

The Brookwood Community, Inc.

Combined Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2021 and 2020

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, 2021 and 2020 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.

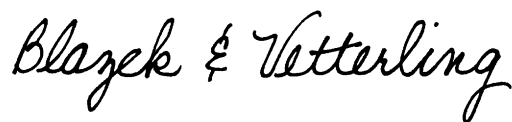
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2021 and 2020 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 25, 2022

The Brookwood Community, Inc.

Combined Statements of Financial Position as of July 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 1,983,608	\$ 1,651,480
Accounts receivable, net	142,050	149,331
Other assets	336,627	156,424
Due from related companies	517,985	355,781
Note receivable (Note 3)	300,000	400,000
Inventory (Note 4)	582,369	744,847
Contributions receivable for operations (Note 5)	185,000	235,350
Contributions receivable for Endowment and capital additions (Note 5)	3,285,248	3,988,924
Operating investments (Note 6)	22,011,743	16,108,644
Investments restricted for capital additions (Note 6)	10,174,400	10,021,461
Investments held for Endowment (Note 6)	49,920,967	44,879,788
Property, net (Note 7)	<u>37,228,201</u>	<u>36,802,291</u>
TOTAL ASSETS	<u>\$ 126,668,198</u>	<u>\$ 115,494,321</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Construction payable		\$ 463,094
Accounts payable and other accrued expenses	\$ 1,250,339	246,051
Accrued salaries and benefits	278,236	250,670
Health claims (Note 8)	200,860	16,951
Paycheck Protection Program refundable advance (Note 2)		1,878,359
Deferred revenue	502,091	621,908
Funds held for others	142,277	125,452
Deferred compensation (Note 8)	<u>74,444</u>	<u>60,077</u>
Total liabilities	<u>2,448,247</u>	<u>3,662,562</u>
Net assets (Note 11):		
Without donor restrictions (Note 9)	74,479,194	64,171,048
With donor restrictions (Note 10)	<u>49,740,757</u>	<u>47,660,711</u>
Total net assets	<u>124,219,951</u>	<u>111,831,759</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 126,668,198</u>	<u>\$ 115,494,321</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Combined Statement of Activities for the year ended July 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Educational program fees, net of financial assistance of \$1,259,621	\$ 6,517,185		\$ 6,517,185
Work program sales	3,339,530		3,339,530
Contributions:			
Government grant		\$ 1,883,645	1,883,645
Other	1,705,323	3,572,258	5,277,581
Grant reversion		(389,343)	(389,343)
Special events	2,456,309		2,456,309
Facility rentals and catering	94,398		94,398
Net investment return	5,381,464	4,086,612	9,468,076
Other revenue	<u>87,777</u>		<u>87,777</u>
Total revenue	19,581,986	9,153,172	28,735,158
Net assets released from restrictions:			
Capital expenditures	3,700,580	(3,700,580)	
Program expenditures	<u>3,372,546</u>	<u>(3,372,546)</u>	
Total	<u>26,655,112</u>	<u>2,080,046</u>	<u>28,735,158</u>
EXPENSES:			
Program services:			
Work program	7,760,227		7,760,227
Educational program	<u>5,489,859</u>		<u>5,489,859</u>
Total program services	<u>13,250,086</u>		<u>13,250,086</u>
Supporting services:			
Management and general	2,203,267		2,203,267
Fundraising	<u>745,391</u>		<u>745,391</u>
Total supporting services	<u>2,948,658</u>		<u>2,948,658</u>
Total expenses	<u>16,198,744</u>		<u>16,198,744</u>
CHANGES IN NET ASSETS BEFORE INVOLUNTARY CONVERSION			
	10,456,368	2,080,046	12,536,414
Loss on involuntary conversion (<i>Note 12</i>)	<u>(148,222)</u>		<u>(148,222)</u>
CHANGES IN NET ASSETS	10,308,146	2,080,046	12,388,192
Net assets, beginning of year	<u>64,171,048</u>	<u>47,660,711</u>	<u>111,831,759</u>
Net assets, end of year	<u>\$ 74,479,194</u>	<u>\$ 49,740,757</u>	<u>\$ 124,219,951</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 Functional Expenses for the year ended July 31, 2021

