

Brillante Academy

Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2024

Brillante Academy

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Independent Auditors' Report

To the Board of Directors of
Brillante Academy:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Brillante Academy, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Brillante Academy as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Brillante Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Brillante Academy's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

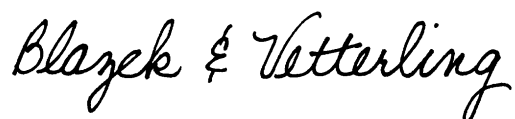
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Brillante Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Brillante Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2024 on our consideration of Brillante Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Brillante Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brillante Academy's internal control over financial reporting and compliance.



November 20, 2024

Brillante Academy

Statement of Financial Position as of June 30, 2024

ASSETS

Current assets:	
Cash	\$ 944,086
Contributions receivable:	
Government grants	194,881
Other	406,209
Prepaid expenses and other receivables	<u>8,190</u>
Total current assets	1,553,366
Finance right-of-use asset (<i>Note 3</i>):	
Land	10,693,216
Buildings, net	12,168,275
Property, net (<i>Note 4</i>)	<u>175,793</u>
TOTAL ASSETS	<u>\$ 24,590,650</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 172,225
Accrued payroll expenses	67,823
Lease liability – finance (<i>Note 3</i>)	<u>166,494</u>
Total current liabilities	406,542
Lease liability – finance (<i>Note 3</i>)	<u>23,424,866</u>
Total liabilities	<u>23,831,408</u>
Commitments and contingencies (<i>Note 6</i>)	
Net assets:	
Without donor restrictions	583,449
With donor restrictions (<i>Note 5</i>)	<u>175,793</u>
Total net assets	<u>759,242</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,590,650</u>

See accompanying notes to financial statements.

Brillante Academy

Statement of Activities for the year ended June 30, 2024

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants <i>(Note 6)</i>		\$ 2,489,645	\$ 2,489,645
Other financial contributions	\$ 1,086,204	70,037	1,156,241
Nonfinancial contributions <i>(Note 7)</i>	1,048,410		1,048,410
Program service fees	<u>19,994</u>	<u> </u>	<u>19,994</u>
Total revenue	2,154,608	2,559,682	4,714,290
Net assets released from restrictions:			
Capital expenditures	202,049	(202,049)	
Program expenditures	<u>2,181,840</u>	<u>(2,181,840)</u>	<u> </u>
Total	<u>4,538,497</u>	<u>175,793</u>	<u>4,714,290</u>
EXPENSES:			
Program services:			
Instructional program	3,612,628		3,612,628
Auxiliary services	<u>730,000</u>		<u>730,000</u>
Total program services	4,342,628		4,342,628
General and administrative	<u>415,852</u>		<u>415,852</u>
Total expenses	<u>4,758,480</u>		<u>4,758,480</u>
CHANGES IN NET ASSETS	(219,983)	175,793	(44,190)
Net assets, beginning of year	<u>803,432</u>	<u>0</u>	<u>803,432</u>
Net assets, end of year	<u>\$ 583,449</u>	<u>\$ 175,793</u>	<u>\$ 759,242</u>

See accompanying notes to financial statements.

Brillante Academy

Statement of Functional Expenses for the year ended June 30, 2024

	<u>INSTRUCTIONAL PROGRAM</u>	<u>AUXILIARY SERVICES</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>TOTAL</u>
Salaries and benefits	\$1,319,341	\$ 154,509	\$1,473,850	\$ 171,199	\$1,645,049
Professional and contract services	817,886	174,597	992,483	131,165	1,123,648
Interest	705,080	74,791	779,871	51,108	830,979
Depreciation and amortization	326,355	60,875	387,230	23,655	410,885
Materials and supplies	323,108	251,260	574,368	18,859	593,227
Utilities and rent	71,776	9,297	81,073	3,457	84,530
Maintenance and repairs	20,049	2,127	22,176	1,453	23,629
Insurance	23,987	2,544	26,531	7,957	34,488
Professional development and travel	5,046		5,046	86	5,132
Other				6,913	6,913
Total expenses	<u>\$3,612,628</u>	<u>\$ 730,000</u>	<u>\$4,342,628</u>	<u>\$ 415,852</u>	<u>\$4,758,480</u>

See accompanying notes to financial statements.

Brillante Academy

Statement of Cash Flows for the year ended June 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ (44,190)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Amortization of right-of-use asset	384,629
Lease payments waived by lessor	345,240
Depreciation	26,256
Changes in operating assets and liabilities:	
Contributions receivable	516,055
Prepaid expenses and other receivables	(8,190)
Accounts payable and accrued payroll expenses	<u>(108,084)</u>
Net cash provided by operating activities	<u>1,111,716</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property	<u>(202,049)</u>
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NET CHANGE IN CASH 909,667

Cash, beginning of year 34,419

Cash, end of year \$ 944,086

Supplemental disclosure of cash flow information:

Right-of-use asset obtained in exchange for new lease obligations	\$23,246,120
Financed interest on lease liability	\$245,240
Interest paid	\$18,415

See accompanying notes to financial statements.

