



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

Financial Statements and  
Independent Auditors' Report

June 30, 2023

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CERTIFICATE OF BOARD

Somerset 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, 2023, at a meeting of the Board of Trustees of such school district on the 16<sup>th</sup> day of November 2023.

DocuSigned by:  
  
A82285492BAF4C5...

Signature of Board Secretary

DocuSigned by:  
  
53F237DAAC11419...

Signature of Board president



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Somerset 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 Somerset Academies of Texas (the “School”), f/k/a Brooks Academies of Texas, a charter school sponsored by Somerset Academy, Inc. (the “Charter Holder”), which comprise the statement of financial position as of June 30, 2023, 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

396 Alhambra Circle, Suite 900, Coral Gables, FL 33134 • Tel: 305.446.3022 • Fax: 305.446.6319  
[www.hlbgravier.com](http://www.hlbgravier.com)

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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, 2023, 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, 2023 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 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, 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.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
November 17, 2023

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Statement of Financial Position  
June 30, 2023

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**Assets**

Current assets:

Cash and cash equivalents	\$ 7,537,868
Restricted cash held by trustee	2,913,868
Due from state	2,670,860
Due from pass-through grants from TEA	1,123,187
Other receivables	149,844
Prepaid expenses and other current assets	<u>152,457</u>

Total current assets 14,548,084

Capital assets, net	41,922,056
Right of use lease asset - operating, net	<u>35,088,768</u>

Total assets 91,558,908

**Liabilities and Net Assets**

Current liabilities:

Accounts payable	242,362
Accrued expenses	3,452,230
Deferred revenue	11,318
Accrued bond interest payable	102,708
Lease liability - operating, current	1,513,271
Lease liability - financing, current	169,824
Notes payable, current portion	89,475
Bonds payable, current portion	<u>806,849</u>

Total current liabilities 6,388,037

Notes payable	41,605
Lease liability -operating	34,223,192
Lease liability -financing	206,893
Bonds payable	<u>41,908,411</u>

Total liabilities 82,768,138

Net assets - With donor restrictions 8,790,770

Total liabilities and net assets \$ 91,558,908

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

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Statement of Activities  
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Activities:</b>			
Contributions of cash and other financial assets from:			
Local support:			
Contributions	\$ -	\$ 582,040	\$ 582,040
Food service	-	328,065	328,065
Fundraising	-	342,505	342,505
Other contributions	-	177,180	177,180
Total local support	<u>-</u>	<u>1,429,790</u>	<u>1,429,790</u>
State program revenue:			
Foundation school program	-	30,903,160	30,903,160
Food service	-	57,432	57,432
State-funded special revenue funds	-	81,354	81,354
Total state program revenues	<u>-</u>	<u>31,041,946</u>	<u>31,041,946</u>
Federal program revenues:			
National School Breakfast, Lunch and Summer Program	-	1,608,631	1,608,631
Title I, Part A - Grants to Local Education Agencies	-	1,306,228	1,306,228
Title II, Part A - Supporting Effective Instruction	-	89,714	89,714
Title III, Part A, English Language Enhancement	-	29,326	29,326
Title IV, Part A, Subpart 1 Career and Technical Education	-	4,498	4,498
IDEA Part B Cluster	-	544,652	544,652
American Rescue Plan (ARP) Act	-	2,633	2,633
ESSER Grants	-	6,204,501	6,204,501
Total federal program revenues	<u>-</u>	<u>9,839,801</u>	<u>9,839,801</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>41,562,382</u>	<u>(41,562,382)</u>	<u>-</u>
Total Support and Revenue	<u>\$ 41,562,382</u>	<u>\$ 749,155</u>	<u>\$ 42,311,537</u>

