



Brooks Academies of Texas
F/k/a Brooks Academy of Science & Engineering
(A charter school sponsored by Somerset Academy, Inc. and Subsidiaries)

Financial Statements and
Independent Auditors' Report

June 30, 2020

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CERTIFICATE OF BOARD

Brooks Academies of Texas f/k/a Brooks Academy of Science & Engineering
(A charter school under Somerset Academy, Inc.
Federal Employer Identification Number 31-1569428

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended June 30, 2020, at approved at a meeting of the Board of Trustees of such school district on the 20th day of November, 2020.



Signature of Board Secretary



Signature of Board president



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc. and Subsidiaries
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Brooks Academies of Texas (the “School”), a charter school sponsored by Somerset Academy, Inc. and Subsidiaries (the “Charter Holder”), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 entity’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 entity’s internal control.

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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 School, as of June 30, 2020, 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.

Emphasis of Matter

As described in Note 1, the accompanying financial statements referred to above present only the financial position of the School as of June 30, 2020, and the respective changes in its net assets and its cash flows for the year then ended, and is not intended to be a complete presentation of Somerset Academy, Inc. and Subsidiaries These financial statements do not purport to and do not present fairly the financial position of Somerset Academy, Inc. and Subsidiaries as of June 30, 2020 and its changes in its net assets and its cash flows for year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information and Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 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. The accompanying schedule of expenditures of federal awards is presented for purpose of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* and is also 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 audit 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, 2020, on our consideration of the School'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 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 School's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 19, 2020
Licensed by the Texas State Board of Public Accountancy

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Financial Position
June 30, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 3,162,921
Due from state	5,384,737
Due from pass-through grants from TEA	486,309
Other receivables	32,180
Prepaid expenses and other assets	<u>124,535</u>

Total current assets 9,190,682

Property and equipment, net 2,900,323

Total assets \$ 12,091,005

Liabilities and Net Assets

Current liabilities:

Accounts payable	165,386
Accrued expenses	2,926,566
Current portion of long term debt	<u>1,193,205</u>

Total current liabilities 4,285,157

Long-term debt 358,809

Total liabilities 4,643,966

Net assets - With donor restrictions 7,447,039

Total liabilities and net assets \$ 12,091,005

The accompanying notes are an integral part
of this financial statement.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Activities
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues			
Local support:			
Contributions	\$ -	\$ 624,351	\$ 624,351
Food Service	-	287,046	287,046
Other Revenues	-	49,403	49,403
Total local support	<u>-</u>	<u>960,800</u>	<u>960,800</u>
State program revenue:			
Foundation school program	-	32,833,112	32,833,112
Food service	-	7,362	7,362
State-Funded Special Revenue Funds	-	778,370	778,370
Total state program revenues	<u>-</u>	<u>33,618,844</u>	<u>33,618,844</u>
Federal program revenues:			
National School Breakfast and Lunch Program	-	883,823	883,823
Title I, Part A - Grants to Local Education Agencies	-	633,482	633,482
Title I, SIP - Academy Grant	-	118,404	118,404
Title II, Part A - Supporting Effective Instruction	-	100,351	100,351
Title III, Part A, English Language Enhancement	-	21,344	21,344
Title IV, Part A, Subpart 1	-	47,989	47,989
Career and Technical Education	-	45,288	45,288
IDEA Part B	-	486,386	486,386
Total federal program revenues	<u>-</u>	<u>2,337,067</u>	<u>2,337,067</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>36,816,194</u>	<u>(36,816,194)</u>	<u>-</u>
Total Revenues	<u>\$ 36,816,194</u>	<u>\$ 100,517</u>	<u>\$ 36,916,711</u>

The accompanying notes are an integral part of this financial statement.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Activities - Continued
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses			
11 Instruction	\$ 24,822,458	\$ -	\$ 24,822,458
12 Instructional resources and media services	159,666	-	159,666
13 Curriculum and instructional staff development	340,487	-	340,487
21 Instructional Leadership	196,018	-	196,018
23 School leadership	2,278,211	-	2,278,211
31 Guidance, counseling and evaluation services	409,452	-	409,452
32 Social work services	66,479	-	66,479
33 Health services	198,118	-	198,118
34 Student (pupil) transportation	101,072	-	101,072
35 Food services	1,326,291	-	1,326,291
36 Extracurricular activities	475,455	-	475,455
41 General administration	2,763,500	-	2,763,500
51 Facilities maintenance and operations	2,524,792	-	2,524,792
52 Security and monitoring services	812,484	-	812,484
53 Data processing services	262,681	-	262,681
61 Community services	4,208	-	4,208
71 Debt service	74,822	-	74,822
Total expenses	<u>36,816,194</u>	<u>-</u>	<u>36,816,194</u>
Change in net assets	<u>-</u>	<u>100,517</u>	<u>100,517</u>
Net assets, beginning of year	<u>-</u>	<u>7,346,522</u>	<u>7,346,522</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 7,447,039</u>	<u>\$ 7,447,039</u>

