

BROOKS DEVELOPMENT AUTHORITY

San Antonio, Texas

REPORT ON CONDUCT OF AUDIT

Year Ended September 30, 2020



Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

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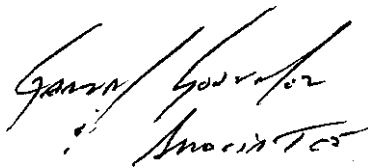
Board of Directors
Brooks Development Authority
San Antonio, Texas

We have audited the financial statements of the business-type activities of Brooks Development Authority (BDA) for the year ended September 30, 2020, and have issued our report dated March 24, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 24, 2021. Professional standards also require that we communicate to you the information contained in parts I through IX related to our audit.

We noted certain matters involving the internal control, compliance and operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized in part X.

This report is intended solely for the use of the Board of Directors of BDA and management and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of BDA during the course of our audit.

A handwritten signature in black ink, appearing to read "Garza/Gonzalez & Associates". The signature is stylized and cursive.

March 24, 2021

BROOKS DEVELOPMENT AUTHORITY
San Antonio, Texas

REPORT ON CONDUCT OF AUDIT

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I. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 5, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of BDA. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the BDA's financial statements are free of material misstatement, we performed tests of BDA's compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

II. Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

III. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by BDA are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2020. We noted no transactions entered into by BDA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following represents the most sensitive estimates affecting the financial statements:

- Depreciation expense based on a straight-line basis on the useful lives of the asset.
- Accrued liabilities based on management's current judgments.
- Accounts Receivable and the related allowance for doubtful accounts based on historical collections
- Accrued employee earned paid time off based on current pay rates but earned at prior rates
- The value of hedged derivative instruments and the related liability based on 3rd party valuations

We evaluated the key factors and assumptions used to develop the accounting estimate in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

The most significant disclosures are as follows:

- Cash and Cash Equivalents
- Accounts receivable
- Capital Assets
- Notes payable and Long-Term Liabilities
- Operating Leases

The financial statement disclosures are neutral, consistent, and clear.

IV. Difficulties Encountered in Performing the Audit

We encountered some difficulties in obtaining financial statements and supporting data from various enterprise entities that delayed the completion of our audit. In addition, two key employees left BDA during audit fieldwork requiring additional audit effort, correspondence, and reconciliation of the financial data provided by BDA.

V. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The audit adjustments necessary to correct misstatements were as follows:

- Increase Property Owners Association expense and increase due to/from in the amount of \$2,232,110 for property owners' assessments, this entry is eliminated in the combining financial statements.
- Decrease in beginning net assets and due to/from in the amount of \$4,255,923 for the prior year Property Owners Association activity. This entry was not adopted as a beginning entry although proposed and adopted as of September 30, 2019.

VI. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VII. Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 24, 2021.

VIII. Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

IX. Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as BDA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, which is a required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements and the auditor's report thereon. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.

X. Other Comments and Recommendations

Internal Control and Financial Management of Enterprises

The enterprise activity of the BDA enterprises was not provided on a complete and timely basis to perform our planned audit procedures. This resulted in various corrections to the enterprise financial statements proposed during the audit process. During the year management reviews the financial activity of the enterprises for immediate needs such as cash and facility improvements and remediation; however, review and approval of the accounting and reporting processes are limited and do not include review of the enterprise general ledger.

We recommend management review the enterprise activity in detail on a quarterly basis. This review should ensure that all transactions are properly recorded in their accounting system and that:

- Cash is properly reconciled,
- That capitalized items meet Brooks Development Authority policies, and
- That beginning net assets agree to prior year financials.

BDA management should ensure financial statements are correctly presented and reconciled during each quarter period and at year-end.

Management Response

Based on the recommendation, we will review with greater frequency and in more detail all enterprise activity on a quarterly basis. We will also take steps to shift more enterprise audit activity earlier in the process. This will not only help accommodate the operators that have additional responsibilities to calendar year-end clients, but will provide more time to address any questions from BDA or the auditors.

New Governmental Accounting Standards

The management of BDA should review the following new GASB standards and prepare for implementation. The following standards may impact BDA's accounting and presentation of the financial statements:

GASBS 87 Leases was originally expected to be effective for the fiscal year 2020, however GASBS 95 extended the effective date to fiscal year 2022. The significant authoritative guidance included in GASBS 87 affects the accounting and reporting of lease agreements currently considered to be operating leases. For fiscal year 2022 GASBS 87 will be requiring the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources based on the payment provisions of the contract. GASBS 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASBS 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASBS 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASBS 94 effective date was not extended by GASBS 95, therefore the County will be expected to implement GASBS 94 upon the original effective date for the fiscal year 2023.

We recommend that the BDA assess the effect, if any, to the accounting and reporting requirements of newly issued GASB authoritative guidance that will become effective in subsequent years including the pronouncements included above, that are expected to have a significant effect on the BDA's accounting and reporting requirements. Additional information on GASB authoritative guidance is publicly available at <https://www.gasb.org>.