

**The Awty International School**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2008 and 2007

**Independent Auditors' Report**

To the Board of Directors of  
The Awty International School:

We have audited the accompanying consolidated statements of financial position of The Awty International School and subsidiaries as of June 30, 2008 and 2007 and the related consolidated statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of The Awty International School. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Awty International School and subsidiaries as of June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Blazek & Vetterling*

December 2, 2008

# The Awty International School

Consolidated Statements of Financial Position as of June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents ( <i>Note 2</i> )	\$ 1,909,466	\$ 8,415,600
Textbook and uniform inventory	359,848	356,951
Prepaid expenses and other assets	273,952	333,371
Pledges receivable, net ( <i>Note 3</i> )	4,206,691	319,500
Investments ( <i>Note 4</i> )	3,464,342	2,665,163
Fair value of derivative agreement ( <i>Note 6</i> )	(98,787)	70,809
Cash restricted to capital projects	743,581	
Property and equipment, net ( <i>Note 5</i> )	<u>28,832,394</u>	<u>22,380,397</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 39,691,487</u></b>	<b><u>\$ 34,541,791</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 533,753	\$ 692,768
Accrued expenses	832,461	694,010
Funds held for others	4,987	62,879
Deferred tuition and fees	1,748,743	1,758,879
Notes payable ( <i>Note 6</i> )	<u>4,462,571</u>	<u>4,921,511</u>
Total liabilities	<u>7,582,515</u>	<u>8,130,047</u>
Net assets:		
Unrestricted ( <i>Note 7</i> )	26,910,676	26,221,476
Temporarily restricted ( <i>Note 8</i> )	<u>5,198,296</u>	<u>190,268</u>
Total net assets	<u>32,108,972</u>	<u>26,411,744</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 39,691,487</u></b>	<b><u>\$ 34,541,791</u></b>

*See accompanying notes to consolidated financial statements.*

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## The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2008

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Tuition and fees	\$ 17,767,865		\$ 17,767,865
Auxiliary service fees	1,856,982		1,856,982
Other program service fees	730,283		730,283
Contributions	263,161	\$ 5,193,254	5,456,415
Fundraising events	797,939	261,282	1,059,221
Direct donor benefit costs	(157,524)		(157,524)
Investment return ( <i>Note 4</i> )	431,777		431,777
Other	<u>27,928</u>		<u>27,928</u>
Total operating revenue	21,718,411	5,454,536	27,172,947
Net assets released from restrictions:			
Program and fundraising expenditures	<u>446,508</u>	<u>(446,508)</u>	
Total	<u>22,164,919</u>	<u>5,008,028</u>	<u>27,172,947</u>
<b>EXPENSES:</b>			
Instructional and student activities	18,010,743		18,010,743
Management and general	2,802,399		2,802,399
Fundraising	<u>492,981</u>		<u>492,981</u>
Total expenses	<u>21,306,123</u>		<u>21,306,123</u>
Changes in net assets from operations	858,796	5,008,028	5,866,824
Changes in value of derivative agreement ( <i>Note 6</i> )	<u>(169,596)</u>		<u>(169,596)</u>
<b>CHANGES IN NET ASSETS</b>	689,200	5,008,028	5,697,228
Net assets, beginning of year	<u>26,221,476</u>	<u>190,268</u>	<u>26,411,744</u>
Net assets, end of year	<u>\$ 26,910,676</u>	<u>\$ 5,198,296</u>	<u>\$ 32,108,972</u>

*See accompanying notes to consolidated financial statements.*

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## The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2007

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition and fees	\$ 16,640,346		\$ 16,640,346
Auxiliary service fees	1,030,178		1,030,178
Other program service fees	715,813		715,813
Contributions	519,812	\$ 98,728	618,540
Fundraising events	677,326	100,753	778,079
Direct donor benefit costs	(106,628)		(106,628)
Investment return ( <i>Note 4</i> )	955,583		955,583
Other	<u>32,127</u>		<u>32,127</u>
Total operating revenue	20,464,557	199,481	20,664,038
Net assets released from restrictions:			
Program and fundraising expenditures	179,770	(179,770)	
Construction of capital projects	<u>24,118</u>	<u>(24,118)</u>	
Total	<u>20,668,445</u>	<u>(4,407)</u>	<u>20,664,038</u>
EXPENSES:			
Instructional and student activities	15,904,910		15,904,910
Management and general	2,450,173		2,450,173
Fundraising	<u>343,450</u>		<u>343,450</u>
Total expenses	<u>18,698,533</u>		<u>18,698,533</u>
Changes in net assets from operations	1,969,912	(4,407)	1,965,505
Change in value of derivative agreement ( <i>Note 6</i> )	<u>(30,953)</u>		<u>(30,953)</u>
CHANGES IN NET ASSETS	1,938,959	(4,407)	1,934,552
Net assets, beginning of year	<u>24,282,517</u>	<u>194,675</u>	<u>24,477,192</u>
Net assets, end of year	<u>\$ 26,221,476</u>	<u>\$ 190,268</u>	<u>\$ 26,411,744</u>