The accompanying notes are an integral part
of this financial statement.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Activities		Supporting Activities	Total
	Instructional Activities		General and Administrative	
Expenses				
Salaries and Wages	\$ 18,199,515		\$ 1,474,686	\$ 19,674,201
Benefits	2,019,131		132,125	2,151,256
Payroll Taxes	257,821		20,740	278,561
Total Payroll Expenses	\$ 20,476,467		\$ 1,627,551	\$ 22,104,018
Rental Expense	\$ 4,585,620		\$ 443,989	\$ 5,029,609
Office Expenses	395,500		11,340	406,840
Maintenance and Repairs	181,248		-	181,248
Administration Overhead	16,241		31,960	48,201
Utilities	774,911		4,589	779,500
Depreciation	576,038		25,339	601,377
Supplies	975,329		100,277	1,075,606
Food	952,737		-	952,737
Travel	56,976		31,707	88,683
Instructional Materials	522,304		-	522,304
Insurance and Bonding	333,858		14,771	348,629
Professional Fees and Dues	211,136		2,545,235	2,756,371
Interest Expense	38,114		-	38,114
Other	1,678,004		204,953	1,882,957
Total Non-payroll Expenses	\$ 11,298,016		\$ 3,414,160	\$ 14,712,176
Total Expenses	\$ 31,774,483		\$ 5,041,711	\$ 36,816,194

The accompanying notes are an integral part of this financial statement.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows From Operating Activities	
Change in net assets	\$ 100,517
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	601,379
Change in assets and liabilities:	
Due from state	(342,676)
Due from pass-through grants from TEA	231,054
Other receivables	273
Prepaid expenses and other assets	167,673
Accounts payable	(142,978)
Accrued expenses	778,501
Deferred revenues	(48,513)
	<u>1,244,713</u>
Net Cash Provided by Operating Activities	<u>1,345,230</u>
Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(460,470)</u>
Net Cash Used in Investing Activities	<u>(460,470)</u>
Cash Flows From Financing Activities	
Proceeds from long term debt	1,047,653
Repayment of principal	<u>(689,731)</u>
Net Cash Provided by Financing Activities	<u>357,922</u>
Net increase in cash and equivalents	<u>1,242,682</u>
Cash and cash equivalents, at beginning of year	<u>1,920,239</u>
Cash and cash equivalents, at end of year	<u>\$ 3,162,921</u>
<u>Supplemental Disclosure of Cash Flow Information</u>	
Cash paid for interest	<u>\$ 38,481</u>

The accompanying notes are an integral part of this financial statement.

Note 1 – Organization and Operations

Somerset Academy, Inc. (the “Charter Holder”), is a not-for-profit 501(c)(3) corporation established in the state of Florida. The Charter Holder has enrollment charters for 61 charter schools, one of which is Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering (the “School”) which operates in the state of Texas. The other charters schools operate in Florida.

The Charter Holder is governed by a Board of Directors (the “Florida Board”) comprised of no less than 3 and no more than 11 members (8 at June 30, 2020). The Florida Board is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer, and significantly influence the operations of the Charter Holder, as well as the School. On July 31, 2014, the Florida Board created a Texas local governing body committee known as the Texas School Board to assist with the governance of the School in Texas. In accordance with the bylaws of the Charter Holder, the Texas School Board shall be composed of no less than 3 and no greater than 5 members (3 at June 30, 2020) appointed by the Florida Board. The majority of members of the Texas School Board must be qualified voters in the state of Texas.

In 2006, the State Board of Education (“SBOE”) of the state of Texas granted the Charter Holder an open-enrollment charter pursuant to chapter 12 of the Texas Education Code (“TEC”). The open-enrollment charter shall be in effect from the date of execution through July 31, 2010 unless renewed or terminated. Pursuant to the program described in the charter application approved by the SBOE of the state of Texas and the terms of the applicable contract for charter, the Charter Holder opened its first campus in August 2006, which serves grades kindergarten through twelve. The Charter Holder currently operates four campuses. The Charter Holder submitted to the Texas Education Agency (“TEA”) its open-enrollment charter renewal application upon expiration in July 31, 2010; however, the renewal remained pending for several years. On April 24, 2014, the SBOE of the state of Texas approved the current renewal of the open enrollment charter, which expires on July 31, 2020. On August 1, 2020 the charter agreement was renewed until July 31, 2030.

In 2017, the TEA approved the School’s notification of intent to change fiscal year start date to begin on July 1st and end on June 30th of the next calendar year. The accompanying financial statements are for the fiscal year ending June 30, 2020.

The School receives substantially all its funding from TEA based on the School’s average daily attendance. Since the School receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The School is sponsored by the Charter Holder. These financial statements include only the activities of the School. The School does not purport to and does not, present the financial position of Somerset Academy, Inc. and Subsidiaries and its changes in its net assets and its cash flows as of any date or for any period.

