

The Brookwood Community, Inc.

Combined Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2020 and 2019

The Brookwood Community, Inc.

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Independent Auditors' Report

To the Board of Directors of
Briarwood-Brookwood, Inc.:

We have audited the accompanying financial statements of The Brookwood Community, Inc. (formally Briarwood-Brookwood, Inc.) and affiliate, which comprise the combined statements of financial position as of July 31, 2020 and 2019 and the related combined statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

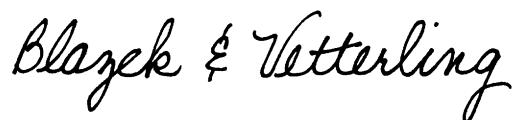
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance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

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of The Brookwood Community, Inc. and affiliate as of July 31, 2020 and 2019 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



April 22, 2021

The Brookwood Community, Inc.

Combined Statements of Financial Position as of July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 1,651,480	\$ 1,351,623
Accounts receivable, net	149,331	145,341
Other assets	156,424	154,071
Due from related companies	355,781	295,622
Note receivable (Note 4)	400,000	500,000
Inventory (Note 5)	744,847	918,015
Contributions receivable for operations (Note 6)	235,350	451,000
Contributions receivable for endowment and capital additions (Note 6)	3,988,924	7,771,343
Operating investments (Note 7)	16,045,294	10,370,316
Investments restricted for capital additions (Note 7)	10,021,461	12,096,224
Investments held for endowment (Note 7)	44,943,138	45,966,943
Property, net (Note 9)	<u>36,802,291</u>	<u>34,752,360</u>
TOTAL ASSETS	<u>\$115,494,321</u>	<u>\$114,772,858</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Construction payable	\$ 463,094	\$ 2,494,580
Accounts payable and other accrued expenses	246,051	378,186
Accrued salaries and benefits	250,670	518,231
Health claims (Note 9)	16,951	38,547
Paycheck Protection Program refundable advance (Note 3)	1,878,359	
Deferred revenue	621,908	741,560
Funds held for others	125,452	131,160
Deferred compensation (Note 9)	<u>60,077</u>	<u>62,310</u>
Total liabilities	<u>3,662,562</u>	<u>4,364,574</u>
Net assets (Note 12):		
Without donor restrictions (Note 10)	64,171,048	47,085,159
With donor restrictions (Note 11)	<u>47,660,711</u>	<u>63,323,125</u>
Total net assets	<u>111,831,759</u>	<u>110,408,284</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$115,494,321</u>	<u>\$114,772,858</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statement of Activities for the year ended July 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Educational program fees, net of financial assistance of \$1,154,352	\$ 6,753,776		\$ 6,753,776
Work program sales	3,302,803		3,302,803
Contributions	1,467,837	\$ 3,013,833	4,481,670
Special events	1,605,585		1,605,585
Cost of direct donor benefits	(47,224)		(47,224)
Facility rentals and catering	198,995		198,995
Net investment return	94,122	67,209	161,331
Other revenue	44,816		44,816
Total revenue	13,420,710	3,081,042	16,501,752
Net assets released from restrictions:			
Capital expenditures	17,377,899	(17,377,899)	
Program expenditures	1,365,557	(1,365,557)	
Total	32,164,166	(15,662,414)	16,501,752
EXPENSES:			
Program services:			
Work program	7,536,562		7,536,562
Educational program	4,986,146		4,986,146
Total program services	12,522,708		12,522,708
Supporting services:			
Management and general	1,891,703		1,891,703
Fundraising	663,866		663,866
Total supporting services	2,555,569		2,555,569
Total expenses	15,078,277		15,078,277
CHANGES IN NET ASSETS	17,085,889	(15,662,414)	1,423,475
Net assets, beginning of year	47,085,159	63,323,125	110,408,284
Net assets, end of year	\$ 64,171,048	\$ 47,660,711	\$ 111,831,759

