



Brooks Academies of Texas
(A charter school sponsored by Somerset Academy, Inc.)

Financial Statements and
Independent Auditors' Report

June 30, 2022

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CERTIFICATE OF BOARD

Brooks Academies of Texas
(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, 2022, at a meeting of the Board of Trustees of such school district on the 16th day of November 2022.

Signature of Board Secretary

Ana Diaz

Signature of Board president

Todd German



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
San Antonio, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Brooks Academies of Texas (the “School”), a charter school sponsored by Somerset Academy, Inc. (the “Charter Holder”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School 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 audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with 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 the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School'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.

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, 2022, 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. These financial statements do not purport to and do not present fairly the financial position of Somerset Academy, Inc. as of June 30, 2022 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.

As described in Note 7 to the financial statements, in 2022 the School adopted new accounting guidance, FASB ASU Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Supplementary Information and Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Matters

In connection with our audit, nothing came to our attention that caused us to believe that the School failed to comply with the terms, covenants, provisions, or conditions of Section 5.09 and Section 5.12 of the Loan Agreement dated March 1, 2021, with Regions Bank, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the School's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Indenture, insofar as they relate to accounting matters.

Communication relating to the Other Matters

The purpose of the communication related to compliance with the aforementioned compliance requirements described in the Other Matter paragraph is solely to describe the scope of our testing of compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's compliance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022, 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 21, 2022

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Financial Position
June 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$ 4,873,357
Restricted cash held by trustee	2,816,750
Due from state	3,478,845
Due from pass-through grants from TEA	854,931
Other receivables	39,224
Prepaid expenses and other current assets	<u>85,461</u>

Total current assets 12,148,568

Capital assets, net	42,707,617
Rigt of use lease asset - operating, net	18,741,547
Rigt of use lease asset - financing, net	<u>526,674</u>

Total assets 74,124,406

Liabilities and Net Assets

Current liabilities:

Accounts payable	410,498
Accrued expenses	2,518,058
Accrued bond interest payable	102,708
Lease liability - operating, current	2,182,576
Lease liability - financing, current	163,176
Current portion of notes payable and bond payable	<u>936,435</u>

Total current liabilities 6,313,451

Notes payable	130,980
Lease liability -operating	16,558,972
lease liability -financing	376,716
Bonds payable	<u>42,702,672</u>

Total liabilities 66,082,791

Net assets - With donor restrictions 8,041,615

Total liabilities and net assets \$ 74,124,406

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

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Activities
For the Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues			
Local support:			
Contributions	\$ -	\$ 191,477	\$ 191,477
Food service	-	56,372	56,372
Fundraising revenues	-	508,466	508,466
Other revenues	-	67,296	67,296
Total local support	<u>-</u>	<u>823,611</u>	<u>823,611</u>
State program revenue:			
Foundation school program	-	31,690,594	31,690,594
Food service	-	11,143	11,143
State-funded special revenue funds	-	30,353	30,353
Total state program revenues	<u>-</u>	<u>31,732,090</u>	<u>31,732,090</u>
Federal program revenues:			
National School Breakfast, Lunch and Summer Program	-	1,794,544	1,794,544
Title I, Part A - Grants to Local Education Agencies	-	981,538	981,538
Title II, Part A - Supporting Effective Instruction	-	164,748	164,748
Title III, Part A, English Language Enhancement	-	12,830	12,830
Title IV, Part A, Subpart 1 Career and Technical Education	-	50,587	50,587
IDEA Part B	-	551,060	551,060
ESSER Grants	-	4,630,624	4,630,624
Total federal program revenues	<u>-</u>	<u>8,389,603</u>	<u>8,389,603</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>40,792,141</u>	<u>(40,792,141)</u>	<u>-</u>
Total Revenues	<u>\$ 40,792,141</u>	<u>\$ 153,163</u>	<u>\$ 40,945,304</u>