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL
	WORK PROGRAM	EDUCATIONAL PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries	\$ 3,550,765	\$ 3,173,579	\$ 1,269,609	\$ 442,683	\$ 8,436,636
Employee health and other benefits	457,601	126,750	113,478	22,217	720,046
Payroll taxes	<u>254,558</u>	<u>228,672</u>	<u>85,881</u>	<u>30,467</u>	<u>599,578</u>
Subtotal	4,262,924	3,529,001	1,468,968	495,367	9,756,260
Amortization of right of use of property and depreciation	933,021	736,657	228,643	97,391	1,995,712
Cost of goods sold	1,204,562				1,204,562
Supplies	327,487	374,479	23,649	41,768	767,383
Equipment rental, purchases, and maintenance	314,204	344,085	63,789	1,842	723,920
Occupancy	399,428	145,813	10,161	65	555,467
Professional fees and contract services	39,371	98,158	116,593	17,600	271,722
Insurance	139,088	84,894	7,266	19,740	250,988
Computer supplies	41,407	12,223	21,167	20,372	95,169
Bank fees			71,378		71,378
Printing and publications	6,405	3,289	11,320	50,363	71,377
Telephone	31,787	17,397	20,617	625	70,426
Licenses	983	46,340			47,323
Furniture and fixtures	3,116	13,513			16,629
Travel				199	199
Other	<u>56,444</u>	<u>84,010</u>	<u>159,716</u>	<u>59</u>	<u>300,229</u>
Total expenses	<u>\$ 7,760,227</u>	<u>\$ 5,489,859</u>	<u>\$ 2,203,267</u>	<u>\$ 745,391</u>	16,198,744
Expenses on involuntary conversion					<u>1,179,296</u>
Total					<u>\$ 17,378,040</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	<u>256,860</u>	<u>215,268</u>	<u>85,488</u>	<u>31,481</u>	<u>589,097</u>
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
Computer supplies	31,578	8,980	8,980	14,966	64,504
Bank fees	62,270		6,586		68,856
Printing and publications	13,690	1,594	12,373	55,156	82,813
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	<u>65,302</u>	<u>33,061</u>	<u>65,914</u>	<u>143</u>	<u>164,420</u>
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 Statements of Cash Flows for the years ended July 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 12,388,192	\$ 1,423,475
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of right of use of property and depreciation	1,995,712	1,361,366
Contributions restricted for additions to property	(2,367,462)	(476,016)
Contributions restricted for Endowment	(531,908)	(245,512)
Net realized and unrealized gain on investments	(9,461,161)	(152,591)
Changes in operating assets and liabilities:		
Accounts receivable	7,281	(3,990)
Other assets	(180,203)	(2,353)
Due from related companies	(162,204)	(60,159)
Inventory	162,478	173,168
Contributions receivable for operations	50,350	215,650
Accounts payable and other accrued expenses	1,004,288	(132,135)
Accrued salaries, benefits, and health claims	211,475	(289,157)
Paycheck Protection Program refundable advance	(1,878,359)	1,878,359
Deferred revenue	(119,817)	(119,652)
Funds held for others	16,825	(5,708)
Deferred compensation	<u>14,367</u>	<u>(2,233)</u>
Net cash provided by operating activities	<u>1,149,854</u>	<u>3,562,512</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net contributions from the investment pool	(1,636,056)	(2,423,819)
Repayment of note receivable	100,000	100,000
Outlays for additions to property	<u>(2,884,716)</u>	<u>(5,442,783)</u>
Net cash used by investing activities	<u>(4,420,772)</u>	<u>(7,766,602)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for additions to property	3,061,138	4,224,435
Proceeds from contributions restricted for Endowment	<u>541,908</u>	<u>279,512</u>
Net cash provided by financing activities	<u>3,603,046</u>	<u>4,503,947</u>
NET CHANGE IN CASH	332,128	299,857
Cash, beginning of year	<u>1,651,480</u>	<u>1,351,623</u>
Cash, end of year	<u>\$ 1,983,608</u>	<u>\$ 1,651,480</u>

See accompanying notes to combined financial statements.