The accompanying financial statements for the School have been prepared on the accrual basis of accounting for the School's fiscal year end of June 30, 2020 in conformity with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions (continued)

When a restriction expires, that is, when a stipulated time restriction ends or a 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 contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the end of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

In-Kind Contributions and Services

In-Kind contributions of donated non-cash assets are recorded at their fair value in the period received. They consist primarily of volunteer services, donated books, facilities and supplies. Donations, ticket sales, auction sales and sponsorships revenues related to special events are recognized when the events take place net of the costs of direct donor benefits that are not program related costs and are provided in exchange transactions.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering has adjusted the presentation of these statements accordingly.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, salary and benefit, occupancy. Methods used include square footage, time and effort and direct use.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Cash and cash equivalents, receivables, and prepaid expenses, as well as account payable and accrued expenses as reflected in the statement of financial position at approximate fair value because of their generally short-term maturities.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits (see Note 3). In addition, the School has an agreement with its bank institution where the bank provides pledged collateral in the School's name in the event deposits exceed FDIC limits. The School has not experienced any losses in such accounts.

Due from State

Due from state consists of the instructional days in June 2020 that relate to the 2020-2021 school year, as well as underpayments for the foundation school program made to the School from the TEA.

Due from Pass-Through Grants From TEA

The School considers all government grants and contracts as exchange transactions rather than contributions. The School 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 revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as due from pass-through grants from TEA. Any of the funding agencies 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.

Revenue Recognition

Capitation received, including base capitation, entitlements and special services, is recognized in the period services are provided. 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.

Property and Equipment

The School's plant and equipment with useful lives of more than one year are stated at historical cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The School generally capitalizes assets with cost of \$500 or more. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Assets purchased under capital leases	5 Years
Vehicles	5 Years
Leasehold improvements	15 Years
Furniture and equipment	5 Years

Impairment of Long-Lived Assets

The School reviews the carrying value of property and equipment for impairment whenever events and circumstances indicated 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 the amount by which the carrying value exceeds the fair value of the assets. The factors considered by management include current operating results, trends and prospects and other economic factors. The School did not recognize an impairment loss during the year ended June 30, 2020.

Compensated Absences

The School grants a specific number of personal days. Full time instructional employees are eligible for 2.67 hours per pay period or up to up to eight days during the ten-month contract period. Year-round full-time employees are eligible for 3.36 hours per pay period or up to ten days during the twelve-month contract period. In the event available time is not used by the end of the benefit year, employees may “rollover” a total of five days per year. There is an opportunity to “cash out” unused days at the end of one year prior to August of the following year or at termination of employment, whichever occurs first, at the employee’s daily rate.

Income Taxes

Somerset Academy, Inc. and Subsidiaries (the charter holder) qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been recorded in the accompanying financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated subsequent events and transactions for potential recognition or disclosure through November 19, 2020, which is the date the financial statements were available to be issued.

Note 3 – Liquidity and Cash Deposits

Liquidity

Current assets on the statement of financial position represents financial assets available within one year of the balance sheet date for general expenditures. The financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date, if any. The School structures its highly liquid financial assets to be available as its general expenditures, liabilities and other obligations come due by maintaining deposits in highly rated financial institutions.

Deposits

The School maintains its cash and cash equivalents in one financial institution. As of June 30, 2020, the School's deposits consisted of cash balances of \$2,719,598. Deposits at FDIC-insured institutions are insured up to \$250,000 per depositor, per financial institution. The School is a charter school under Somerset Academy, Inc., which also operates various other charter schools. All bank accounts are opened under the account ownership of Somerset Academy, Inc., therefore, bank balances at times may potentially be in excess of FDIC coverage. As of June 30, 2020, bank balances in potential excess of FDIC coverage was approximately \$2,460,000.

The School's financial assets available within one year of the balance sheet date for general expenditures are as follow:

Cash and cash equivalents	\$ 3,162,921
Due from governmental agencies	5,871,046
Prepaid expenses and other current assets	156,715
	<u>\$ 9,190,682</u>

As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 4 – Due From State/Due From Pass-Through Grants From the TEA

Due from state and due from pass-through grants from the TEA at June 30, 2020 consist of the following:

<u>Due from state:</u>	
Days of instruction	\$ 5,123,624
Settlement of current year underpayment	261,113
	<u>\$ 5,384,737</u>
 <u>Due from pass-through grants from TEA:</u>	
Title I, Part A - Grants to Local Education	
Agencies	\$ 177,613
Title I, SIP - Academy Grant	57,175
Title II, Part A - Supporting Effective Instruction	33,174
Career and Technical Education	14,709
Title III, Part A	6,466
Title IV, Part A	47,989
IDEA Part B	149,183
	<u>\$ 486,309</u>

Note 5 – Property and Equipment

The following schedule provides a summary of property and equipment at June 30, 2020:

Land improvements	\$ 125,631
Furniture, fixtures and equipment	4,561,684
Leasehold improvements	2,013,761
Vehicles	277,510
Asset purchased under capital lease	842,317
	<u>7,820,903</u>
Less accumulated depreciation	<u>(4,920,580)</u>
Net property and equipment	<u>\$ 2,900,323</u>

Depreciation expense for the year ended June 30, 2020 totaled \$601,377. Capital assets acquired with public funds received by the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 6 – Long Term Debt

On July 9, 2016, the Charter Holder entered into an interim financing lease agreement with Zion Credit Corporation, on behalf of the School, for interim equipment financing of up to \$1,000,000. The interim financing was available for the purchase of equipment for a maximum of 6 months. On completion of the interim financing on July 16, 2017, the total amount drawn of approximately \$625,500 converted into a capital tax lease, for a 60 month term at an interest rate of 4.03%. The capital tax lease is collateralized by the purchased equipment being financed. The monthly payments of principal and interest are \$11,055. The note matures on June 16, 2022 when the remaining principal balance and accrued interest shall be paid.