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statement of Activities for the year ended July 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Educational program fees, net of financial assistance of \$1,157,913	\$ 6,689,361		\$ 6,689,361
Work program sales	3,854,661		3,854,661
Contributions	2,764,631	\$ 6,652,448	9,417,079
Special events	1,620,540		1,620,540
Cost of direct donor benefits	(81,173)		(81,173)
Facility rentals and catering	197,425		197,425
Net investment return	1,544,589	1,251,566	2,796,155
Other revenue	<u>17,792</u>		<u>17,792</u>
Total revenue	16,607,826	7,904,014	24,511,840
Net assets released from restrictions:			
Capital expenditures	1,112,742	(1,112,742)	
Program expenditures	<u>905,489</u>	<u>(905,489)</u>	
Total	<u>18,626,057</u>	<u>5,885,783</u>	<u>24,511,840</u>
EXPENSES:			
Program services:			
Work program	7,908,779		7,908,779
Educational program	<u>4,899,816</u>		<u>4,899,816</u>
Total program services	<u>12,808,595</u>		<u>12,808,595</u>
Supporting services:			
Management and general	1,759,589		1,759,589
Fundraising	<u>689,080</u>		<u>689,080</u>
Total supporting services	<u>2,448,669</u>		<u>2,448,669</u>
Total expenses	<u>15,257,264</u>		<u>15,257,264</u>
CHANGES IN NET ASSETS	3,368,793	5,885,783	9,254,576
Net assets, beginning of year	<u>43,716,366</u>	<u>57,437,342</u>	<u>101,153,708</u>
Net assets, end of year	<u>\$ 47,085,159</u>	<u>\$ 63,323,125</u>	<u>\$ 110,408,284</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statement of Functional Expenses for the year ended July 31, 2020

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL
	WORK PROGRAM	EDUCATIONAL PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries	\$ 3,586,586	\$ 2,961,832	\$ 1,207,631	\$ 443,761	\$ 8,199,810
Employee health and other benefits	483,227	133,518	130,570	25,277	772,592
Payroll taxes	256,860	215,268	85,488	31,481	589,097
Subtotal	4,326,673	3,310,618	1,423,689	500,519	9,561,499
Amortization of right of use of property and depreciation	623,288	517,733	154,281	66,064	1,361,366
Cost of goods sold	1,105,673				1,105,673
Supplies	397,974	437,111	19,382		854,467
Equipment rental, purchases, and maintenance	268,354	287,284	54,589	3,734	613,961
Occupancy	414,721	159,059	10,319	141	584,240
Professional fees and contract services	61,407	86,471	113,951	16,069	277,898
Insurance	129,861	77,626	16,919	6,418	230,824
Printing and publications	13,690	1,594	12,373	55,156	82,813
Bank fees	62,270		6,586		68,856
Computer supplies	31,578	8,980	8,980	14,966	64,504
Telephone	29,633	18,770	4,720	72	53,195
Licenses	2,755	41,560			44,315
Furniture and fixtures		6,279			6,279
Travel	3,383			584	3,967
Other	65,302	33,061	65,914	143	164,420
Total expenses	<u>\$ 7,536,562</u>	<u>\$ 4,986,146</u>	<u>\$ 1,891,703</u>	<u>\$ 663,866</u>	15,078,277
Cost of direct donor benefits					<u>47,224</u>
Total					<u>\$ 15,125,501</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statement of Functional Expenses for the year ended July 31, 2019