The Brookwood Community, Inc.

Notes to Combined Financial Statements for the years ended July 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – 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.

The investments of The Brookwood Community, Inc. are held and managed by The Brookwood Endowment, Inc. (the Endowment) in conjunction with other affiliated entities investments. The land, buildings and building improvements utilized for the operations of The Brookwood Community, Inc. are held by The Brookwood Real Property Holding Company.

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 excluded from cash for purposes of cash flows.

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 \$81,000 and \$15,000 was reported at July 31, 2021 and 2020, respectively.

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. (the Endowment) 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, 2021, 2020 and 2019 are \$124,889, \$127,469 and \$112,738, 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, 2021, 2020 and 2019 are \$412,537, \$537,120 and \$606,315, 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 at July 31, 2021, 2020 and 2019 are \$17,161, \$21,862 and \$32,603, 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, 2021, 2020 and 2019 are \$89,554, \$84,788 and \$135,245, 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 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 1,983,608	\$ 1,651,480
Accounts receivable, net and due from related companies	660,035	505,112
Other assets	169,938	
Note receivable	300,000	400,000
Contributions receivable, net	3,470,248	4,224,274
Investments	<u>82,107,110</u>	<u>71,009,893</u>
Total financial assets	88,690,939	77,790,759
Less financial assets not available for general expenditure:		
Contributions receivable restricted for long-term use	(3,285,248)	(3,988,924)
Investments restricted for capital additions	(10,174,400)	(10,021,461)
Endowment investments, less appropriation for next year	(48,123,742)	(43,271,983)
Notes receivable	<u>(300,000)</u>	<u>(400,000)</u>
Total financial assets available for general expenditure	<u>\$ 26,807,549</u>	<u>\$ 20,108,391</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 11, Brookwood has donor-restricted and board-designated endowment funds. Under the Endowment spending policy, approximately \$3 million is eligible for use by Brookwood for the upcoming year, subject to approval by the Endowment Committee. Currently, \$1,797,225 has been approved for use and is included in budgeted revenues for the next twelve months.

In April 2020, Brookwood received financial relief of \$1,878,359 from the Paycheck Protection Program (PPP) loan through the Small Business Administration. Brookwood met eligibility requirements and used the loan to fund qualified payroll and other eligible costs. In fiscal year 2021, Brookwood was notified that principal and interest on the loan had been forgiven and \$1,883,645 was recognized as government grant revenue.

NOTE 3 – NOTE RECEIVABLE

Brookwood in Georgetown Vocational (Brookwood Vocational), a Texas non-profit corporation, was established in 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 2014, Brookwood executed a \$500,000 promissory note receivable with Brookwood Vocational, secured by real property, which bore interest at 2% with an original maturity of December 15, 2019. During fiscal year 2020, the first principal payment of \$100,000

was made and the maturity 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 4 – INVENTORY

Inventory is comprised of the following:

	<u>2021</u>	<u>2020</u>
Finished goods	\$ 524,224	\$ 629,326
Raw materials	<u>58,145</u>	<u>115,521</u>
Total inventory	<u>\$ 582,369</u>	<u>\$ 744,847</u>

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2021</u>	<u>2020</u>
Contributions receivable for operations	\$ 185,000	\$ 235,350
Contributions receivable for Endowment and capital additions	<u>3,333,332</u>	<u>4,084,865</u>
Total contributions receivable	3,518,332	4,320,215
Discount to net present value at 0.338% to 2.56%	(17,093)	(59,950)
Allowance for uncollectible receivables	<u>(30,991)</u>	<u>(35,991)</u>
Contributions receivable, net	<u>\$ 3,470,248</u>	<u>\$ 4,224,274</u>

Contributions receivable at July 31, 2021 are expected to be collected as follows:

Receivable in less than one year	\$ 2,564,982
Receivable in one to five years	<u>953,350</u>
Total contributions receivable	<u>\$ 3,518,332</u>

Contributions receivable from three donors totaled approximately \$2,000,000 or 57% of gross contributions receivable at July 31, 2021 and contributions receivable from one donor totaled approximately \$1,500,000 or 35% of gross contributions receivable at July 31, 2020.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Brookwood holds investments for the following purposes:

	<u>2021</u>	<u>2020</u>
Endowments	\$ 49,920,967	\$ 44,879,788
Operating	22,011,743	16,108,644
Capital additions	<u>10,174,400</u>	<u>10,021,461</u>
Total investments	<u>\$ 82,107,110</u>	<u>\$ 71,009,893</u>

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

	<u>2021</u>	<u>2020</u>
Equity mutual funds	41%	29%
Money market mutual funds restricted and designated for short-term projects	22%	24%
Bond mutual funds	15%	16%
U. S. Treasury notes and bonds	7%	9%
Asset backed securities	5%	
Corporate bonds	3%	14%
Limited partnerships	2%	2%
U. S. Government agency securities		1%
Other	<u>5%</u>	<u>5%</u>
Total investments	<u><u>100%</u></u>	<u><u>100%</u></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 7 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Right of use of land, buildings, and building improvements	\$ 61,750,356	\$ 58,127,037
Furniture, fixtures, and equipment	4,672,344	4,582,615
Transportation equipment	1,938,148	1,928,273
Construction in progress	<u>128,740</u>	<u>1,464,738</u>
Total property, at cost	68,489,588	66,102,663
Accumulated depreciation	(5,361,880)	(5,093,807)
Accumulated amortization	<u>(25,899,507)</u>	<u>(24,206,565)</u>
Property, net	<u>\$ 37,228,201</u>	<u>\$ 36,802,291</u>

NOTE 8 – 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 2021 and 2020, 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 2021 and 2020, the employer matching contribution was approximately \$84,000 and \$74,000, 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 2021 and 2020.

NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
Property, net	\$ 37,228,201	\$ 36,802,291
Board-designated endowment funds	15,345,680	14,281,646
Undesignated	<u>21,905,313</u>	<u>13,087,111</u>
Total net assets without donor restrictions	<u>\$ 74,479,194</u>	<u>\$ 64,171,048</u>

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Capital improvements and additions to property	\$ 13,535,038	\$ 15,448,035
Citizen life activities, support, equipment and development	697,236	683,923
Medical supplies and equipment	248,924	241,621
Tuition assistance	170,000	210,350
Vehicles, equipment and building maintenance	117,941	73,113
Professional development	114,730	113,926
Continuing care	88,757	88,757
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>15,112,120</u>	<u>16,999,219</u>
Endowments subject to spending policy and appropriation:		
Brookwood operations	17,862,486	15,854,463
Vehicles, equipment and building maintenance	5,048,845	4,498,287
Tuition assistance	4,799,920	4,138,909
Staff development	3,124,879	2,780,207
Continuing care	1,669,324	1,505,937
Nursing care	906,965	800,212
Educational chair	756,726	682,660
Kilroy memory care	158,817	140,139
Retail building maintenance	154,441	136,278
Other	<u>146,234</u>	<u>124,400</u>
Total endowments	<u>34,628,637</u>	<u>30,661,492</u>
Total net assets with donor restrictions	<u>\$ 49,740,757</u>	<u>\$ 47,660,711</u>

NOTE 11 – 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 also is 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, 2021 or 2020.

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 2021 and 2020, 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, 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>
Contributions	117,000		531,908	648,908
Net investment return	1,903,464	4,086,612		5,990,076
Distributions	<u>(956,430)</u>	<u>(651,375)</u>		<u>(1,607,805)</u>
Endowment net assets, July 31, 2021	<u>\$ 15,345,680</u>	<u>\$ 12,187,893</u>	<u>\$ 22,440,744</u>	<u>\$ 49,974,317</u>

NOTE 12 – INVOLUNTARY CONVERSION

Brookwood incurred significant damage to the campus in February 2021 due to Winter Storm Uri. A summary of insurance proceeds recognized and expenses incurred through July 31, 2021 relating to the damage is as follows:

Insurance proceeds	\$ 1,031,074
Repairs	<u>(1,179,296)</u>
Loss on involuntary conversion	<u>\$ (148,222)</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.