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

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Activities - Continued
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses			
11 Instruction	\$ 24,584,319	\$ -	\$ 24,584,319
12 Instructional resources and media services	128,827	-	128,827
13 Curriculum and instructional staff development	694,099	-	694,099
21 Instructional leadership	123,356	-	123,356
23 School leadership	2,532,149	-	2,532,149
31 Guidance, counseling and evaluation services	639,541	-	639,541
32 Social work services	169,162	-	169,162
33 Health services	303,067	-	303,067
34 Student (pupil) transportation	59,771	-	59,771
35 Food services	1,546,556	-	1,546,556
36 Extracurricular activities	1,100,817	-	1,100,817
41 General administration	2,508,532	-	2,508,532
51 Facilities maintenance and operations	3,014,567	-	3,014,567
52 Security and monitoring services	908,941	-	908,941
53 Data processing services	357,059	-	357,059
61 Community services	104,188	-	104,188
71 Debt service	2,017,190	-	2,017,190
Total expenses	<u>40,792,141</u>	<u>-</u>	<u>40,792,141</u>
Change in net assets	<u>-</u>	<u>153,163</u>	<u>153,163</u>
Net assets, beginning of year	<u>-</u>	<u>7,888,452</u>	<u>7,888,452</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 8,041,615</u>	<u>\$ 8,041,615</u>

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

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Activities	Supporting Activities	Total
	Instructional Activities	General and Administrative	
Expenses			
Salaries and Wages	\$ 20,032,505	\$ 1,483,912	\$ 21,516,417
Benefits	2,541,965	170,638	2,712,603
Payroll Taxes	291,954	20,434	312,388
Total Payroll Expenses	22,866,424	1,674,984	24,541,408
Rental Expense	3,124,434	319,113	3,443,547
Office Expenses	254,710	6,724	261,434
Maintenance and Repairs	80,229	-	80,229
Administration Overhead	14,996	750	15,746
Utilities	776,814	2,071	778,885
Depreciation	1,400,877	237,383	1,638,260
Supplies	1,108,481	85,949	1,194,430
Food	1,166,632	-	1,166,632
Travel	146,144	46,331	192,475
Instructional Materials	333,294	-	333,294
Insurance and Bonding	285,769	11,683	297,452
Professional Fees and Dues	2,681,492	95,291	2,776,783
Interest Expense	127,300	-	127,300
Fundraising Expense	2,022,274	-	2,022,274
Other	1,746,766	175,226	1,921,992
Total Non-payroll Expenses	15,270,212	980,521	16,250,733
Total Expenses	\$ 38,136,636	\$ 2,655,505	\$ 40,792,141

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

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash Flows From Operating Activities	
Change in net assets	\$ 153,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	3,865,147
Change in assets and liabilities:	
Due from state	2,060,601
Due from pass-through grants from TEA	406,873
Other receivables	7,720
Prepaid expenses and other current assets	1,417
ROU asset - (building) operating	(2,078,565)
Accounts payable	3,499
Accrued expenses	(634,096)
	<u>3,632,596</u>
Net Cash Provided by Operating Activities	<u>3,785,759</u>
Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(941,961)</u>
Net Cash Used in Investing Activities	<u>(941,961)</u>
Cash Flows From Financing Activities	
Repayment of principal	<u>(1,198,100)</u>
Net Cash Provided by Financing Activities	<u>(1,198,100)</u>
Net increase in cash and equivalents	<u>1,645,698</u>
Cash and cash equivalents, at beginning of year	<u>6,044,409</u>
Cash and cash equivalents, at end of year	\$ 4,873,357
Restricted cash held by trustee	<u>2,816,750</u>
	<u>\$ 7,690,107</u>
<u>Supplemental Disclosure of Cash Flow Information</u>	
Cash paid for interest	<u>\$ 2,517,728</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 63 charter schools, one of which is Brooks Academies of Texas (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 (5 at June 30, 2022). 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 (5 at June 30, 2022) 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 expired on July 31, 2020 was renewed on August 1, 2020 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, 2022.

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 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, 2022 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").

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 School 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 School. The School'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'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.

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.

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.

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.

Due from State

Due from state consists of the instructional days in June 2022 that relate to the 2021-2022 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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

The right of use assets are initially measure at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right of use assets are amortized on a straight-line basis over the life of the related lease.

Estimated useful lives, in years, for capital assets are as follows:

Assets purchased under capital leases, vehicles, furniture and equipment	5 Years
Building improvements	15 Years
Right of use lease asset - operating	5-20 Years
Right of use lease asset - financing	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, 2022.