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



Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Statement of Activities - Continued  
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Expenses</b>			
11 Instruction	\$ 22,567,091	\$ -	\$ 22,567,091
12 Instructional resources and media services	142,397	-	142,397
13 Curriculum and instructional staff development	1,587,887	-	1,587,887
21 Instructional leadership	213,680	-	213,680
23 School leadership	2,825,817	-	2,825,817
31 Guidance, counseling and evaluation services	615,825	-	615,825
32 Social work services	158,716	-	158,716
33 Health services	276,951	-	276,951
34 Student (pupil) transportation	60,324	-	60,324
35 Food services	1,885,875	-	1,885,875
36 Extracurricular activities	791,004	-	791,004
41 General administration	2,448,209	-	2,448,209
51 Facilities maintenance and operations	3,227,059	-	3,227,059
52 Security and monitoring services	883,649	-	883,649
53 Data processing services	500,596	-	500,596
61 Community services	102,442	-	102,442
71 Debt service	3,274,860	-	3,274,860
Total operating expenses	<u>41,562,382</u>	<u>-</u>	<u>41,562,382</u>
Change in net assets	<u>-</u>	<u>749,155</u>	<u>749,155</u>
Net assets, beginning of year	<u>-</u>	<u>8,041,615</u>	<u>8,041,615</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 8,790,770</u>	<u>\$ 8,790,770</u>

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

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Statement of Functional Expenses  
For the Year Ended June 30, 2023

	Program	Supporting	Total
	Activities	Activities	
	Instructional	General and	
	Activities	Administrative	
<b>Expenses</b>			
Salaries and Wages	\$ 20,122,539	\$ 1,796,882	\$ 21,919,421
Benefits	2,354,066	188,916	2,542,982
Payroll Taxes	206,959	24,724	231,683
Total Payroll Expenses	22,683,564	2,010,522	24,694,086
Rental Expense	\$ 2,616,719	\$ 318,133	2,934,852
Office Expenses	128,616	5,833	134,449
Maintenance and Repairs	194,444	-	194,444
Administration Overhead	29,440	30	29,470
Utilities	833,383	1,993	835,376
Depreciation	1,263,345	232,641	1,495,986
Supplies	1,010,334	133,915	1,144,249
Food	1,527,659	-	1,527,659
Travel	95,765	56,159	151,924
Instructional Materials	152,280	-	152,280
Insurance and Bonding	296,521	18,591	315,112
Professional Fees and Dues	2,388,627	87,759	2,476,386
Amortization expense, right of use finance lease	166,318	-	166,318
Interest expense, right of use finance lease	18,626	-	18,626
Debt service	3,264,262	-	3,264,262
Fundraising Expense	285,947	-	285,947
Other	1,567,035	173,921	1,740,956
Total Non-payroll Expenses	15,839,321	1,028,975	16,868,296
Total Expenses	\$ 38,522,885	\$ 3,039,497	\$ 41,562,382

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

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Statement of Cash Flows  
For the Year Ended June 30, 2023

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Cash Flows From Operating Activities	
Change in net assets	\$ 749,155
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	3,774,024
Change in assets and liabilities:	
Due from state	807,985
Due from pass-through grants from TEA	(268,256)
Other receivables	(110,620)
Prepaid expenses and other current assets	(66,996)
ROU asset - (building) operating	(1,452,546)
Accounts payable	(168,136)
Accrued expenses	934,172
Deferred revenues	11,318
	<u>3,460,945</u>
Net Cash Provided by Operating Activities	<u>4,210,100</u>
Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(379,575)</u>
Net Cash Used in Investing Activities	<u>(379,575)</u>
Cash Flows From Financing Activities	
Repayment of principal	<u>(1,068,896)</u>
Net Used in Financing Activities	<u>(1,068,896)</u>
Net increase in cash and equivalents	<u>2,761,629</u>
Cash and cash equivalents, at beginning of year	<u>7,690,107</u>
Cash and cash equivalents, at end of year	\$ 7,537,868
Restricted cash held by trustee	<u>2,913,868</u>
	<u>\$ 10,451,736</u>
<u>Supplemental Disclosure of Cash Flow Information</u>	
Cash paid for interest	<u>\$ 2,075,192</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 65 charter schools, one of which is Somerset Academies of Texas (the “School”) which operates in the state of Texas. The other charters schools operate in Florida and Arizona.

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, 2023). 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, 2023) 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 1<sup>st</sup> and end on June 30<sup>th</sup> of the next calendar year. The accompanying financial statements are for the fiscal year ending June 30, 2023.