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL
	WORK PROGRAM	EDUCATIONAL PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries	\$ 3,695,728	\$ 3,024,895	\$ 1,024,200	\$ 408,592	\$ 8,153,415
Employee health and other benefits	511,501	145,793	45,104	26,952	729,350
Payroll taxes	266,334	217,839	79,224	29,547	592,944
Subtotal	4,473,563	3,388,527	1,148,528	465,091	9,475,709
Amortization of right of use of property and depreciation	597,509	513,061	141,869	58,367	1,310,806
Cost of goods sold	1,352,658				1,352,658
Supplies	435,356	440,423	70,088	48,087	993,954
Equipment rental, purchases, and maintenance	224,773	187,850	100,609	2,498	515,730
Occupancy	415,088	163,998	29,976	27,421	636,483
Professional fees and contract services	54,241	23,776	138,651	11,380	228,048
Insurance	151,546	88,743	20,479	6,826	267,594
Printing and publications	3,606	1,238	10,672	53,649	69,165
Bank fees	73,411		5,248		78,659
Computer supplies	30,761	8,422	8,440	14,036	61,659
Telephone	23,683	15,650	6,081	1,291	46,705
Licenses	1,387	52,042			53,429
Furniture and fixtures		4,753			4,753
Travel	4,233			98	4,331
Other	66,964	11,333	78,948	336	157,581
Total expenses	<u>\$ 7,908,779</u>	<u>\$ 4,899,816</u>	<u>\$ 1,759,589</u>	<u>\$ 689,080</u>	15,257,264
Cost of direct donor benefits					<u>81,173</u>
Total					<u>\$ 15,338,437</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statements of Cash Flows for the years ended July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,423,475	\$ 9,254,576
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of right of use of property and depreciation	1,361,366	1,310,806
Contributions restricted for additions to property	(476,016)	(5,974,104)
Contributions restricted for endowment	(245,512)	(165,960)
Net realized and unrealized gain on investments	(152,591)	(2,793,955)
Changes in operating assets and liabilities:		
Accounts receivable	(3,990)	20,999
Other assets	(2,353)	(41,363)
Due from related companies	(60,159)	(188,384)
Inventory	173,168	61,670
Contributions receivable for operations	215,650	160,495
Accounts payable and other accrued expenses	(132,135)	7,946
Accrued salaries, benefits, and health claims	(289,157)	(8,106)
Paycheck Protection Program refundable advance	1,878,359	
Deferred revenue	(119,652)	(3,488)
Funds held for others	(5,708)	41,365
Deferred compensation	<u>(2,233)</u>	<u>(100,685)</u>
Net cash provided by operating activities	<u>3,562,512</u>	<u>1,581,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (contributions) withdrawals from the investment pool	(2,423,819)	3,063,352
Repayment of note receivable	100,000	
Outlays for additions to property	<u>(5,442,783)</u>	<u>(12,894,106)</u>
Net cash used by investing activities	<u>(7,766,602)</u>	<u>(9,830,754)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for additions to property	4,224,435	8,850,842
Proceeds from contributions restricted for endowment	<u>279,512</u>	<u>175,465</u>
Net cash provided by financing activities	<u>4,503,947</u>	<u>9,026,307</u>
NET CHANGE IN CASH	299,857	777,365
Cash, beginning of year	<u>1,351,623</u>	<u>574,258</u>
Cash, end of year	<u>\$ 1,651,480</u>	<u>\$ 1,351,623</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Notes to Combined Financial Statements for the years ended July 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The Brookwood Community, Inc. (formally Briarwood-Brookwood, Inc.) operated The Briarwood School and The Brookwood Community and Garden Beverages, LLC. During fiscal year 2018, the organization was restructured and the operating assets and liabilities of The Briarwood School, excluding the land, building, and building improvements of the school, were contributed to a new entity, The Briarwood School. Additionally, investments were transferred to The Brookwood Endowment, Inc. to manage on behalf of The Briarwood School and The Brookwood Community, Inc. In fiscal year 2019, the land, buildings, and building improvements related to The Briarwood School and The Brookwood Community, Inc. were legally transferred to The Brookwood Real Property Holding Company.

The Brookwood Community, Inc. operates The Brookwood Community, which was established in 1983 to provide an environment where functionally disabled persons can live and work. The Brookwood Community's purpose is to provide opportunity through education for adults so that they might continue to learn and improve their functional skills, acquire meaningful job skills and hold real jobs in The Brookwood Community, Inc.'s own business enterprises, experience the pride that accompanies the ability to contribute to one's own support, and grow socially, emotionally, and spiritually.