On June 20, 2018, the Charter Holder, entered into a term loan with Regions Bank, on behalf of the School, in the amount of \$1,000,000, for the purpose of refinancing a previous loan. The Region Bank loan is collateralized by the assets of the School and is due in 60 monthly installments of principal and interest until maturity date on June 20, 2023. The note may be prepaid at any time and payments are currently being made based on a two year plan. The monthly payments of principal and interest are \$49,755. The loan bears interest at a rate of 4.65%.

On September 20, 2017, the Charter Holder entered into a financing lease agreement with JP Morgan Chase Bank on behalf of the School for equipment financing of approximately \$673,000. The term of the note is for 48 months ending on September 20, 2021 and bears interest at a rate of 3.63% per annum. The note is collateralized by the purchased equipment being financed. The monthly payments of principal and interest are \$15,091.

On June 25, 2020, the Charter Holder entered into a financing lease agreement with JP Morgan Chase Bank on behalf of the School for equipment financing of approximately \$197,653. The term of the note is for 48 months ending on June 25, 2024 and bears interest at a rate of 2.30% per annum. The note is collateralized by the purchased equipment being financed. The monthly payments of principal and interest are \$4,314.

The Charter Holder, entered into a revolving line of credit with a financial institution for working capital purposes on behalf of the School. The facility bears and interest rate of 1.94% per annum and is due in full with all accrued interest at maturity on March 31, 2021. The line of credit is secured by all business assets of the Charter Holder. During the year ended June 30, 2020, the School received advances of \$850,000.

Note 6 – Long Term Debt (continued)

Long-term debt at June 30, 2020 consisted of the following:

Capital tax lease	\$ 283,377
Purchased financing lease	418,637
Line of credit	<u>850,000</u>
Total	<u>\$ 1,552,014</u>

Future maturities of long-term debt are as follows:

Fiscal year ending:	
2021	\$ 1,193,205
2022	253,599
2023	49,872
2024	51,031
2025	<u>4,307</u>
Total	<u>\$ 1,552,014</u>

Note 7 – Operating Leases and Other Commitments

The School also leases modular portable classrooms under various agreements. Monthly payments under these agreements range from \$1,200 to \$2,275 plus insurance and other fees.

The School is leasing office equipment for approximately \$162,000 per year through 2024.

The School leases property on its four campuses under four non-cancellable lease agreements.

BASE Campus

The Charter Holder entered into various amended lease agreements with Goliath Grant, LLC, Goliad Grant II, LLC, Goliad Grant III, LLC for facilities totaling 83,640 square feet through 2028 with options to extend for an additional five years. Monthly payments under the lease agreements range from \$45,796 to \$54,340 plus CPI.

The landlord of Base campus is related to the services provider referred to in Note 12 by common ownership.

BCA Campus

The Charter Holder, entered into a promissory note with TA Vance Acquisition Lender, LLC to purchase the land and buildings of the School’s BCA Campus for \$22,889,431. Interest will accrue on the outstanding principal balance of the loan at the fixed rate of 5.00%. The interest payments are due on monthly installments through the maturity date of June 30, 2046. On the maturity date, a balloon payment of the outstanding principal balance and all accrued and unpaid interest shall be due and payable in full. The outstanding balance of the notes as of June 30, 2020 amounted to \$22,889,431, which is recorded in the charter holder’s books.

Note 7 – Operating Leases and Other Commitments (continued)

The Charter Holder entered into a Ground Lease for the BCA Campus property with TA Vance Property, L.P. for \$1 through June 30, 2046.

Subsequently, the Charter Holder entered into a Lease Agreement with TA Vance Property, L.P. (“Landlord”) for the land, building, and building improvements of the School’s BCA Campus. Monthly payments under the lease agreement are \$54,627. The lease agreement continues through June 30, 2046 and includes a purchase option termination fee of \$8,537,900 through June 30, 2022. It is the intention of the Charter Holder to exercise the purchase option therefore the value of the lease payments for the value of the improvements in made by the Landlord excess of the purchase price have been capitalized in the Charter Holders books.

The School is paying all interest expense and lease payments on behalf of the Charter Holder and the payments are reflected as rent expense in the Schools statement of statement of activities. The full value of the lease commitments for TA Vance Property, L.P. and TA San Antonio 25 BL, L.P. are included in the future minimum payments below. For the year ended June 30, 2020 \$1,144,470 in interest expense payments are included in rent expense.