Bond Issuance Costs, Discounts, and Premiums

Costs incurred in issuing the Series 2021A and 2021B bonds are recorded in other assets and are amortized using the effective interest method over the term of the related debt. Amortization of bond issuance costs is included in interest expense in the accompanying statement of activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. The net bond issuance costs, discounts, and premiums are reported as a direct reduction of the carrying value of the debt.

Cash Held in Escrow by Trustee for Bond

The cash and cash equivalents held in escrow are related to the amounts that the School is required to segregate in connection with the issuance of bonds, including sinking fund and reserve requirements, as well as amounts segregated for capital projects of the School. The Indenture of Trust requires the establishment of the Funds for the bonds and accounts within such funds, all of which shall be special trust funds and accounts held by Trustee.

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.

Income Taxes

Somerset Academy, Inc. (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.

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. At the time of termination or two weeks’ notice of resignation, employees may be eligible for payment of unused accrued leave time at the board approved rate.

Adoption of New Accounting Pronouncement

As described in Note 7, the School adopted FASB ASC Topic 842, *Leases*. The standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and liability. Leases are classified as either financing or operating, classification of which affects the pattern of expense recognition in the statement of activities. The effect of the adoption was to capitalize a right of use asset with a corresponding liability which is being amortized over the life of the underlying lease agreement. The School elected certain practical expedients available under the transition guidance within the new standard which allowed the School to carry forward the historical lease classification of its existing leases. See Note 7 for further details.

Subsequent Events

The School has evaluated subsequent events and transactions for potential recognition or disclosure through November 21, 2022, 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, 2022, the School’s deposits consisted of cash balances of \$5,319,967, including restricted cash of \$2,819,889. 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, 2022, total bank balance in potential excess of FDIC coverage was approximately \$4,820,000.

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

Cash and cash equivalents	\$ 4,873,357
Due from governmental agencies	4,333,776
Prepaid expenses and other current assets	124,685
	<u>\$ 9,331,818</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, 2022 consist of the following:

<u>Due from state:</u>	
Days of instruction	1,770,725
Settlement of current year underpayment	1,708,120
	<u>\$ 3,478,845</u>

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

<u>Due from pass-through grants from TEA:</u>	
Title I, Part A - Grants to Local Education	
Agencies	\$ 28,206
Title II, Part A - Supporting Effective Instruction	75,336
Career and Technical Education	1,877
Title IV, Part A	55,923
IDEA Part B	152,047
ESSER Funds	541,542
	<u>\$ 854,931</u>

Note 5 – Property and Equipment

The following schedule provides a summary of property, furniture and equipment at June 30, 2022:

Land improvements	\$ 8,205,380
Furniture, fixtures and equipment	6,176,945
Leasehold improvements	34,624,859
Vehicles	277,510
Asset purchased under capital lease	842,317
	<u>50,127,011</u>
Less accumulated depreciation	<u>(7,419,394)</u>
Net property and equipment	<u>\$ 42,707,617</u>

Depreciation expense for the year ended June 30, 2022 was approximately \$1,639,000. 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 5 – Property and Equipment (Continued)

The following schedule provides a summary of right of use lease assets at June 30, 2022:

	Balance 07/01/21	Additions	Deletions	Balance 06/30/22
Leased Assets:				
Right of use leased asset - operating	\$ -	20,820,112	-	\$20,820,112
Less accumulated amortization: leased asset operating	-	(2,078,565)	-	(2,078,565)
Right of use leased asset - financing		692,992		692,992
Less accumulated amortization: financing		(166,318)		(166,318)
Total Lease Assets being amortized, net	-	19,268,221	-	19,268,221

Note 6 – Long Term Debt

Series 2021 Education Revenue Bonds

On March 18, 2021, Arlington Higher education Finance Corporation issued series 2021A Education Revenue Bonds in the aggregate principal amount of \$42,795,000. In addition, Arlington Higher education Finance Corporation issued series 2021B Education Revenue Bonds in the aggregate principal amount of \$165,000, collectively “Series 2021 Bonds”.