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.

#### 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.

## **Note 2 – Summary of Significant Accounting Policies**

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, 2023 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 of Cash and other Financial Assets

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.

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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

Contributions of Cash and other Financial Assets (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.

Contributions of Nonfinancial Assets

The Organization recognizes contributed nonfinancial assets within revenue for any donated services received. Contributions of nonfinancial assets received are stated at the estimated fair market value reported by donors. When the donor does not provide the fair market value, it is estimated by the management of the Organization.

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 Somerset 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 2023 that relate to the 2022-2023 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.

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.

The Organization also receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. Any excess amounts are recorded as deferred revenues until expended. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

Revenue from Contracts with Customers

The Organization adopted ASU No. 2014-09, *Revenues from Contracts with Customers* which applies to all contracts, but specifically excludes contribution income.

The Organization applies a five-step model that includes (1) identifying the contract(s) with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract, and (5) recognizing revenue when (or as) the performance obligations are satisfied.

**Note 2 – Summary of Significant Accounting Policies (continued)**

The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Organizations revenues subject to this standard include student activity fees and any charges for services that all predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer.

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.

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	5-20 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.



## **Note 2 – Summary of Significant Accounting Policies (continued)**

### 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.

### 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 a the board approved rate.

## **Note 2 – Summary of Significant Accounting Policies (continued)**

### Recent Accounting Pronouncements

In September 2020, the FASB issued Accounting Standards Update 2020-07, which increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosures. Nonfinancial assets are defined within the ASU as including fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. The amendments do not change the recognition and measurement of nonfinancial assets. The adoption of this standard did not have a significant impact on the Organization's financial statements.

### Subsequent Events

The School has evaluated subsequent events and transactions for potential recognition or disclosure through November 17, 2023, 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, 2023, the School's unrestricted deposits consisted of cash balances of \$5,045,343 and restricted cash of \$2,913,868. 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, 2023, total bank balance in potential excess of FDIC coverage was approximately \$7,500,000.

**Note 3 – Liquidity and Cash Deposits (continued)**

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

Cash and cash equivalents	\$ 7,537,868
Due from governmental agencies	3,794,047
Prepaid expenses and other current assets	302,301
	<u>\$ 11,634,216</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, 2023 consist of the following:

<u>Due from state:</u>	
Days of instruction	\$ 1,666,377
Settlement of current year underpayment	1,004,483
	<u>\$ 2,670,860</u>

<u>Due from pass-through grants from TEA:</u>	
Title I, Part A - Grants to Local Education Agencies	\$ 122,344
American Rescue Plan (ARP) Act	129
Title II, Part A - Supporting Effective Instruction	14,013
Title III, Part A	21,556
Title IV, Part A	31,635
IDEA Part B	153,825
ESSER Funds	779,685
	<u>\$ 1,123,187</u>

Changes in due from governmental agencies during the year were as follows:

Balance at beginning of year	\$ 4,333,776
Balance at end of year	\$ 3,794,047

**Note 5 – Property and Equipment**

The following schedule provides a summary of property, furniture and equipment at June 30, 2023:

Land improvements	\$ 8,205,380
Furniture, fixtures and equipment	6,500,374
Buildings and leasehold improvements	34,651,499
Vehicles	277,510
Right of use asset (building) finance	692,992
Asset purchased under capital lease	842,317
	<u>51,170,072</u>
Less accumulated depreciation and amortization	<u>(9,248,016)</u>
Net property and equipment	<u>\$ 41,922,056</u>

Depreciation and finance lease amortization expense for the year ended June 30, 2023 was approximately \$1,660,000. 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 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 the campus located at 4802 Vance Jackson Road, San Antonio, Texas and the campus 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 were issued at par and are subject to interest rate of 3.5%, and matured on June 15, 2023.