Lonestar Campus

The Charter Holder, entered into a promissory note with TA San Antonio BL Acquisition Lender, LLC for the land and building of the School’s Lonestar Campus for \$4,019,242. Interest will accrue on the outstanding principal balance of the loan at the fixed rate of 5.00%. The interest payments are due on monthly installments through the maturity date of June 30, 2048. On the maturity date, a balloon payment of the outstanding principal balance all accrued and unpaid interest shall be due and payable in full. The outstanding balance of the notes as of June 30, 2020 amounted to \$4,019,242, which has been recorded in the Charter Holder’s books.

The Charter Holder entered into a Ground Lease for the Lonestar Campus property to TA San Antonio 25 BL, L.P. for \$1 effective as of July 18, 2018 through June 30, 2048.

Effective as of the commencement date, the Charter Holder, entered into a Lease Agreement with TA San Antonio 25 BL, L.P. (“Landlord”) for the land, building, and building improvements of the School’s Lonestar Campus. Monthly payments under the lease agreement are \$43,117. The lease agreement continues through June 30, 2048 and includes a purchase option termination fee of \$8,019,047 if the Charter Holder purchases the improvements by March 30, 2023. It is the intention of the Charter Holder to exercise the purchase option therefore the value of the lease payments for the value of the improvements made by the Landlord in excess of the purchase price have been capitalized in the Charter Holders books.

Note 7 – Operating Leases and Other Commitments (continued)

Lonestar Campus (continued)

The School is paying all interest expense and lease payments on behalf of the Charter Holder and the payments are reflected as rent expense in the Schools statement of statement of activities. The full value of the lease commitments for TA Vance Property, L.P. and TA San Antonio 25 BL, L.P. are included in the future minimum payments below. For the year ended June 30, 2020 \$184,215 in interest expense payments are included in rent expense.

Oaks Campus

The Charter Holder entered into a lease agreement with St. George Maronite Catholic Church through July 31, 2021 with two options to renew for additional five year terms. Monthly rent payments under the agreement are \$10,417.

Rental expense for the year ended June 30, 2020 totaled approximately \$5,000,000, including payments of approximately \$2,274,000 for the Base campus leases. Future minimum payments under these agreements are as follows:

Fiscal year ending:		
	2021	\$ 3,601,099
	2022	4,078,150
	2023	4,317,836
	2024	4,347,506
	2025	4,440,852
	2026-2030	21,429,647
	2031-2035	15,363,231
	2036-2040	17,844,539
	2041-2045	20,617,834
	2046-2048	6,971,277
Total		<u>\$ 103,011,971</u>

Concentrations and Contingencies

The School received substantially all of its revenues from state and federal governmental agencies that are governed by various statutes and regulations. As such, the School operates in a heavily regulated environment. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency.

Note 7 – Operating Leases and Other Commitments (continued)

The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. The School receives a portion of its funding from federal and state programs that are governed by 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.

Trademark License and Affiliation Agreement

The School entered into an affiliation agreement with SLAM Foundation, Inc. to become a member of SLAM and adopt best practices, standards and procedures. This agreement shall remain in effect for a term equal to the duration of the term of the Schools charter contract. The agreement shall automatically renew for an additional term upon renewal of the Schools charter contract. The annual affiliation fee is 1% of the guaranteed basic support payment per pupil funding that the Schools generate and receive based on student enrollment at the Schools for all the students in all of the grade levels in which SLAM curriculum is offered. During the year ended June 30, 2020, the School incurred approximately \$65,000 in affiliation fees.

Note 8- Risk Management

The School is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the School carries commercial insurance. Settlement amounts have not exceeded insurance coverage for the past years. In addition, there were no reductions in insurance coverage from those in the prior year.

Note 9 – Defined Benefit Pension Plan

The School participates in the Teacher Retirement System of Texas (the System), a public employee retirement system. It is cost-sharing, multiple-employer defined benefit pension plan with the exception that all risks and costs are not shared by the School, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries.

The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas. Under provisions in State law, plan members are required to contribute 7.7% of their monthly salary and the State of Texas contributes an amount equal to 7.5% of the School's covered payroll. The School's contribution to the System for the year ended June 30, 2020 was approximately \$419,307.

Note 9 – Defined Benefit Pension Plan (continued)

Plan Description

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

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

The TRS plan differs from single-employer plan 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.

Pension Plan Fiduciary Net Position

At August 31, 2019, TRS’ total plan assets were \$157,978,199,075; accumulated benefit obligation was \$209,961,325,288; and the plan was 75.24% funded.

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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 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 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, of the amortization period already exceeds 31 years, the period would be increased by such action.

Note 9 – Defined Benefit Pension Plan (continued)

Employee contribution rates are set in state statute, Texas Government Code, Section 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code, Section 825.402 for member contributions and established employee contribution rates for fiscal year 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (“OASDI”) on certain employees effective for fiscal year 2015, as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (“GAA”) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

Contributors to the plan include members, the School, 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 School. The School is required to pay the employer contribution rate in the following instances:

- On the portion of the members’ salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the TEC.
- 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, 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 School employer contributions listed-below, when employing a retiree of TRS, the School shall pay both the member contribution and the state contribution as an employment after retirement surcharge. The School’s contribution to TRS does not represent more than 5% of the total contributions to the TRS plan. Other than in member contribution rates, there have been no changes that would affect the comparison of employer contributions from year to year.