Garden Beverages, LLC (the affiliate) was established in 2010 to allow alcoholic beverages to be served at The Brookwood Community, Inc.'s catering events. The Brookwood Community, Inc. is the sole member of the affiliate.

The Brookwood Holding Company is the sole member of The Brookwood Community, Inc., The Briarwood School, The Brookwood Endowment, Inc., and The Brookwood Real Property Holding Company.

Basis of combination – These financial statements include the assets, liabilities, net assets and activities of The Brookwood Community, Inc. and Garden Beverages, LLC (collectively Brookwood). All balances and transactions between these combined entities have been eliminated.

Federal income tax status – The Brookwood Community, Inc. is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). Garden Beverages, LLC is a disregarded entity for federal income tax purposes.

Cash includes demand deposits which exceed the federally insured limit per depositor per institution. Cash held in investment accounts is included in investments.

Allowance for uncollectible accounts receivable is recorded when it is probable balances may not be collected in full as there has been an adverse change in a family's ability to pay. The amount of the allowance is determined using a customer-by-customer analysis of receivable balances each period. An allowance for uncollectible accounts receivable of \$15,000 was reported at July 31, 2020 and 2019.

Inventory consists of (a) arts and crafts produced by the citizens of Brookwood, (b) plants and trees in various stages of growth which are grown by the citizens of Brookwood, and (c) merchandise purchased by Brookwood and held for resale. Inventory is sold to the general public and wholesale customers. Inventory is valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Investments are reported at fair value. Net investment return consists of the net appreciation/depreciation in the value of interest in The Brookwood Endowment, Inc. pooled investment.

Property includes property held by Brookwood and the right of use of property held by The Brookwood Real Property Holding Company. Property is reported at cost if purchased and at the estimated fair value at the date of gift if donated and greater than \$2,500. Depreciation and amortization of right of use of property is computed using the straight-line method over estimated useful lives of 2 to 40 years for buildings and improvements, and greenhouses, 5 to 10 years for furniture, fixtures, and equipment, and 2 to 5 years for transportation equipment.

Funds held for others – Brookwood holds funds in trusts for its residents. Brookwood does not have discretion over the use of these funds and the receipts and disbursements are not reported as revenue and expenses of Brookwood. Funds held for others are included in Brookwood's other assets and are reported as a liability of Brookwood.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Educational program fees are derived from providing educational programming for the residential and day citizens and residential services. Revenue is recognized ratably over time as those services are provided and are shown net of financial assistance. All performance obligations are satisfied within the fiscal year. Accounts receivable in the statement of financial position at July 31, 2020, 2019 and 2018 are \$127,469, \$112,738 and \$144,522, respectively. Contract liabilities relate to advance consideration received for which revenue has not been recognized. Contract liabilities are reported as deferred revenue in the statement of financial position and at July 31, 2020, 2019 and 2018 are \$537,120, \$606,315 and \$633,024, respectively.

Work program sales represent the sales of arts and crafts produced by the citizens of Brookwood, plants and trees grown by the citizens of Brookwood, merchandise purchased by Brookwood for resale, and meals served by The Café at Brookwood. Work program sales are recognized at the point in time when products are sold or the meals are served. Accounts receivable in the statement of financial position and at July 31, 2020, 2019 and 2018 are \$21,862, \$32,603 and \$21,817, respectively. Contract liabilities relate to gift certificates that have not been redeemed so the revenue has not been recognized. Contract liabilities are reported as deferred revenue in the statement of financial position and at July 31, 2020, 2019 and 2018 are \$84,788, \$135,245 and \$112,024, respectively.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before Brookwood is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Special events revenue includes elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits provided represents the costs of goods and services provided to event attendees. Amounts received in advance are reported as special event refundable advances.

In-kind contributions – Donated materials and use of facilities are recognized at estimated fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Facility rentals and catering are recognized as revenue when services are provided. Deposits received for future events are recognized as deferred revenue.