**Note 6 – Long Term Debt (continued)**

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

Year	Principal	Interest
2024	\$ 775,000	\$ 2,045,125
2025	805,000	2,014,125
2026	840,000	1,976,150
2027	870,000	1,942,550
2028	905,000	1,907,750
2029-2033	5,120,000	8,954,350
2034-2038	6,465,000	7,609,750
2039-2043	8,250,000	5,824,000
2044-2048	10,525,000	3,545,000
2049-2051	7,660,000	772,725
	\$ 42,215,000	\$ 36,591,525

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

Bonds payable - Long term	\$ 41,408,151
Bonds payable - Current portion	806,849
Plus: premium on bonds payable, net	1,462,025
Less: Debt issuance costs, net	(961,765)
	\$ 42,715,260

Amortization of bond premium and issuance cost as of June 30, 2023 amounted to \$118,542 and \$77,980, respectively, which is included in interest expense.

Notes Payable

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, 2023, the outstanding balance on the notes was \$131,080.

**Note 6 – Long Term Debt (continued)**

Future maturities of long-term debt are as follows:

<u>Year</u>		
2024	\$	89,475
2025		36,808
2026		<u>4,797</u>
	\$	131,080

**Note 7 – Long Term Liabilities**

The Organization follows Accounting Standards Codification (ASC) 842, Leases. 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 fiscal year 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.

Short term leases are leases that have a term of 12 months or less and do not include an option to purchase the underlying asset. The Organization elected the exemption to not recognize short term leases in the balance sheet. The lease cost was recognized on a straight-line basis.

Operating Lease Liabilities

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.

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, the Collegiate and Lonestar campus.

**Note 7 – Long Term Liabilities (continued)**

BASE Campus

On September 1, 2022, the school entered into an agreement with Goliad Grant, LLC for facilities totaling 83,640 square feet through June 30, 2042, with options to extend for two additional periods of five years. Monthly payments under the lease agreement is approximately \$183,000 plus CPI adjustments. This agreement replaces various previous lease agreements with Goliad Grant, LLC which were paid through August 2023. As of June 30, 2023, approximately \$656,000 was due to Goliad Grant, LLC which is included in accounts payable on the statement of financial position.

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.

For the year ended June 30, 2023, rent expense totaled \$2,129,749, as it relates to its lease agreements. During the year, variable and other payments of approximately \$467,000 in connection with the lease agreement (not previously included in the measurement of the lease liability) were recorded in rent expense.

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, 2023, interest expense totaled \$1,111,346, as it relates to its lease agreements.

Somerset Academies of Texas  
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Notes to Financial Statements  
June 30, 2023

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**Note 7 – Long Term Liabilities (continued)**

For the year ended June 30, 2023, operating and finance leases costs consist of the following:

Year	Finance Lease	Operating Lease	Total	
2024	\$ 181,802	\$ 2,915,186	\$ 3,096,988	
2025	181,802	2,915,186	3,096,988	
2026	30,300	2,915,186	2,945,486	
2027	-	2,664,936	2,664,936	
2028	-	2,642,186	2,642,186	
2029-2033	-	13,210,931	13,210,931	Total for a five year period
2034-2038	-	13,210,931	13,210,931	Total for a five year period
2039-2042	-	10,193,745	10,193,745	Total for a four year period
Total	393,904	50,668,287	51,062,191	
Less effects of discounting *	(17,187)	(14,931,824)	(14,949,011)	
Total Lease Liability	\$ 376,717	\$35,736,463	\$36,113,180	

\*Included in interest expense in the Statement of Functional Expenses.

A maturity analysis of annual discounted cash flows for lease liabilities as of June 30, 2023 is as follows:

	Finance Lease	Operating Lease	Total
Lease Costs			
Finance lease cost:			
Amortization of right-of-use asset	\$ 166,318	\$ -	\$ 166,318
Interest on lease liabilities	18,626	-	18,626
Operating lease cost:	-	3,467,710	3,467,710
Variable lease cost*	-	466,789	466,789
Total Lease Cost	\$ 184,944	\$ 3,934,499	\$ 4,119,443

\*Variable lease costs are included in rental expense in the Statement of Functional Expenses.