The bonds were used to (i) finance or refinance the costs of acquiring, constructing, improving and equipping Brooks Collegiate Academy located at 4802 Vance Jackson Road, San Antonio, Texas and Brooks Lone Star Academy located at 25 Burwood Lane, San Antonio, Texas, (ii) funding a debt service reserve fund, and (iii) paying costs of issuance of the Series 2021 Bonds.

Interest on the Series 2021A Bonds will accrue from the date of initial delivery and will be calculated on the basis of a 360-day year consisting of twelve 30 months. These bonds are subject to interest rates ranging from 4.00% to 5.00%. and mature between June 15, 2031 through June 15, 2051. The bonds were issued at par value plus premium of \$1,580,567. The Series 2021B Bonds mature on June 15, 2023, were issued at par and are subject to interest rate of 3.5%.

The bond is secured by a deed of trust and security agreement to the trustee as security for the bonds on collateral identified in such agreement including but not limited to the real property, buildings and improvements, furniture, equipment and supplies purchased with the bonds. The Series 2021 bonds contain restrictive covenants related to debt service coverage ratio, days cash on hand requirements, student enrollment and reporting requirements. In the event of default, the maturity date can be accelerated and/or the underlying collateral may be subject to foreclosure.

Note 6 – Long Term Debt (continued)

The debt service on the bonds financing for the School is as follows:

Year	Principal	Interest
2023	\$ 745,000	\$ 2,068,325
2024	775,000	2,045,125
2025	805,000	2,008,350
2026	840,000	1,976,150
2027-2031	4,720,000	9,350,150
2032-2036	5,865,000	8,211,000
2037-2041	7,480,000	6,590,750
2042-2046	9,550,000	4,523,750
2047-2051	12,180,000	1,880,475
	\$ 42,960,000	\$ 41,153,301

Premiums and debt issuance costs on the bonds are as follows:

Bonds payable	42,184,384
Plus: premium on bonds payable, net	1,514,711
Less: Debt issuance costs, net	(996,423)
	42,702,672

Amortization of bond premium and issuance cost as of June 30, 2022 amounted to \$65,856 and \$43,322, respectively, which is included in interest expense.

Notes Payable

On July 9, 2016, the Charter Holder entered into an interim financing lease agreement with Zion Credit Corporation, on behalf of the School, for equipment financing of up to \$1,000,000. The financing was available for the purchase of equipment for a maximum of 6 months. On completion of the financing 2017, the amount drawn was converted into a capital tax lease for a 60 month term at an interest rate of 4.03%. The note matured on June 2022 where the outstanding balance was paid off.

Note 6 – Long Term Debt (continued)

On September 20, 2017, and on June 25, 2020, the Charter Holder entered into financing lease agreements with JP Morgan Chase Bank on behalf of the School for approximately \$870,653. These agreements had terms maturing though June 25, 2024. However, the School refinanced the outstanding balance with new equipment financing loans from Regions bank.

During 2020, the School obtained equipment financing from Regions bank and issued notes payable for a total loan balance of \$918,831. The purpose of the loans is the acquisition of capital assets. The facilities require between 36 - 48 monthly payments of principal and interest at interest rates ranging from 3.25% - 3.50%. As of June 30, 2022, the outstanding balance on the notes was \$291,799.

Line of Credit

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 1.85% per annum and is due in full with all accrued interest at maturity on March 31, 2022, when the outstanding amount was paid off.

Long-term debt at June 30, 2022 consisted of the following:

Notes payable:	
Purchased financing lease	\$ 291,799
Total	<u>\$ 291,799</u>

Future maturities of long-term debt are as follows:

Fiscal year ending:		
	2023	\$ 160,819
	2024	89,475
	2025	36,808
	2026	4,697
Total		<u>\$ 291,799</u>

Note 7 – Long Term Liabilities

Right of Use Lease Asset - Operating

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

Note 7 – Long Term Liabilities (continued)

The School also leases property on two of its four campuses under two non-cancellable lease agreements. On March 31, 2021, the School issued bonds for the purchase of two of its facilities that were formerly under operating leases, Brooks Collegiate Academy and Lonestar campus.

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 adjustments.

