

**Great Hearts Louisiana, Inc.**  
**(a subsidiary of Great Hearts America)**

**Financial Statements**  
**and**  
**Independent Auditors' Report**

**Year Ended June 30, 2023**

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## Independent Auditors' Report

To the Board of Directors of  
Great Hearts Louisiana, Inc.  
Baton Rouge, Louisiana

### **Report on the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Great Hearts Louisiana, Inc. (GHLA), a nonprofit organization and a subsidiary of Great Hearts America (Great Hearts), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GHLA as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management's 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## *Auditors' Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GHLA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about GHLA's ability to continue as a going concern for a reasonable period of time.

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

*Fester & Chapman, PLLC*

December 1, 2023

Great Hearts Louisiana, Inc.  
(a subsidiary of Great Hearts America)

STATEMENT OF FINANCIAL POSITION

June 30, 2023

ASSETS

Current assets:	
Cash	\$ 254,721
Grants and other receivables	450,000
Prepaid expenses	<u>71,289</u>
Total current assets	776,010
Property and equipment:	
Construction in progress	<u>320,455</u>
Property and equipment, net	320,455
Deposits	<u>10,736</u>
Total assets	<u><u>\$ 1,107,201</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 436,467
Accrued payroll and related	36,204
Deferred revenue	2,942
Due to related party	<u>224,844</u>
Total current liabilities	700,457
Net assets without donor restrictions	<u>406,744</u>
Total liabilities and net assets	<u><u>\$ 1,107,201</u></u>

The accompanying notes are an integral part of these statements.

Great Hearts Louisiana, Inc.  
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STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

Revenue and support:	
Contributions	<u>\$ 1,405,000</u>
Total revenue and support	1,405,000
Program expenses:	
Primary education:	
Salaries	26,753
Payroll taxes and benefits	3,267
School site lease	5,013
Professional services	12,790
Supplies and instructional aids	13,351
Information technology	23,241
Other	<u>289,512</u>
Total program expenses	373,927
Management and general	861,712
Fundraising	<u>904</u>
Total expenses	<u>1,236,543</u>
Change in net assets	168,457
Net assets, beginning of the year	<u>238,287</u>
Net assets, end of the year	<u><u>\$ 406,744</u></u>

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STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	\$ 168,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in:	
Grants and other receivables	(450,000)
Prepaid expenses	(71,289)
Deposits	(10,736)
Accounts payable	424,825
Accrued payroll and related	36,204
Deferred revenue	2,942
Due to related party	<u>224,482</u>
Net cash provided by operating activities	324,885
Cash flows from investing activities:	
Payments for property and equipment	<u>(320,455)</u>
Net cash used in investing activities	<u>(320,455)</u>
Net increase in cash	4,430
Cash, beginning of the year	<u>250,291</u>
Cash, end of the year	<u><u>\$ 254,721</u></u>
<u>Supplemental disclosures</u>	
Cash paid during the year for interest	\$ 0

The accompanying notes are an integral part of these statements.

Great Hearts Louisiana, Inc.  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Great Hearts Louisiana, Inc. (GHLA) is a nonprofit 501(c)(3) corporation established in the State of Louisiana. GHLA is a subsidiary of Great Hearts America (Great Hearts), an Arizona nonprofit 501(c)(3) corporation. GHLA is a tuition-free charter public school in Baton Rouge, Louisiana that will enable students to: (1) acquire critical reasoning and communication skills; and (2) explore the cultural and scientific achievements at the heart of the liberal arts and sciences. GHLA promotes a curriculum emphasizing personal integrity, creative imagination, community service, and a lifelong quest for learning. GHLA will not deny admission based on ethnicity, national origin, gender, income level, disability, religion, academic ability, artistic ability, athletic ability or the public school district that the child would otherwise attend under Louisiana law, or any other factors prohibited by law.

The significant accounting policies of GHLA follow:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. GHLA is required to report information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both. GHLA did not have any net assets with donor restrictions as of June 30, 2023.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.



Great Hearts Louisiana, Inc.  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued

Contributions: GHLA follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted conditional grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Revenue Recognition: The majority of GHLA's revenue arrangements generally consist of a single performance obligation to transfer promised services over time.

Grants and Other Receivables: Grants and other receivables consist mainly of funds due from grant awards classified as conditional contributions. These grants are recorded as receivables when the related funds are expended and/or the services related to the awards are performed.

Prepaid Expenses: Prepaid expenses consist mainly of prepaid goods and services for use in the subsequent fiscal year.

Property and Equipment: Property and equipment with a cost of \$5,000 or more and an estimated useful life of one year or more are capitalized. Assets are stated at cost.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in Note 6. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: GHLA is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 2 - LIQUIDITY AND AVAILABILITY

GHLA monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. GHLA has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

Financial assets included in current assets:

Cash	\$ 254,721
Grants and other receivables	<u>450,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 704,721</u></u>

In addition to financial assets available to meet general expenditures over the year, GHLA operates with a balanced budget and anticipates covering its general expenditures by collecting revenue from current and prior year grant awards.

NOTE 3 - CONCENTRATION OF CREDIT RISK

GHLA maintains all of its cash with one financial institution which is insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. GHLA has not experienced any losses in such accounts and believes it is not exposed to any significant risks on cash.

NOTE 4 - ECONOMIC DEPENDENCY

For the year ended June 30, 2023, 100% of GHLA's revenue was derived from a grant from a nonprofit entity.

NOTE 5 - CONDITIONAL CONTRIBUTIONS

GHLA received conditional contributions during the fiscal year ended June 30, 2023. Conditional contributions are recorded when the donor-imposed conditions are substantially met. Certain conditions are required to be met by GHLA in the subsequent years in order to earn and receive these amounts. As of June 30, 2023, amounts awarded but not yet earned totaled \$850,000. While management believes that GHLA will meet these conditions, they had not been met as of the year ended June 30, 2023. Accordingly, no amount has been recorded for these conditional contributions as a receivable in these financial statements.

Great Hearts Louisiana, Inc.  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 - FUNCTIONAL EXPENSE ALLOCATION

The statement of activities reports certain categories of expenses that are attributable to program and supporting functions of the organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: salaries and payroll taxes and benefits which are allocated on the basis of estimates of time and effort, and school site lease, professional services, supplies and instructional aids and other which are allocated on the basis of salaries.

The following summarizes GHLA's expenses by function for the year ended June 30, 2023:

	Primary Education	Management and General	Fundraising	Total
Salaries	\$ 26,753	\$ 390,797		\$ 417,550
Payroll taxes and benefits	3,267	63,274		66,541
School site lease	5,013	73,214		78,227
Professional services	12,790	160,864		173,654
Supplies and instructional aids	13,351	18,678		32,029
Information technology	23,241	7,353	\$ 904	31,498
Other	289,512	147,532		437,044
Total	<u>\$ 373,927</u>	<u>\$ 861,712</u>	<u>\$ 904</u>	<u>\$ 1,236,543</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

Great Hearts is the sole member of GHLA; therefore, Great Hearts is a related party. At June 30, 2023, GHLA owed Great Hearts \$224,844.

NOTE 8 - SUBSEQUENT EVENTS

GHLA has evaluated subsequent events through December 1, 2023, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2023 that would require an adjustment to or disclosure in the financial statements.