Shipping and handling expenses are included in work program cost of goods sold.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of buildings and improvements and occupancy costs are allocated based on square footage. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

Effective August 1, 2019, Brookwood adopted the guidance in Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. The core principle of this new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services using a 5-step process to determine when performance obligations are satisfied, and revenue is recognized. Also effective August 1, 2019, Brookwood adopted the guidance in Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These amendments have been applied on a retrospective basis to the financial statements for the year ended July 31, 2019. Because the timing and amount of revenue recognized previously is not different from revenue recognized under the new guidance, adoption of these standards had no impact on total beginning or ending net assets or on total changes in net assets for the year ended July 31, 2019, but resulted in reclassification of previously reported activities to conform to the 2020 presentation and additional disclosures.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of July 31 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 1,651,480	\$ 1,351,623
Accounts receivable, net and due from related companies	505,112	440,963
Note receivable	400,000	500,000
Contributions receivable, net	4,224,274	8,222,343
Investments	<u>71,009,893</u>	<u>68,433,483</u>
Total financial assets	77,790,759	78,948,412
Less financial assets not available for general expenditure:		
Contributions receivable restricted for long-term use	(3,988,924)	(7,771,343)
Investments restricted for capital additions	(10,021,461)	(12,096,224)
Endowment investments, less appropriation for next year	(43,271,983)	(45,113,620)
Notes receivable	<u>(400,000)</u>	<u>(400,000)</u>
Total financial assets available for general expenditure	<u>\$ 20,108,391</u>	<u>\$ 13,567,225</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Brookwood considers all expenditures related to its ongoing activities of providing residential facilities and vocational opportunities for persons with functional disabilities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Brookwood regularly monitors liquidity to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. Brookwood has various sources of liquidity at its disposal, including cash, short-term receivables, and marketable debt and equity securities. As disclosed in Note 12, Brookwood has donor-restricted and board-designated endowment funds. Under the endowment spending policy, approximately \$2.5 million is eligible for use by Brookwood for the upcoming year, subject to approval by the Endowment Committee. Currently, \$1,607,805 has been approved for use and is included in budgeted revenues for the next twelve months.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. Brookwood had to cancel some special events and close its stores. Brookwood also incurred additional costs for health protocols for COVID-19. The extent of the impact of COVID-19 on Brookwood's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on residents, donors, employees, and vendors, all of which are uncertain and cannot be predicted. While Brookwood expects this to impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

In April 2020, Brookwood received a Paycheck Protection Program (PPP) loan of \$1,878,359 from the Small Business Administration. PPP loan principal and interest may be forgiven, in whole or in part, if Brookwood meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. The loan is considered to be a conditional contribution. Brookwood intends to apply for forgiveness and will recognize any forgiveness granted as contribution revenue upon approval by the lender. Any amounts not forgiven will bear interest at 1.0% and may be repaid over 2 years.

NOTE 4 – NOTE RECEIVABLE

Brookwood in Georgetown Vocational (Brookwood Vocational), a Texas non-profit corporation, was established in June 2014 and is exempt from federal income tax under §501(c)(3) of the Code. Brookwood has representation on the Board of Directors (the Board) of Brookwood Vocational, but does not have majority representation on the Board. In December 2014, Brookwood executed a \$500,000 promissory note receivable with Brookwood Vocational, secured by real property, which bore interest at 2% and matured on December 15, 2019. During fiscal year 2020, the first principal payment of \$100,000 was made and the due date was extended to December 31, 2022. The loan was used to purchase a building and adjacent land to operate an educational program for adults who are functionally disabled in Georgetown, Texas.