Note 9 – Defined Benefit Pension Plan (continued)

	<u>Contribution Rates</u>	<u>2019</u>
Member		7.7%
NECE		7.5%
Employers		7.5%
Employer contributions		\$ 184,551
Member contributions		\$ 1,306,793
Non-OASDI contributions		\$ 234,757
Health plan contributions		\$ 1,183,764

Note 10 – Health Care Coverage

During the year ended June 30, 2020, employees of the School were covered by a health insurance plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers. For the year ended June 30, 2020, the School contributed approximately \$1,007,542 to the health plan on behalf of the employees.

Note 11 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2020 consisted of assets that are subject to grantor or donor imposed stipulations that require the passage of time or the occurrence of a specified event. The majority of the assets are pass-through from TEA as follows:

Foundation School Program	\$ 7,674,436
Title I, Part A	31,772
Title I School Improvement	13,645
Title II, Part A	3,450
IDEA Part B	17,421
Career And Technical Ed.	4,399
National School Breakfast and Lunch Program	(145,060)
Advance Placement Incentives	83
Instructional Materials Allotment	25,930
Federal Funded Special Revenue	1,451
Other State	4,369
Other Local Sources	(184,857)
	<u>\$ 7,447,039</u>

Note 11 – Temporarily Restricted Net Assets (Continued)

Net Assets for the year ended June 30, 2020 were released from donor restriction by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Foundation School Program	\$ 32,950,132
Instructional Materials Allotment	505,182
Title I, Part A - Grants to Local Education Agencies	601,710
Title I School Improvement	104,759
Federal Funded Special Revenue	47,989
IDEA Part B	439,961
IDEA Special Education Discretionary	29,004
National School Breakfast and Lunch Program	1,326,291
Title II, Part A - Supporting Effective Instruction	96,901
Title III, Part A, English Language Enhancement	21,344
Career And Technical Ed.	42,363
Other State	187,612
Other Local	462,946
	<u>\$ 36,816,194</u>

Note 12 – Services Agreement

The Charter Holder has a services agreement with Academica SW, LLC to provide administrative services specifically to the School including but not limited to facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the accounting books and records, bookkeeping, budgeting and financial reporting. The fee charged is per student full-time equivalent of the School per annum and is adjusted annually for the consumer price index. During the year ended June 30, 2020, the fee recorded by the School totaled approximately \$2,122,000.

Note 13 – Subsequent Events

On January 21, 2020 the Centers for Disease Control and Preventions (CDC) confirmed the first case of 2019 Novel Coronavirus (COVID-19) in the United States. The ongoing spread of the new COVID-19 has become a threat to the global economy and financial markets. Pursuant to local emergency orders, the School converted to distance learning on March 13, 2020 for the remainder of the school year. The ultimate effect of COVID-19 on the Organization and its future operations cannot presently be determined.

SUPPLEMENTAL INFORMATION

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Schedule of Expenses
For the Year Ended June 30, 2020

Expenses:

6100 Payroll costs	\$ 22,204,268
6200 Professional and contracted services	10,156,868
6300 Supplies and materials	3,097,112
6400 Other operating costs	1,283,124
6500 Debt service	<u>74,822</u>
Total Expenses	<u>\$ 36,816,194</u>

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Schedule of Capital Assets
June 30, 2020

Object Code	Asset Classification	Ownership Interest			Total
		Local Funds	State Funds	Federal Funds	
1510	Land and Improvements	\$ -	\$ 125,631	\$ -	\$ 125,631
1520	Buildings and Improvements	-	2,013,761	-	2,013,761
1531	Vehicles	-	277,510	-	277,510
1539	Furniture and equipment over \$500	114,760	754,948	61,281	930,989
1549	Furniture and equipment under \$500	11,202	3,030,344	412,212	3,453,758
1559	Asset purchased under capital lease	-	842,317	-	842,317
1569	Library books	78,445	98,492	-	176,937
Total Capital Assets		\$ 204,407	\$ 7,143,003	\$ 473,493	\$ 7,820,903

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc.)
Budgetary Comparison Schedule
For the Year Ended June 30, 2020

