Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

BROOKS DEVELOPMENT AUTHORITY
San Antonio, Texas

REPORT ON CONDUCT OF AUDIT

Year Ended September 30, 2021

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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, 2021, and have issued our report dated December 20, 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 December 20, 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 and compliance, 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.

Garza/Gonzalez & Associates

December 20, 2021

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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 August 4, 2021, 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 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, 2021. 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 and 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; and
- 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 no significant difficulties in dealing with management in performing and completing our audit.

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 (POA) expense and increase due to/from in the amount of $1,903,315 for POA assessments paid by BDA through the provision of services and materials. This entry is eliminated in the combining financial statements.
- Increase note receivable for land sold that will be paid in installments, $1,067,926.
- Decrease in capital assets and the associated accumulated depreciation in the net amount of $2,753,106 due to the various sales during the year.
- Increase Construction in Progress and decrease repairs and maintenance expense by $357,694 for activity that should have been capitalized.
- Increase unearned revenues due to prepaid rent received from a new tenant in the amount of $927,500.
- Reclassification of $100,000 decreasing interest expense and recognizing principal payments made during the year.

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 December 20, 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

As noted in the prior year, 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. Additionally, we noted, that the cash balance of a BDA enterprise was not adequately collateralized during the year as required for governments.

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 and bank balances are adequately collateralized;
- 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 and additionally, ensure that cash balances are either insured by FDIC coverage or collateralized.

Management Response

Brooks staff has added an additional accountant which will enable us to reconcile quarterly as suggested by the auditors. Brooks staff and the auditors have already met with the hotel to discuss the process for reconciliation moving forward. The first reconciliation is planned for February 2022. Additionally, Brooks staff has spoken with the enterprise to ensure they understand the coverage requirements for the bank accounts. Currently, the bank accounts have sufficient coverage.

New Governmental Accounting Standards

GASB 87 Leases became effective in the current (2022) fiscal year. The significant authoritative guidance included in GASB 87 affects the accounting and reporting of lease agreements currently considered to be operating leases. GASB 87 requires 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. GASB 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.

GASB 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements becomes effective in fiscal year 2023. 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.

We recommend that BDA management implements the accounting and reporting requirements of new GASBS. Additional information on GASB authoritative guidance is publicly available at https://www.gasb.org.

Management Response

Staff will review in addition to looking for training opportunities for the new rules. Staff will implement as required.