Brillante Academy

Notes to Financial Statements for the year ended June 30, 2024

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Brillante Academy (Brillante) operates a Texas Open-Enrollment Charter School pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable contract for charter, Brillante began charter school operations in August 2023 in Mission, Texas. Brillante is a dual language school in the classical tradition, helping students to grow intellectually, socially and physically into young men and women of good character and spirit, and to be prepared for excellence in high school, college and beyond. Brillante accomplishes this through the best instructional practices tested across the country, a longer school day and year, technology-based blended learning to deliver individualized instruction, and on intensive support and coaching of teachers, combined with a robust character education program, centered around core virtues. During 2024, Brillante served approximately 200 students from pre-K3 to 1st grade.

Federal income tax status – Brillante 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).

Cash includes demand deposits. At June 30, 2024, the carrying amount and bank balances of Brillante's demand deposit was \$944,150. Amounts on deposit for Brillante that are in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by security agreements with the banks.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. At June 30, 2024, all contributions receivable are expected to be collected within one year.

Property is recorded at cost if purchased or at fair value at the date of gift if donated. Brillante recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 2 to 30 years. Brillante capitalizes additions and improvements that have a cost of more than \$5,000.

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, unless received from state or federal funding, in which case they are released as depreciated.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Brillante is entitled to receive or retain funding. Conditional contributions are recognized as revenue at

fair value when conditions have been met. Funding received before conditions are met is reported as refundable advances. During 2024, approximately 63% of other financial contributions were from one donor.

Donated materials and services – Donated materials are recognized at fair value when an unconditional commitment is received from the donor. 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.

Program service fees are derived primarily from daycare and pre-K programs, food service and other student fees, and teacher training consulting fees. All fees are recognized at a point in time when the goods or services are provided. All performance obligations related to program service fees are satisfied within the academic year which is contained within the fiscal year. Program service fees are due monthly as goods and services are provided to the student or to other organizations. Payments received in advance of goods or services provided are recorded as deferred revenue. There are no receivables or contract assets resulting from program service fees at June 30, 2024.

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. General and administrative activities are not directly identifiable with specific program 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. Information technology costs, depreciation, interest, and facility costs are allocated based on estimated square footage.

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 reported as 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 June 30, 2024 comprise the following:

Financial assets:

Cash	\$ 944,086
Government contributions receivable	194,881
Other contributions receivable	<u>406,209</u>

Total financial assets \$ 1,545,176

Brillante relies primarily on state and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Brillante considers all expenditures related to its ongoing activities of instructional program and supplemental services, as well as the conduct of services undertaken to support those activities, to be general expenditures. As part of Brillante’s liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash.

NOTE 3 – FINANCE LEASE

In fiscal year 2024, Brillante entered into a finance lease agreement for school buildings and associated real property utilized in its operations. The lease has a 20-year term, with two optional 5-year renewal periods that Brillante expects to exercise. Brillante has the right to terminate the lease if Brillante loses its government funding, which is not expected to happen during the term of the lease, including the two optional renewal periods. The agreement includes an option to purchase the building and land for the fair market value of the property at the end of the lease term, which the organization is 90% certain it will exercise.

Lease covenants include maintaining a minimum Fixed-Charge Coverage Ratio (FCCR) of 1.15x, measured annually based on audited financials. FCCR is earnings before interest, taxes, depreciation and amortization plus lease and rental expense, divided by interest plus lease and rental expense plus the prior year's current maturity of long-term indebtedness. Brillante expects to meet all covenants annually.

The initial right-of-use assets and lease liability were measured at the present value of lease payments over the 360-month lease term discounted at 3.87%. The portion of the right-of-use asset ascribed to the buildings is being amortized on a straight-line basis over the estimated useful life of 30 years.

Lease costs associated with the finance lease during the year ended June 30, 2024 are as follows:

Amortization of building right-of-use asset	\$ 384,629
Interest expense	<u>830,979</u>
Total lease costs	<u>\$ 1,215,608</u>

Cash paid for amounts included in the measurement of lease liability in 2024 was \$18,415.

Future payments due under the finance lease as of June 30, 2024 are as follows:

2025	\$ 749,424
2026	911,221
2027	1,058,028
2028	1,228,933
2029	1,247,367
Thereafter	<u>36,252,252</u>
Total minimum lease payments	41,447,225
Less effects of discounting	<u>(17,855,865)</u>
Total lease liability	<u>\$ 23,591,360</u>

As of June 30, 2024, the remaining lease term for the finance lease is 348 months. The discount rate associated with the finance lease as of June 30, 2024 is 3.87%.