**Note 7 – Long Term Liabilities (continued)**

Other information in relation to the lease agreements as of June 30, 2023, were as follows:

**Other Information**

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Cash paid for amounts included in the measurement of leases liabilities:	
Operating cash flows from operating leases	\$ 2,911,407
Operating cash flows from finance leases	\$ 18,626
Financing cash flows from Financing leases	\$ 163,176
 Supplemental noncash information :	
Right of use asset and lease liability - Operating	\$28,981,891
 Weighted-Average Remaining Lease Term - Finance Leases	3
Weighted-Average Discount Rate - Finance Leases	5.0%
Weighted-Average Remaining Lease Term - Operating Leases	6
Weighted-Average Discount Rate - Operating Leases	5.0%

**Note 8 – 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.

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.

## **Note 8 – Concentrations and Contingencies (continued)**

### 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, 2023, the School incurred approximately \$75,000 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.

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 8.0% of the School's covered payroll. The School's contribution to the System for the year ended June 30, 2023 was approximately \$2,387,000.

### 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.

**Note 10 – Defined Benefit Pension Plan (continued)**

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, 2022, TRS’ total plan assets (dollars in thousands) were \$207,621,898 and the plan was 79 % 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> 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.

Employee contribution rates are set in state statute, Texas Government Code, Section 825.402. Senate Bill 1458 of the 83<sup>rd</sup> 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 83<sup>rd</sup> Texas Legislature, General Appropriations Act (“GAA”) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

**Note 10 – Defined Benefit Pension Plan (continued)**

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.

Contribution Rates

	2023
Member	8.00%
NECE	7.75%
Employers	8.00%
Employer contributions	\$ 191,045
Member contributions	\$ 1,762,607
Non-OASDI contributions	\$ 415,265
Health plan contributions	\$ 1,296,314

**Note 11 – Health Care Coverage**

During the year ended June 30, 2023, 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, 2023, the School contributed approximately \$1,296,000 to the health plan on behalf of the employees.

**Note 12 – Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2023 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	\$ 8,335,958
Title I, Part A	117,250
Title I School Improvement	(357,275)
Title II, Part A	3,476
Title III	(3)
IDEA Part B	15,639
Career And Technical Ed.	2,912
Child Nutrition Cluster	110,798
USDA Donated Commodities	11,995
Advance Placement Incentives	4,451
Instructional Materials Allotment	23,005
Federal Funded Special Revenue	11,720
Esser emergency funds	494,503
Coronavirus Relief Fund (CRF)	(7,756)
Other State	64,166
Supplemental visually impaired	720
Enterprise service revenue activities accounts	90,410
Other Local Sources	(131,199)
	<u>\$ 8,790,770</u>

**Note 12 – Temporarily Restricted Net Assets (Continued)**

Net Assets for the year ended June 30, 2023 were released from donor restriction by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Foundation School Program	\$ 31,464,762
Federal revenue distributed by the TEA	2,633
Title I, Part A - Grants to Local Education Agencies	1,306,228
Title II, Part A - Teacher and Principal Training	89,714
Title III, Part A, English Language Enhancement	29,326
Federal Funded Special Revenue	49,618
IDEA Part B	542,698
IDEA Part B, Preschool	1,954
Child Nutrition Cluster	1,994,128
Supplemental visually impaired	720
Career And Technical Ed.	4,498
ESSER Federal Funds	6,204,501
Advanced Placement Initiative	1,668
Enterprise service revenue activities accounts	262,428
Other State	78,966
Other Local	277,695
	<u>\$ 42,311,537</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, 2023, the fee recorded by the School totaled approximately \$1,960,000.

SUPPLEMENTAL INFORMATION

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Schedule of Expenses  
For the Year Ended June 30, 2023

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Expenses:

6100 Payroll costs	\$ 24,714,690
6200 Professional and contracted services	8,072,122
6300 Supplies and materials	3,124,206
6400 Other operating costs	2,210,186
6500 Debt service	<u>3,441,178</u>
Total Expenses	<u>\$ 41,562,382</u>



Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Schedule of Capital Assets  
June 30, 2023

