161,655
Amortization of loan costs	281,661	-	-	281,661
Co-curricular activities	46,159	-	-	46,159
Depreciation	1,036,338	32,052	-	1,068,390
Facility leases	1,650,322	257,312	-	1,907,634
Information technology	221,367	173,587	16	394,970
Interest	1,582,322	-	-	1,582,322
Other	180,133	265,216	24,203	469,552
Postage and printing	121,507	18,193	-	139,700
Professional services	1,149,452	1,518,967	41,203	2,709,622
Repairs and maintenance	1,015,182	968	209	1,016,359
Supplies and instructional aids	1,865,906	133,998	39,886	2,039,790
Travel	468,735	154,914	41,033	664,682
Utilities	209,137	206	-	209,343
	$ 29,795,600	$ 3,802,652	$ 980,082	$ 34,578,334

Note 18. Classification of Expenses (Continued)

	2018			
		Supporting Services		
	Program Activities	Management and General	Fundraising	Total
Salaries	$ 11,628,544	$ 894,403	$ 505,570	$ 13,028,517
Payroll taxes and benefits	2,098,658	115,569	97,807	2,312,034
Advertising	-	138,174	-	138,174
Amortization of loan costs	154,948	-	-	154,948
Co-curricular activities	18,083	-	535	18,618
Depreciation	-	639,917	19,791	659,708
Facility leases	1,519,422	113,495	200	1,633,117
Information technology	181,878	100,929	-	282,807
Interest	951,238	-	-	951,238
Other	187,562	217,194	425,658	830,414
Postage and printing	72,712	10,425	-	83,137
Professional services	1,037,137	1,451,642	192,149	2,680,928
Repairs and maintenance	686,760	748	-	687,508
Supplies and instructional aids	1,288,739	87,026	57,146	1,432,911
Travel	403,323	143,077	49,416	595,816
Utilities	207,649	7,653	-	215,302
	$ 20,436,653	$ 3,920,252	$ 1,348,272	$ 25,705,177

Note 19. Financial Assets Available and Liquidity

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year.

Cash and cash equivalents	$ 9,564,072
Due from government agencies	5,970,209
Unconditional promises to give, net	3,177,238
Financial assets as of June 30, 2019	18,711,519
Less:	
Amounts subject to donor restrictions	14,755,039
Contractually obligated financial assets	2,141,449
Amounts not due within one year	71,451
Financial assets available to meet cash needs for general expenditures within one year	$ 1,743,580

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. Thus, 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 $2.0 million line of credit with Mutual of Omaha to draw upon as needed. See Note 8 for additional details.

Note 19. Financial Assets Available and Liquidity (Continued)

The Organization's line of credit with AZBT cannot be utilized to manage the Organization's liquidity, as it can only be drawn upon when purchasing land for future campuses while financing is being finalized. See Note 8 for additional details.

Included in the amounts subject to donor restrictions above is the settlement of the underpayment of the Foundation School Program—State of Texas allotment. TEA stipulates that a percentage of the Foundation School Program allotment must be spent on specific programs, as noted in Note 11, and certain criteria must be met prior to the reclass of monies received from net assets with donor restrictions to net assets without donor restrictions. The Organization believes these criteria have been met as of June 30, 2019, and is only reducing financial assets available within one year for the Foundation School allotment settlement to be consistent with the presentation of the Foundation School Program allotment throughout the financial statements. The Organization can use these funds to manage its liquidity, as the Texas Education Code §45.105(c), states that the Foundation School Program allotment can be used for any purposes necessary in the conduct of the charter school, as determined by the governing body of the charter school.

Note 20. Adoption of ASU No. 2016-14

During the current year ended June 30, 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require the Organization to make reporting changes affecting the following:

- Net asset classifications and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- New reporting requirements related to expenses, including disclosure of expenses by both nature and function

The Organization made changes to terminology and classification, as described above, as well as additional and modified disclosures, particularly in Notes 18 and 19 to the financial statements. Amounts previously reported for the year ended June 30, 2018, have been reclassified, on a retrospective basis, to achieve consistent presentation. Net assets previously reported as temporarily or permanently restricted have been reclassified to be reported as net assets with donor restrictions.

Other Supplemental Information

Great Hearts America—Texas

Schedules of Expenses
Years Ended June 30, 2019 and 2018

		2019	2018
	Expenses:		
6100	Payroll costs	**$ 21,886,493**	$ 15,340,546
6200	Professional and contracted services	**6,139,292**	5,357,719
6300	Supplies and materials	**2,324,105**	1,769,907
6400	Other operating costs	**2,364,461**	2,130,819
6500	Debt service	**1,863,983**	1,106,186
	Total expenses	**$ 34,578,334**	$ 25,705,177

Great Hearts America—Texas

Schedule of Capital Assets
June 30, 2019

		Ownership Interest		
	Asset Classification	Local	State	Federal
	Property and equipment:			
1510	Land and improvements	$ -	$ 10,682,479	$ -
1520	Buildings and improvements	-	27,194,087	-
1530	Furniture and equipment	-	1,298,782	364,988
1532	Computers and software	-	533,483	-
1580	Construction in progress	-	20,749,942	-
	Total property and equipment	$ -	$ 60,458,773	$ 364,988

Great Hearts America—Texas

Budgetary Comparison Schedule
Year Ended June 30, 2019

		Budgeted Amounts			Variance With Final Budget
		Original	Final	Actual	Positive (Negative)
	Revenues and other support:				
5700	Local support	$ 6,858,771	$ 7,735,334	$ 8,115,368	$ 380,034
5800	State program revenues	27,909,034	29,351,203	29,528,277	177,074
5900	Federal program revenues	601,042	936,930	937,378	448
	Total revenues and other support	35,368,847	38,023,467	38,581,023	557,556
	Expenses:				
11	Instructional	16,807,582	16,700,619	16,871,782	(171,163)
13	Curriculum development and instructional staff development	224,698	369,459	381,624	(12,165)
21	Instructional leadership	308,169	526,732	531,012	(4,280)
23	School leadership	2,836,631	2,946,779	3,025,360	(78,581)
31	Guidance, counseling and evaluation services	177,192	157,420	149,693	7,727
33	Health services	416,149	391,893	369,542	22,351
35	Food services	439,688	453,091	481,417	(28,326)
36	Extracurricular activities	305,766	520,510	527,049	(6,539)
41	General administration	2,394,936	2,774,161	3,074,390	(300,229)
51	Plant maintenance and operations	4,000,547	4,725,947	4,909,460	(183,513)
52	Security and monitoring services	99,129	148,951	151,182	(2,231)
53	Data processing services	963,363	815,518	805,274	10,244
61	Community services	545,013	494,903	456,484	38,419
71	Debt service	1,767,928	1,783,503	1,863,983	(80,480)
81	Fundraising	1,391,443	1,253,784	980,082	273,702
	Total expenses	32,678,234	34,063,271	34,578,334	(515,063)
	Change in net assets	2,690,613	3,960,196	4,002,689	42,493
	Net assets at beginning of year	13,683,815	13,683,815	13,683,815	-
	Net assets at end of year	$ 16,374,428	$ 17,644,011	$ 17,686,504	$ 42,493

RSM