NOTE 4 – PROPERTY

Property at June 30, 2024 is comprised of the following:

Vehicles	\$ 202,049
Accumulated depreciation	<u>(26,256)</u>
Property, net	<u>\$ 175,793</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2024 are restricted as follows:

Not subject to appropriation or expenditure:	
Property purchased with federal funds	\$ 175,793
Total net assets with donor restrictions	<u>\$ 175,793</u>

NOTE 6 – GOVERNMENT GRANTS

Brillante is a party to contracts with federal and state governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government grants recognized at June 30, 2024 include the following:

Federal grants:	
U. S. Department of Education	\$ 702,239
U. S. Department of Agriculture	<u>123,400</u>
Total federal grants	825,639
State grants:	
Texas Education Agency Foundation School Program Act	1,216,937
TRS and TRS-Care On-Behalf Match	38,984
Other state grants	<u>408,085</u>
Total state grants	<u>1,664,006</u>
Total government grants	<u>\$ 2,489,645</u>

Government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Brillante with the terms of the contracts. Management believes such disallowances, if any, would not be material to Brillante's financial position or changes in net assets.

NOTE 7 – RELATED PARTY TRANSACTIONS AND NONFINANCIAL CONTRIBUTIONS

Brillante contracts with a Charter Management Organization (CMO), Seton Education Partners (Seton). Seton's Executive Director of Texas served as Brillante's founding Superintendent during the fiscal year ended June 30, 2024, under the terms of the agreement. Through a controlled company called SEP Los Ebanos, LLC, Seton owns the land and buildings that Brillante uses in its operations, and leases them to Brillante under a finance lease. During the fiscal year ended June 30, 2024, Brillante paid Seton and SEP Los Ebanos, LLC \$241,010 for 2024 CMO support services and lease payments due in 2024. Seton donated \$428,572 of CMO services by reducing the contracted management fee during the fiscal year. The services are provided to support leadership, instructional programs, food services, health services, data management, and management and general services. The donated services are valued using the contracted cost of the services for the months that were reduced. \$467,324 of scheduled lease payments on the building lease were forgiven by Seton during 2024, as well as \$152,514 of liabilities for health insurance, supplies and subscriptions used in programs and supporting services. Additionally, Seton gave approximately \$732,000 in financial support to Brillante during the year.

NOTE 8 – MULTIEmployer PENSION PLANS

Brillante’s full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan with plan year from September 1 to August 31. All risks and costs are not shared by Brillante but are the liability of the State of Texas. TRS Plan contribution rates are effective with TRS eligible compensation paid on or after September 1 of each plan year. TRS Plan contribution rates are as follows:

	<u>TRS PLAN YEAR 2024</u>	<u>TRS PLAN YEAR 2023</u>
Member retirement contribution	8.25%	8.00%
State of Texas contribution	8.25%	8.00%
Brillante Public Education Employer Contribution	1.9%	1.8%

Brillante is required to pay the State of Texas contribution during the first 90 days of employment of a new TRS Plan member.

TRS Plan assets, obligation and funded status as of August 31 are as follows:

	<u>TRS PLAN YEAR 2023</u>
Plan assets	\$213.5 billion
Accumulated benefit obligations	\$255.9 billion
Funded status	73.2%

The Texas Public School Retired Employees Group Insurance Program (TRS-Care) is a multi-employer, cost-sharing defined benefit plan with plan year from September 1 to August 31. TRS-Care provides health insurance coverage for retirees who are members of the TRS pension systems with at least 10 years of service credit in the TRS pension system. TRS-Care Plan contribution rates are effective with TRS eligible compensation paid on or after September 1 of each plan year. TRS-Care Plan contribution rates are as follows:

	<u>TRS-CARE PLAN YEAR 2024</u>	<u>TRS-CARE PLAN YEAR 2023</u>
Member TRS-Care contribution	0.65%	0.65%
Brillante TRS-Care contribution	0.75%	0.75%
State of Texas contribution	1.25%	1.25%

TRS-Care Plan assets, obligation and funded status as of August 31 are as follows:

	<u>TRS-CARE PLAN YEAR 2023</u>
Plan assets	\$4.1 billion
Accumulated benefit obligations	\$26.0 billion
Funded status	14.94%

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Brillante recognized expense of \$69,868 during the year ended June 30, 2024 for contributions to TRS and TRS-Care plans. Brillante's contributions do not represent more than 5% of TRS's or TRS-Care's total plan contributions. The State of Texas matched approximately \$39,000 on behalf of Brillante's employees in 2024 with respect to these plans.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2024, 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.