The landlord of Base campus is related to the services provider referred to in Note 13 by common ownership.

In addition, on September 1, 2020, the Charter Holder entered into a lease agreement on behalf of the School with Base School Facilities LLC as landlord for facilities totaling 39,822 square feet through August 31, 2041 with the option to extend for two additional periods of five years each. Monthly rent starting with the building occupancy date ranges from approximately \$100,000 to \$154,000 plus CPI adjustments.

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.

The School has implemented FASB ASC Topic 842, Leases, and as a result recorded a lease right of use asset and liability in these financial statements. At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The School has used an average effective interest for several borrowings during FY 2021 and 2022. The average borrowing rate was 5% which was used to discount the annual lease payments to recognize the intangible right to use this asset and the lease liability as of June 30, 2022.

For the year ended June 30, 2022, rent expense totaled \$2,869,762, as it relates to its lease agreements. During the year, variable and other payments of approximately \$99,000 in connection with the lease agreement (not previously included in the measurement of the lease liability) were recorded in rent expense.

Note 7 – Long Term Liabilities (continued)

Annual requirements to amortize the operating lease liability and related interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2023	\$ 2,182,576	\$ 709,937	\$ 2,892,513	
2024	2,271,497	621,015	2,892,512	
2025	2,364,042	528,471	2,892,513	
2026	2,460,356	432,156	2,892,512	
2027	2,306,132	336,130	2,642,262	
2028-2032	3,708,407	891,898	4,600,305	Total for a five year period
2033-2037	1,724,097	525,903	2,250,000	Total for a five year period
2038-2042	1,724,441	150,559	1,875,000	Total for a five year period
	<u>\$ 18,741,548</u>	<u>\$ 4,196,069</u>	<u>\$ 22,937,617</u>	

Right of Use Lease Asset – Financing

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

For the year ended June 30, 2022, interest expense totaled \$24,933, as it relates to its lease agreements.

Annual requirements to amortize the financing lease liability and related interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 163,176	\$ 18,626	\$ 181,802
2024	169,824	11,978	181,802
2025	176,743	5,059	181,802
2026	30,149	151	30,300
	<u>\$ 539,892</u>	<u>\$ 35,814</u>	<u>\$ 575,706</u>

Changes in long term lease liabilities during the year are as follows:

	<u>Balance 07/01/21</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 06/30/22</u>
Lease liability - financing	\$ -	\$20,820,112	\$2,078,565	\$18,741,547
Lease liability - operating	-	692,992	153,099	539,893
Total	<u>\$ -</u>	<u>\$21,513,104</u>	<u>\$2,231,664</u>	<u>\$19,281,440</u>

Note 8 – Commitments and Contingencies

Commitments and Concentrations

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.

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, 2022, the School incurred approximately \$91,900 in affiliation fees.

Note 9- 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 10 – 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.

Note 10 – Defined Benefit Pension Plan (continued)

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 8.0% of their monthly salary and the State of Texas contributes an amount equal to 7.75% of the School’s covered payroll. The School’s contribution to the System for the year ended June 30, 2022 was approximately \$630,000.

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, 2021, TRS’ total plan assets (dollars in thousands) were \$223,172,755 and the plan was 79.1% 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 https://www.trs.texas.gov/Pages/about_archive_cafra.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Note 10 – Defined Benefit Pension Plan (continued)

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.

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.

Note 10 – Defined Benefit Pension Plan (continued)

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.

	<u>Contribution Rates</u>
	<u>2022</u>
Member	8.00%
NECE	7.75%
Employers	7.75%
Employer contributions	\$ 629,742
Member contributions	\$ 1,736,744
Non-OASDI contributions	\$ 367,111
Health plan contributions	\$ 1,120,811

Note 11 – Health Care Coverage

During the year ended June 30, 2022, 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, 2022, the School contributed \$1,121,000 to the health plan on behalf of the employees.