*See accompanying notes to consolidated financial statements.*

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## The Awty International School

### Consolidated Statements of Cash Flows for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 5,697,228	\$ 1,934,552
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,142,436	892,055
Contributed securities		(9,790)
Contributions restricted to capital projects	(5,125,441)	(24,577)
Net realized and unrealized gain (loss) on investment	149,143	(201,129)
Changes in operating assets and liabilities:		
Textbook and uniform inventory	(2,897)	(69,948)
Prepaid expenses and other assets	59,419	(118,716)
Pledges receivable	318,750	63,481
Accounts payable and accrued expenses	(20,564)	71,244
Funds held for others	(57,892)	(6,245)
Deferred tuition and fees	<u>(10,136)</u>	<u>250,922</u>
Net cash provided by operating activities	<u>2,150,046</u>	<u>2,781,849</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	122,284	24,554
Purchases of investments	(1,105,789)	(1,508,527)
Change in money funds held for investment	35,183	167,264
Purchases of property and equipment	<u>(7,594,433)</u>	<u>(2,448,012)</u>
Net cash used by investing activities	<u>(8,542,755)</u>	<u>(3,764,721)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in cash restricted to capital projects	(743,581)	
Principal repayments of notes payable	(458,940)	(278,906)
Change in value of derivative agreement	169,596	30,953
Proceeds from contributions restricted to capital projects	<u>919,500</u>	<u>24,577</u>
Net cash used by financing activities	<u>(113,425)</u>	<u>(223,376)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,506,134)</b>	<b>(1,206,248)</b>
Cash and cash equivalents, beginning of year	<u>8,415,600</u>	<u>9,621,848</u>
Cash and cash equivalents, end of year	<u>\$ 1,909,466</u>	<u>\$ 8,415,600</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$226,112	\$210,901

*See accompanying notes to consolidated financial statements.*

## The Awty International School

Notes to Consolidated Financial Statements for the years ended June 30, 2008 and 2007

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### NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The Awty International School (Awty) is a private day school that provides instruction to both American and international students in Houston, Texas. Awty's enrollment is approximately 1,200 students in preschool through 12<sup>th</sup> grade. Founded in 1956, the purpose of Awty is to give its students an innovative and comprehensive education at all levels. The students are expected to acquire fluency in a second language and to participate in academic and extracurricular activities to increase their understanding of other societies and cultures and of global affairs.

7502 Old Katy Road Company (Old Katy) was incorporated in May 2002 to own, invest in, operate, maintain, lease, finance, pledge, and sell real property for the benefit of Awty. Awty is the sole member of Old Katy.

1495 POP, Inc. (POP) was incorporated in May 2004 to own, invest in, operate, maintain, lease, finance, pledge, and sell real property for the benefit of Awty. Awty is the sole member of POP.

Basis of consolidation – The accompanying financial statements include the consolidated activities of Awty, Old Katy, and POP (collectively the School). Significant intercompany transactions have been eliminated in consolidation.

Federal income tax status – Awty, Old Katy and POP are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Awty is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). Old Katy and POP are classified as Type I supporting organizations under §509(a)(3).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor to specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Cash equivalents include highly liquid investments with original maturities of three months or less.

Textbook and uniform inventory is stated at the lower of cost or market.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows.

Investments in marketable securities are recorded at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

Property and equipment is recorded at cost if purchased or at fair value at the date of gift if donated. The School records depreciation on the straight-line method over estimated useful lives of the assets, which range from 3 to 5 years for furniture, fixtures, and equipment and 30 years for buildings and improvements.

Funds held for others – The School holds funds for several related school groups. The School has limited discretion over the use of these funds. Funds held for others are included in the School's cash and cash equivalents and as a liability of the School.