	Budgeted Amounts			Variances	
	Original	Final	Actual Amounts	Variance from	Variance
				Final Budget and Actual Amounts	from Original and Final Budget
Revenues					
5700 Local support	\$ 958,204	\$ 911,143	\$ 960,800	\$ 49,657	\$ 47,060
5800 State program revenue	34,755,303	32,881,463	33,618,844	737,381	1,873,840
5900 Federal program revenues	2,856,790	2,673,663	2,337,067	(336,596)	183,128
Total revenues and other support	<u>\$38,570,297</u>	<u>\$ 36,466,269</u>	<u>\$36,916,711</u>	<u>\$ 450,442</u>	<u>\$ 2,104,028</u>
Expenses					
11 Instruction	24,231,543	24,910,382	24,822,458	(87,924)	(678,839)
12 Instructional resources and media services	152,724	147,570	159,666	12,096	5,154
13 Curriculum and instructional staff development	569,831	320,596	340,487	19,891	249,235
21 Instructional Leadership	276,988	195,613	196,018	405	81,375
23 School leadership	2,119,977	2,170,160	2,278,211	108,051	(50,183)
31 Guidance, counseling and evaluation services	370,427	432,500	409,452	(23,048)	(62,073)
32 Social work services	75,318	62,430	66,479	4,049	12,888
33 Health services	213,000	183,322	198,118	14,796	29,678
34 Student (pupil) transportation	141,687	77,054	101,072	24,018	64,633
35 Food services	1,492,469	1,281,231	1,326,291	45,060	211,238
36 Extracurricular activities	550,948	525,775	475,455	(50,320)	25,173
41 General administration	3,496,768	2,597,684	2,763,500	165,816	899,084
51 Facilities maintenance and operations	2,232,548	2,307,433	2,524,792	217,359	(74,885)
52 Security and monitoring services	619,689	796,749	812,484	15,735	(177,060)
53 Data processing services	249,196	261,214	262,681	1,467	(12,018)
61 Community services	7,700	4,208	4,208	(0)	3,492
71 Debt service	123,877	56,666	74,822	18,156	67,211
Total expenses	<u>36,924,690</u>	<u>36,330,587</u>	<u>36,816,194</u>	<u>485,607</u>	<u>594,103</u>
Change in net assets	<u>1,645,607</u>	<u>135,682</u>	<u>100,517</u>	<u>(35,165)</u>	<u>1,509,925</u>
Net assets at beginning of year	<u>7,346,522</u>	<u>7,346,522</u>	<u>7,346,522</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 8,992,129</u>	<u>\$ 7,482,204</u>	<u>\$ 7,447,039</u>	<u>\$ (35,165)</u>	<u>\$ 1,509,925</u>

Note 1 – Budgetary Matters

In accordance with the TEA Special Supplement to the Financial Accountability System Resource Guide Charter Schools, if the budgetary comparison schedule discloses variances between the final budgeted amounts and the actual amounts that exceed 10% of the final budgeted amounts or 10% between the original and budgeted amounts, a written statement discussing the causes of the variances is required. Budget variances are explained in Note 2 below.

Note 2 – Budgetary Variances

Revenue

NSLP revenue drastically decreased from March-June given the closure of school due to COVID-19

Expenses

Function 13 - Staff Development Services decreased from prior year expense. Courses or trainings that took place between March - June were cancelled due to COVID-19

Function 21 - Budget was decreased to accommodate changes in enrollment and revenue

Function 31 - Evaluation services for students increased from prior year expenses.

Function 32 - Budget was decreased to accommodate changes in enrollment and revenue

Function 33 - Budget was decreased to accommodate changes in enrollment and revenue

Function 34 - Budget was initially decreased to accommodate changes in enrollment and revenue; however transportation expenses were slightly higher than predicted

Function 35 - Lunch expenses decreased from March - June given school closure due to COVID-19

Function 36 - Extracurricular expenses decreased from March - June upon school closing due to COVID-19

Function 52 - School invested in increasing security for students to ensure a safe environment

Function 61 - Budget was decreased to accommodate changes in enrollment and revenue

Function 71 - Debt service decreased from prior year.

COMPLIANCE SECTION



INDEPENDENT AUDITOR’S 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
Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc. and Subsidiaries
San Antonio, 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 Brooks Academies of Texas (the “School”), a charter school sponsored by Somerset Academy, Inc. and Subsidiaries (the “Charter Holder”), which compose the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses 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, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) as a basis for designing 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 School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’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 entity’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 School’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 financial statements. 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*.

We noted certain matters that we reported to management in a separate management letter dated November 19, 2020.

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 School’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 19, 2020
Licensed by the Texas State Board of Public Accountancy



INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School Sponsored by Somerset Academy, Inc. and Subsidiaries
San Antonio, Texas

Report on Compliance for Each Major Federal Program

We have audited Brooks Academies of Texas (the "School"), a charter school sponsored by Somerset Academy, Inc. and Subsidiaries (the "Charter Holder"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-01. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in blue ink that reads "HLB Gravier, LLP".

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 19, 2020
Licensed by the Texas State Board of Public Accountancy

Brooks Academies of Texas f/k/a Brooks Academy of Science and Engineering
 (A Charter School Sponsored by Somerset Academy, Inc.)
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number Pass Through Entity	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE/PASSED THROUGH THE STATE DEPARTMENT OF AGRICULTURE			
School Breakfast Program	10.553	201919N109946	\$ 189,613
National School Lunch Program	10.555	201919N109946	<u>694,210</u>
Total United States Department of Agriculture passed through State Department of Agriculture			<u>\$ 883,823</u>
U.S. DEPARTMENT OF EDUCATION/PASSED THROUGH THE STATE DEPARTMENT OF EDUCATION			
Title I, Part A - Grants to Local Educational Agencies	84.010A	S010A180043	\$ 633,482
Title I - School Improvement (SIP) Academy Grant	84.377A	S010A180043	118,404
Title II, Part A - Supporting Effective Instruction	84.367A	S367A180041	100,351
Title III, Part A - English Language Enhancement	84.365A	S365A160043	21,344
Title IV, Part A - Student Support and Academic Enrichment	84.424A	S424A180045	47,989
Career and Technical Education	84.048A	V048A180043	45,288
IDEA B - Formula	84.027A	H027A180008	<u>486,386</u>
Total United States Department of Education passed through State Department of Education			<u>\$ 1,453,244</u>
Total expenditures of federal awards			<u>\$ 2,337,067</u>