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2022 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:

Brooks Academies of Texas
(A Charter School sponsored by Somerset Academy, Inc.)
Notes to Financial Statements
June 30, 2022

Note 12 – Temporarily Restricted Net Assets (Continued)

Foundation School Program	\$ 7,442,131
Title I, Part A	146,556
Title I School Improvement	33,284
Title II, Part A	3,450
Title IV, Part A	11,721
IDEA Part B	15,935
Career And Technical Ed.	2,912
National School Breakfast, Lunch and Summer Program	14,540
Advance Placement Incentives	2,783
Instructional Materials Allotment	23,980
Esser emergency funds	647,593
Coronavirus Relief Fund (CRF)	(7,756)
Other State	4,369
Enterprise service revenue activities accounts	(5,584)
Other Local Sources	(294,299)
	<u>\$ 8,041,615</u>

Net Assets for the year ended June 30, 2022 were released from donor restriction by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Foundation School Program	\$ 31,769,500
Title I, Part A - Grants to Local Education Agencies	981,538
Title II, Part A - Teacher and Principal Training	164,748
Title III, Part A, English Language Enhancement	12,830
Federal Funded Special Revenue	203,672
IDEA Part B	542,885
IDEA Part B, Preschool	8,175
National School Breakfast, Lunch and Summer Program	1,794,544
Career And Technical Ed.	50,587
ESSER funds	4,630,624
Advanced Placement Initiative	2,700
Fundraising Revenue	508,466
Other State	11,143
Other Local	263,892
	<u>\$ 40,945,304</u>

Note 13 – 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, 2022, the fee recorded by the School totaled approximately \$2,002,000.

SUPPLEMENTAL INFORMATION

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Schedule of Expenses
For the Year Ended June 30, 2022

Expenses:

6100 Payroll costs	\$ 24,542,686
6200 Professional and contracted services	8,434,795
6300 Supplies and materials	2,996,513
6400 Other operating costs	2,616,611
6500 Debt service	<u>2,201,536</u>
Total Expenses	<u>\$ 40,792,141</u>

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Schedule of Capital Assets
June 30, 2022

Object Code	Asset Classification	Ownership Interest			Total
		Local Funds	State Funds	Federal Funds	
1510	Land and Improvements	\$ -	\$ 8,205,380	\$ -	\$ 8,205,380
1520	Buildings and Improvements	-	34,624,859	-	34,624,859
1531	Vehicles	-	277,510	-	277,510
1539	Furniture and equipment over \$500	-	1,542,733	957,343	2,500,076
1549	Furniture and equipment under \$500	11,202	3,030,344	415,997	3,457,543
1559	Asset purchased under capital lease	-	842,317	-	842,317
1569	Library books	78,445	107,186	33,695	219,326
Total Capital Assets		\$ 89,647	\$ 48,630,329	\$ 1,407,035	\$ 50,127,011

Brooks Academy of Science & Engineering
 (A Charter School Sponsored by Somerset Academy, Inc.)
 Schedule of Real Property Ownership Interest
 For the Year Ended June 30, 2022

Description	Property Address	Total Assessed Ownership Interest - Ownership Interest -			
		Value	Local	State	Federal
Brooks Collegiate Academy	4802 Vance Jackson Rd San Antonio, TX 78230	\$ 22,292,120		\$ 31,254,509	
Brooks Lone Star Academy	25 Burwoord Ln San Antonio TX 78216	\$ 4,135,570		\$ 9,429,563	

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Budgetary Comparison Schedule
For the Year Ended June 30, 2022