NOTE 5 – INVENTORY

Inventory is comprised of the following:

	<u>2020</u>	<u>2019</u>
Finished goods	\$ 629,326	\$ 742,962
Raw materials	<u>115,521</u>	<u>175,053</u>
Total inventory	<u>\$ 744,847</u>	<u>\$ 918,015</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Contributions receivable for operations	\$ 235,350	\$ 451,000
Contributions receivable for Endowment and property additions	<u>4,084,865</u>	<u>7,996,542</u>
Total contributions receivable	4,320,215	8,447,542
Discount to net present value at 1% to 2.56%	(59,950)	(187,804)
Allowance for uncollectible receivables	<u>(35,991)</u>	<u>(37,395)</u>
Contributions receivable, net	<u>\$ 4,224,274</u>	<u>\$ 8,222,343</u>

Contributions receivable at July 31, 2020 are expected to be collected as follows:

Receivable in less than one year	\$ 1,960,283
Receivable in one to five years	<u>2,359,932</u>
Total contributions receivable	<u>\$ 4,320,215</u>

Contributions receivable from one donor totaled approximately \$1,500,000 or 35% of gross contributions receivable at July 31, 2020 and contributions receivable from one donor totaled approximately \$2,000,000 or 24% of gross contributions receivable at July 31, 2019.

NOTE 7 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Brookwood holds investments for the following purposes:

	<u>2020</u>	<u>2019</u>
Endowments	\$ 44,943,138	\$ 45,966,943
Operating	16,045,294	10,370,316
Capital additions	<u>10,021,461</u>	<u>12,096,224</u>
Total investments	<u>\$ 71,009,893</u>	<u>\$ 68,433,483</u>

The Brookwood Endowment, Inc. manages the investments of Brookwood and The Briarwood School in a combined investment portfolio (Investment Fund). The investments reported on the statement of financial position represent Brookwood's share of the Investment Fund. The Investment Fund consists of the following types of investments:

	<u>2020</u>	<u>2019</u>
Equity mutual funds	29%	32%
Money market mutual funds restricted and designated for short-term projects	24%	20%
Bond mutual funds	16%	16%
Corporate bonds	14%	14%
U. S. Treasury notes and bonds	9%	9%
Limited partnerships	2%	2%
U. S. Government agency securities	1%	1%
Other	<u>5%</u>	<u>6%</u>
Total investments	<u>100%</u>	<u>100%</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Interest, dividends, and changes in fair value of the pooled investments are components of the net appreciation in value of interest in the Endowment pooled investments.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

The Investment Fund is valued at the fair value of the underlying investments. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Brookwood believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 8 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Right of use of land, buildings, and building improvements	\$ 58,127,037	\$ 41,157,566
Furniture, fixtures, and equipment	4,582,615	3,896,524
Transportation equipment	1,928,273	1,899,526
Construction in progress	<u>1,464,738</u>	<u>15,782,485</u>
Total property, at cost	66,102,663	62,736,101
Accumulated depreciation	(5,093,807)	(4,884,989)
Accumulated amortization	<u>(24,206,565)</u>	<u>(23,098,752)</u>
Property, net	<u>\$ 36,802,291</u>	<u>\$ 34,752,360</u>

NOTE 9 – EMPLOYEE BENEFIT PLANS

Retirement benefits – Brookwood has awarded deferred compensation agreements to selected employees. Annual contributions under the agreements are made by Brookwood at its discretion. Employees vest in contributed amounts five years after contributions are made and are eligible to receive vested contributions upon leaving Brookwood or at age 65. In 2020 and 2019, no contribution was made to the plan.

All full-time employees of Brookwood are eligible to participate in Brookwood’s defined contribution plan. Eligible employees can elect to contribute to the plan up to the Internal Revenue Service limit. Brookwood matches up to 2% of employee wages. Employees vest in the employer contributions 100% after three years. In 2020 and 2019, the employer matching contribution was approximately \$74,000 and \$71,000, respectively.