Note 1 – Basis of Presentation and Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Brooks Academies of Texas f/k/a Brooks Academy of Science and Engineering ("the School") during the year ended June 30, 2020. The schedule includes only the expenditure of federal awards of the School as of June 30, 2020 and is not intended to be a complete presentation of the expenditures of federal awards of Somerset Academy, Inc. and Subsidiaries, the Charter Holder.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

Expenditures on the schedule are reported on the accrual basis of accounting. Some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

The School has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
 (A Charter School sponsored by Somerset Academy, Inc. and Subsidiaries)
 Schedule of Findings and Questioned Costs
 June 30, 2020

Section 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 weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Type of auditor's report issued on compliance for major program: Unmodified

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Any audit findings disclosed that are required to be reported as defined by the Uniform Guidance (2 CFR 200.516(a))? X Yes _____ No

Identification of major programs:

Name of Federal Program or Cluster	CFDA	
	Number(s)	Expenditures
School Breakfast and National School Lunch Program	10.553/10.555	\$ 883,823

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

A. Internal Control:

2020-01 Internal Accounts

Criteria: The School designed and implemented an internal control system to reduce the risk of misuse of funds, misappropriation of assets and/or cash receipts by establishing a general policy regarding the collection of money and internal fund purchases as detailed in the School’s “Internal Accounts – Policies and Procedures” handbook.

Condition: We noted the following: Purchase orders were not utilized for some of the purchases tested, deposits were missing receipts for cash collections, some of the deposits did not agree to the Recap of Collections Forms, Recap did not have reviewer signatures, and lack of adequate documentation for some of the items tested.

Cause: The condition results from school personnel not consistently adhering to the policies and procedures regarding the collection of money related to the internal account, as detailed in the handbook.

Effect: Failure to perform the procedures mentioned above could result in misappropriation of cash receipts or unauthorized purchases.

Recom-
mendation: We recommend that the School adheres to its internal control policies and procedures relating to the internal account. In addition, we recommend the School’s treasurers and staff that are accepting cash receipts or making purchases to receive additional internal account training to ensure compliance with these policies.

Views of
Responsible
officials: See corrective action plan for view of responsible officials.

B. Compliance: None

Section III – Major Federal Awards Program Findings and Questioned Costs

A. Internal Control: None

B. Compliance: None

Section IV – Summary Schedule of Prior Audit Findings

2019-01 Timely Reconciliation of Accounts

Condition: We noted that while all accounts were eventually reconciled and adjusted as necessary, the process was not performed in a timely manner and several post-closing adjustments were required to properly reconcile the accounts.

Recom-
mendation: We recommend the School reconcile all accounts within a two-week period or no later than thirty days after the close of a period.

Updated status: This finding was addressed during the current fiscal year under audit and our recommendation was implemented.

2019-02 Procurement

Condition: We noted that procurement procedures were not properly documented for two of the purchases tested (two separate vendors). The annual purchases paid to those vendors was below \$50,000.

Recom-
mendation: We recommend that the School perform an annual review of vendor payments to ensure compliance with the criteria described above.

Updated status: This finding was addressed during the current fiscal year under audit and our recommendation was implemented.

Brooks Academies of Texas F/k/a Brooks Academy of Science & Engineering
(A Charter School sponsored by Somerset Academy, Inc. and Subsidiaries)
Corrective Action Plan
June 30, 2020

BROOKS ACADEMIES OF TEXAS

November 18th, 2020

HLB Gravier, LLP
396 Alhambra Circle, 9th Floor
Coral Gables, FL 33134

RE: MANAGEMENT'S RESPONSE TO AUDITOR'S RECOMMENDATION

The following is the response by the School's Administrator to your recommendations:

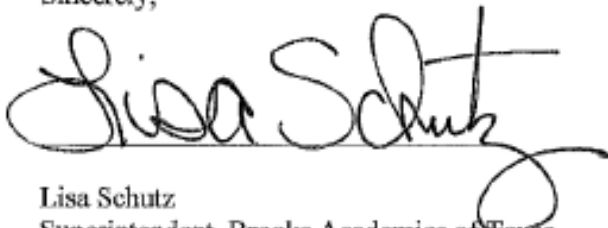
2020-01 Internal Accounts

We recommend that the School adheres to its internal control policies and procedures relating to the internal account.

Management Response

Management will adhere to auditor's recommendations. We will ensure that more training is provided to individuals involved with internal accounts as well as create further internal controls to ensure policies are being followed.

Sincerely,

A handwritten signature in black ink that reads "Lisa Schutz". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Lisa Schutz
Superintendent, Brooks Academies of Texas