	Budgeted Amounts			Variances	
	Original	Final	Actual Amounts	Variance from	Variance
				Final Budget and Actual Amounts	from Original and Final Budget
Revenues					
5700 Local support	\$ 565,416	\$ 768,467	\$ 823,611	\$ 55,144	\$ (203,051)
5800 State program revenue	31,702,321	31,057,048	31,732,090	675,042	645,273
5900 Federal program revenues	8,460,063	8,465,955	8,389,603	(76,352)	(5,892)
Total revenues and other support	\$ 40,727,800	\$ 40,291,470	\$ 40,945,304	\$ 653,834	\$ 436,330
Expenses					
11 Instruction	24,327,393	24,146,215	24,584,319	438,104	181,178
12 Instructional resources and media services	160,924	128,865	128,827	(38)	32,059
13 Curriculum and instructional staff development	714,702	695,549	694,099	(1,450)	19,153
21 Instructional leadership	207,822	122,679	123,356	677	85,143
23 School leadership	2,293,525	2,321,308	2,532,149	210,841	(27,783)
31 Guidance, counseling and evaluation services	687,692	649,529	639,541	(9,988)	38,163
32 Social work services	298,555	169,161	169,162	1	129,394
33 Health services	321,603	303,121	303,067	(54)	18,482
34 Student (pupil) transportation	49,053	56,561	59,771	3,210	(7,508)
35 Food services	1,668,777	1,679,008	1,546,556	(132,452)	(10,231)
36 Extracurricular activities	729,140	1,092,626	1,100,817	8,191	(363,486)
41 General administration	2,567,519	2,495,282	2,508,532	13,250	72,237
51 Facilities maintenance and operations	2,720,008	2,656,227	3,014,567	358,340	63,781
52 Security and monitoring services	809,494	904,493	908,941	4,448	(94,999)
53 Data processing services	240,915	385,514	357,059	(28,455)	(144,599)
61 Community services	111,914	104,189	104,188	(1)	7,725
71 Debt service	2,516,251	2,095,942	2,017,190	(78,752)	420,309
Total expenses	40,425,287	40,006,269	40,792,141	785,872	419,018
Change in net assets	302,513	285,201	153,163	(132,038)	17,312
Net assets at beginning of year	7,888,452	7,888,452	7,888,452	-	-
Net assets at end of year	\$ 8,190,965	\$ 8,173,653	\$ 8,041,615	\$ (132,038)	\$ 17,312

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

57XX - Final Budget was increased to recognize a higher than originally expected Activity Funds Revenue Balance

Expenses

FUNCTION 12 - Budget was decreased due to changes in Staffing

FUNCTION 21 - Budget was decreased due to changes in Staffing

FUNCTION 32 - Budget was decreased due to changes in Staffing

FUNCTION 34- Bus repairs were higher than originally anticipated

FUNCTION 36 - Expenditures related to Activity Funds increased higher than initially budgeted

FUNCTION 52 - Security Services Charges increased throughout the year

FUNCTION 53 - Increased need of IT services given online learning

FUNCTION 71 - Originally Budgeted Amount included Accrued Interest from Bond Closing from prior year. Final budget corrected actual Interest.

COMPLIANCE SECTION



INDEPENDENT AUDITORS' 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
(A Charter School Sponsored by Somerset Academy, Inc.)
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. (the "Charter Holder"), which compose the statement of financial position as of June 30, 2022, 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 21, 2022.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 or significant deficiencies may exist that were not identified.

Report on 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*.

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.

A handwritten signature in blue ink that reads "HLB Gravier, LLP". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 21, 2022



INDEPENDENT AUDITORS' 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
(A Charter School Sponsored by Somerset Academy, Inc.)
San Antonio, Texas

Opinion on Each Major Federal Program

We have audited Brooks Academies of Texas's (the "School") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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) Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with 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 on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the School's internal control over compliance. Accordingly, no such opinion is expressed.

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the School as of and for the year ended June 30, 2022, and have issued our report thereon dated November 21, 2022 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in blue ink that reads "HLB Grainer, CPA".

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
November 21, 2022

Brooks Academies of Texas
(A Charter School Sponsored by Somerset Academy, Inc.)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

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	\$ 347,673
National School Lunch Program	10.555	201919N109946	<u>1,446,871</u>
Total United States Department of Agriculture passed through State Department of Agriculture			<u>\$ 1,794,544</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	\$ 981,538
Title II, Part A - Supporting Effective Instruction	84.367A	S367A180041	164,748
Title III, Part A - English Language Acquisition and enhancement	84.365A	S365A160043	12,830
Title IV, Part A - Student Support and Academic Enrichment	84.424A	S424A180045	203,672
Career and Technical Education	84.048	V048A180043	50,587
Special Education Grants - IDEA Part B	84.027A	H027A180008	542,885
Special Education Grants - IDEA Part B -Preschool	84.173		8,175
Elementary and secondary school emergency relief fund	84.425D		<u>4,630,624</u>
Total United States Department of Education passed through State Department of Education			<u>\$ 6,595,059</u>
Total expenditures of federal awards			<u>\$ 8,389,603</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("the School") during the year ended June 30, 2022. The schedule includes only the expenditure of federal awards of the School as of June 30, 2022 and is not intended to be a complete presentation of the expenditures of federal awards of Somerset Academy, Inc., 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
 (A Charter School sponsored by Somerset Academy, Inc.)
 Schedule of Findings and Questioned Costs
 June 30, 2022