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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	-	34,651,499	-	34,651,499
1531	Vehicles	-	277,510	-	277,510
1539	Furniture and equipment over \$500	-	1,937,266	918,804	2,856,070
1549	Furniture and equipment under \$500	11,202	3,030,344	380,225	3,421,771
1559	Asset purchased under capital lease	-	1,535,309	-	1,535,309
1569	Library books	78,445	110,393	33,695	222,533
Total Capital Assets		<u>\$ 89,647</u>	<u>\$ 49,747,701</u>	<u>\$ 1,332,724</u>	<u>\$ 51,170,072</u>

Somerset Academies of Texas  
 (A Charter School Sponsored by Somerset Academy, Inc.)  
 Schedule of Real Property Ownership Interest  
 For the Year Ended June 30, 2023

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Description	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
Brooks Collegiate Academy	4802 Vance Jackson Rd San Antonio, TX 78230	\$ 25,767,030	\$ -	\$ 31,254,509	\$ -
Brooks Lone Star Academy	25 Burwoord Ln San Antonio TX 78216	\$ 5,217,980	\$ -	\$ 9,429,563	\$ -

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2023

	Budgeted Amounts			Variances	
	Original	Final	Actual Amounts	Variance from	Variance
				Final Budget and Actual Amounts	from Original and Final Budget
<b>Revenues</b>					
5700 Local support	\$ 966,728	\$ 1,311,675	\$ 1,429,790	\$ 118,115	\$ (344,947)
5800 State program revenue	32,024,117	30,948,681	31,041,946	93,265	1,075,436
5900 Federal program revenues	7,831,921	9,895,214	9,839,801	(55,413)	(2,063,293)
Total revenues and other support	<u>\$ 40,822,766</u>	<u>\$ 42,155,570</u>	<u>\$ 42,311,537</u>	<u>\$ 155,967</u>	<u>\$(1,332,804)</u>
<b>Expenses</b>					
11 Instruction	23,061,307	22,869,221	22,567,091	(302,130)	192,086
12 Instructional resources and media services	112,705	132,676	142,397	9,721	(19,971)
13 Curriculum and instructional staff development	1,049,853	1,534,003	1,587,887	53,884	(484,150)
21 Instructional leadership	114,454	199,908	213,680	13,772	(85,454)
23 School leadership	3,129,888	2,846,193	2,825,817	(20,376)	283,695
31 Guidance, counseling and evaluation services	600,349	631,660	615,825	(15,835)	(31,311)
32 Social work services	168,740	168,720	158,716	(10,004)	20
33 Health services	276,889	297,217	276,951	(20,266)	(20,328)
34 Student (pupil) transportation	50,362	63,599	60,324	(3,275)	(13,237)
35 Food services	1,933,962	1,890,928	1,885,875	(5,053)	43,034
36 Extracurricular activities	688,044	750,599	791,004	40,405	(62,555)
41 General administration	2,515,617	2,456,705	2,448,209	(8,496)	58,912
51 Facilities maintenance and operations	2,755,383	3,040,975	3,227,059	186,084	(285,592)
52 Security and monitoring services	980,643	910,489	883,649	(26,840)	70,154
53 Data processing services	441,810	511,399	500,596	(10,803)	(69,589)
61 Community services	98,400	98,400	102,442	4,042	-
71 Debt service	2,078,025	2,993,458	3,274,860	281,402	(915,433)
Total expenses	<u>40,056,431</u>	<u>41,396,150</u>	<u>41,562,382</u>	<u>166,232</u>	<u>(1,339,719)</u>
Change in net assets	<u>766,335</u>	<u>759,420</u>	<u>749,155</u>	<u>(10,265)</u>	<u>6,915</u>
Net assets at beginning of year	<u>8,041,615</u>	<u>8,041,615</u>	<u>8,041,615</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 8,807,950</u>	<u>\$ 8,801,035</u>	<u>\$ 8,790,770</u>	<u>\$ (10,265)</u>	<u>\$ 6,915</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

57XX - Final Budget was increased to recognize donations and local grants acquired towards the end of the year

59XX - Final Budget was increased to recognize additional ESSER funds decided to be spent in FY 22-23

Expenses

FUNCTION 12 - Final Budget was adjusted from other functions due to corrections in staff codes