Health benefits – Brookwood self insures health benefits for its employees. Under this plan, health benefit claims are the responsibility of Brookwood subject to a maximum per employee and in the aggregate limit based on the number of its employees currently covered. Brookwood maintains a stop-loss policy that becomes effective when claims aggregate to the predetermined amount of approximately \$2,200,000 in 2020 and 2019.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Property, net	\$ 36,802,291	\$ 34,752,360
Board-designated endowment funds	14,281,646	14,504,909
Undesignated	<u>13,087,111</u>	<u>(2,172,110)</u>
Total net assets without donor restrictions	<u>\$ 64,171,048</u>	<u>\$ 47,085,159</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Capital improvements and additions to property	\$ 15,448,035	\$ 30,254,547
Citizen life activities, support, equipment and development	683,923	485,824
Tuition assistance	210,350	400,000
Medical supplies and equipment	241,621	220,301
Professional development	113,926	103,763
Continuing care	88,757	88,757
Vehicles, equipment and building maintenance	73,113	71,055
Hurricane Harvey repairs	71,633	71,633
Renewable energy	<u>67,861</u>	<u>67,861</u>
Total subject to expenditure for specified purpose	<u>16,999,219</u>	<u>31,763,741</u>
Endowments subject to spending policy and appropriation:		
Brookwood operations	15,854,463	16,670,638
Vehicles, equipment and building maintenance	4,498,287	4,507,210
Tuition assistance	4,138,909	4,195,748
Staff development	2,780,207	2,785,301
Continuing care	1,505,937	1,531,064
Nursing care	800,212	797,361
Educational chair	682,660	694,051
Kilroy memory care	140,139	139,841
Retail building maintenance	136,278	135,988
Other	<u>124,400</u>	<u>102,182</u>
Total endowments	<u>30,661,492</u>	<u>31,559,384</u>
Total net assets with donor restrictions	<u>\$ 47,660,711</u>	<u>\$ 63,323,125</u>

NOTE 12 – ENDOWMENT FUNDS

Brookwood has donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations and board-designated endowment funds.

The Endowment was established to provide long-term support to the programs and operations of Brookwood. The Endowment consists of donor-restricted endowment funds and funds the Board of Directors of Brookwood have designated to function as an endowment. Board-designated endowment funds are *net assets without donor restrictions* internally-designated to provide support for the organization generally for a long-term but not necessarily a specified period of time. The Board of Directors of Brookwood retains discretion over the use of these funds.

Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Directors of Brookwood has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing Brookwood to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, Brookwood classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. The portion of the Endowment not required to be maintained in perpetuity is also classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

An endowment fund is *underwater* if the fair value of the fund's investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance prudent spending. There were no such deficiencies at July 31, 2020 or 2019.

Return Objectives and Risk Parameters

Brookwood has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors of Brookwood, the endowment assets are invested in a manner that is intended to produce an annualized return that should exceed the return of the balanced index. The balanced index is a composite index representing each asset class weighted for the proportion of the asset class held.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Brookwood relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and investment return (interest and dividends). Brookwood targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

Brookwood has a policy of appropriating for distribution each year an amount not to exceed 5% of its endowment fund's average fair value over the prior three years as of the March 31 preceding the fiscal year in which the distribution is planned. The spending policy is reviewed from time to time and the formula adjusted for maximum distributions based upon the current needs of Brookwood and upon its determination of a prudent maximum sustainable spending rate based upon expected available investment return. In fiscal years 2020 and 2019, the Endowment distributed 3% of budgeted revenues.

Changes in endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, July 31, 2018	<u>\$ 14,107,571</u>	<u>\$ 9,095,183</u>	<u>\$ 21,497,364</u>	<u>\$ 44,700,118</u>
Contributions	28,021		165,960	193,981
Net investment return	577,148	1,251,566		1,828,714
Distributions	<u>(207,831)</u>	<u>(450,689)</u>		<u>(658,520)</u>
Endowment net assets, July 31, 2019	<u>14,504,909</u>	<u>9,896,060</u>	<u>21,663,324</u>	<u>46,064,293</u>
Contributions	14,787		245,512	260,299
Net investment return	30,938	67,209		98,147
Distributions	<u>(268,988)</u>	<u>(1,210,613)</u>		<u>(1,479,601)</u>
Endowment net assets, July 31, 2020	<u>\$ 14,281,646</u>	<u>\$ 8,752,656</u>	<u>\$ 21,908,836</u>	<u>\$ 44,943,138</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 22, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the ongoing impact of COVID-19, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.