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? X Yes _____ 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))? _____ Yes X No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)	Expenditures
Title I, Part A - Grants to Local Educational Agencies	84.010A	\$ 981,538
Elementary and secondary school emergency relief fund	84.425D	4,630,624
Special Education Grants - IDEA Part B	84.027	542,885

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:

2022-01 Procurement

Criteria: The TEA Special Supplement to the Financial Accountability System Resource Guide provides methods of procurement to be used when making purchases. The School has developed internal control policies and procedures to comply with such requirements.

Condition: While testing procurement for numerous expenses, we noted that procurement procedures were not properly adhered to for two of the purchases tested (two separate vendors). In one instance, the three required quotes were not documented and in the other the purchase order was dated after the purchase.

Cause: The condition resulted from not adhering to established internal control policies related to procurement.

Effect: Failure to perform the procedures mentioned above could result in unauthorized or unallowable expenditures.

Recommendation: We recommend that the school provide additional training to staff involved in the procurement process and that periodic (i.e. weekly) reviews are performed on open purchase requests to ensure purchase order and procurement policies are being adhered to before purchases are made.

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

2020-01 Internal Accounts

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.

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.

Updated status: During our current year testing, we noted the School implemented our recommendations.

Brooks Academies of Texas
(A Charter School sponsored by Somerset Academy, Inc.)
Corrective Action Plan
June 30, 2022

BROOKS



Somerset Academy, Inc., d/b/a Brooks Academies of Texas
4802 Vance Jackson Road
San Antonio, TX 78230
210-541-0051
Lisa Freeman Schutz, Superintendent

November 18th, 2022

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:

2022-01 Procurement

We recommend that the school provide additional training to staff involved in the procurement process and that periodic (i.e. weekly) reviews are performed on open purchase requests to ensure purchase order and procurement policies are being adhered to before purchases are made..

Management Response

Management will adhere to auditor's recommendations. We will continue to provide more training to individuals involved in all aspects of the purchasing procedure and perform more frequent monitoring of purchasing thresholds to ensure compliance in all purchases. Additionally, we will increase the use of TEA approved cooperatives to receive best prices for goods and services.

Sincerely,

Lisa Schutz
Superintendent, Brooks Academies of Texas

Brooks Academies of Texas
(Charter schools under Somerset Academy, Inc.)
Calculation of Debt Service Coverage Ratio
For the year ended June 30, 2022

Total Revenues	40,945,304
Total Expenditures	<u>40,792,141</u>
Excess of revenues over expenditures	153,163
Add backs:	
Depreciation	1,638,292
Interest expense	<u>2,017,190</u>
Available for debt service	\$ 3,808,645
 Annual Debt Service	 <u>\$ 3,270,912</u>
 Debt Service Coverage Ratio	 <u>1.16</u>
 Minimum required Debt Service Coverage Ratio	 <u>1.10</u>

Notes to Calculation of Debt Service Coverage Ratio

The calculation is prepared in accordance with the provisions of the mortgage and loan agreement on the basis of accounting, consistent with generally accepted accounting principles.

Brooks Academies of Texas
(Charter schools under Somerset Academy, Inc.)
Calculation of Days Cash on Hand
For the year ended June 30, 2022

Unrestricted Cash and Equivalents	<u>\$ 4,873,357</u>
Total Expenses	40,792,141
Less Depreciation Expense	
Depreciation expense	<u>1,638,292</u>
	<u>\$ 39,153,849</u>
Days Cash on Hand	<u>45</u>
Minimum required Days Cash on Hand	<u>35</u>

Notes to Calculation of Days Cash on Hand

The calculation is prepared in accordance with the provisions of the mortgage and loan agreement on the basis of accounting, consistent with generally accepted accounting principles.