FUNCTION 13 - Final Budget was adjusted from other functions due to corrections in staff codes

FUNCTION 21 - Final Budget was adjusted from other functions due to corrections in staff codes

FUNCTION 23- Final Budget was adjusted from other functions due to corrections in staff codes

FUNCTION 34 -Bus repairs were higher than originally anticipated

FUNCTION 53 - Final Budget was adjusted from other functions due to corrections in staff codes

FUNCTION 71 - Budgeted amount was corrected to account for changes due to Topic 842

Somerset Academies of Texas  
 (A Charter School Sponsored by Somerset Academy, Inc.)  
 Schedule of State Allotment Program Funds  
 June 30, 2023

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Data

Code Section A: Compensatory Education Program

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AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Y
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Y
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$3,641,948
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$2,153,265

Section B: Bilingual Education Programs

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AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Y
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Y
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$ 134,385
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$ 243,173

## 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

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To the Board of Directors  
Somerset 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 Somerset Academies of Texas (the "School"), f/k/a Brooks Academies of Texas, a charter school sponsored by Somerset Academy, Inc. (the "Charter Holder"), which compose the statement of financial position as of June 30, 2023, 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 17, 2023.

**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 deficiencies in internal control that we consider to be material weaknesses.

### **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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
November 17, 2023





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  
Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
San Antonio, Texas

***Opinion on Each Major Federal Program***

We have audited Somerset Academies of Texas (the "School"), f/k/a Brooks Academies of Texas, 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, 2023. 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, 2023.

***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, 2023, and have issued our report thereon dated November 17, 2023 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.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
November 17, 2023

Somerset Academies of Texas  
(A Charter School Sponsored by Somerset Academy, Inc.)  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Identifying Number Pass Through Entity	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE/PASSED THROUGH THE STATE DEPARTMENT OF AGRICULTURE</b>			
School Breakfast Program	10.553	201919N109946	\$ 319,104
National School Lunch Program	10.555	201919N109946	<u>1,289,527</u>
Total United States Department of Agriculture passed through State Department of Agriculture			<u>\$ 1,608,631</u>
<b>U.S. DEPARTMENT OF EDUCATION/PASSED THROUGH THE STATE DEPARTMENT OF EDUCATION</b>			
Title I, Part A - Grants to Local Educational Agencies	84.010A	S010A220043	\$ 1,306,228
Title II, Part A - Supporting Effective Instruction	84.367A	S367A220041	89,714
Title III, Part A - English Language Acquisition and enhancement	84.365A	S365A220043	29,326
Title IV, Part A - Student Support and Academic Enrichment	84.424A	S424A220045	49,618
Career and Technical Education	84.048A	V048A220043	4,498
Special Education Grants - IDEA Part B	84.027A	H027A220008	542,698
Special Education Grants - IDEA Part B -Preschool	84.173A	H173A220004	1,954
American Rescue Plan (ARP) Act - Education for homeless children and youth	84.425W	S425W210045	2,633
Elementary and secondary school emergency relief fund	84.425D	5425D210042	<u>6,204,501</u>
Total United States Department of Education passed through State Department of Education			<u>\$ 8,231,170</u>
Total expenditures of federal awards			<u>\$ 9,839,801</u>

**Note 1 – Basis of Presentation and Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Somerset Academies of Texas("the School") during the year ended June 30, 2023. The schedule includes only the expenditure of federal awards of the School as of June 30, 2023 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.

Somerset Academies of Texas  
 (A Charter School sponsored by Somerset Academy, Inc.)  
 Schedule of Findings and Questioned Costs  
 June 30, 2023

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**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))? \_\_\_\_\_ Yes  X  No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)	Expenditures
Child nutrition cluster	10.553/10.555	\$ 1,608,631
Elementary and secondary school emergency relief fund	84.425D	6,204,501

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: None

B. Compliance: None

A. Compliance: None

**Section III – Major Federal Awards Program Findings and Questioned Costs**

C. Internal Control: None

D. Compliance: None

**Section IV – Summary Schedule of Prior Audit Findings**

**2022-01 Procurement**

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.

Recom-  
mendation: 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.

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