Tuition and fees are recognized in the period in which the services are provided and are shown net of student financial aid of \$568,637 in 2008 and \$458,230 in 2007. Tuition and fees include tuition paid by the French Government of \$512,421 in 2008 and \$422,012 in 2007. Amounts received for future periods are recorded as deferred tuition and fees until earned.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted revenue. Conditional promises to give are included in contribution revenue when the conditions are substantially met.

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 revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to current year presentations.

## NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 1,659,778	\$ 8,134,131
Demand deposits	141,268	202,079
Cash in foreign banks	<u>108,420</u>	<u>79,390</u>
Total cash and cash equivalents	<u>\$ 1,909,466</u>	<u>\$ 8,415,600</u>

At times, bank balances exceeded the federally insured limit of \$100,000 per depositor per institution.

## NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2008</u>	<u>2007</u>
Total pledges receivable, gross	\$ 4,791,875	\$ 323,500
Allowance for uncollectible accounts	(361,734)	(4,000)
Discount to net present value at 2% to 3.34%	<u>(223,450)</u>	<u>                    </u>
Pledges receivable, net	<u>\$ 4,206,691</u>	<u>\$ 319,500</u>

Pledges receivable as of June 30, 2008 are expected to be collected as follows:

Within one year	\$ 2,768,275
In one to five years	<u>2,023,600</u>
Total pledges receivable	<u>\$ 4,791,875</u>

At June 30, 2008, 20% of pledges receivable were receivable from one donor.

## NOTE 4 – INVESTMENTS

Investments represent amounts designated by the board of directors for endowment (See Note 7) and consist of the following:

	<u>2008</u>	<u>2007</u>
Equity mutual funds	\$ 1,299,133	
Equity securities	1,269,061	\$ 2,627,303
Bond mutual funds	893,471	
Cash and money market funds	<u>2,677</u>	<u>37,860</u>
Total investments	<u>\$ 3,464,342</u>	<u>\$ 2,665,163</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.

Investment return includes earnings on cash and cash equivalents and consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 580,920	\$ 754,454
Net realized and unrealized gain (loss)	<u>(149,143)</u>	<u>201,129</u>
Total investment return	<u>\$ 431,777</u>	<u>\$ 955,583</u>

#### **NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment are comprised of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 9,424,324	\$ 9,424,324
Buildings and improvements	25,517,128	16,938,607
Furniture, fixtures, and equipment	3,870,696	3,489,740
Construction in progress	<u>                    </u>	<u>1,365,044</u>
Total property and equipment, at cost	38,812,148	31,217,715
Accumulated depreciation	<u>(9,979,754)</u>	<u>(8,837,318)</u>
Property and equipment, net	<u>\$ 28,832,394</u>	<u>\$ 22,380,397</u>

#### **NOTE 6 – FINANCIAL INSTRUMENTS**

##### ***Notes Payable***

In 2005, the School obtained a non-interest bearing note to finance the purchase of software. The balance on this note was retired in 2008 and was \$38,867 at June 30, 2007.

In 2002, the School obtained a \$6,000,000 tax-exempt loan from a bank. Proceeds from the loan were used to repay the outstanding balance of \$2,134,102 on the previous bank loan and to finance the purchase and renovation of a new lower school building. The loan bears interest at 65% of LIBOR plus 1.6% and is collateralized by unrestricted revenue and investments of the School, together with certain real property of Old Katy.

Notes payable are due as follows:

2009	\$ 355,372
2010	372,960
2011	391,420
2012	410,792
Thereafter	<u>2,932,027</u>
Total	<u>\$ 4,462,571</u>

The School capitalized interest of approximately \$168,524 in 2008 in connection with the new athletic field and other property additions. Interest expense totaled approximately \$57,000 in 2008 and \$211,000 in 2007.

***Interest Rate Swap Agreement***

The School is party to an interest rate swap agreement with a bank that effectively converts its variable-rate notes payable to a fixed rate. The agreement has a notional amount of \$6,000,000 and a term of fifteen years. Under the terms of the agreement, the School pays an effective interest rate of 4.86% with sixty equal quarterly payments of principal and interest of \$141,420 to retire the note. The School has an offset arrangement that allows it to offset against the note principal any amounts defaulted by the swap agreement counterparty.

***Line of credit***

The School has a \$1,500,000 revolving line of credit with a bank. As of June 30, 2008, the School had not drawn on this line of credit.

**NOTE 7 – UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Undesignated	\$ 23,275,446	\$ 23,205,432
Board designated for endowment	3,413,721	2,794,535
Board designated for capital fund	<u>221,509</u>	<u>221,509</u>
Total unrestricted net assets	<u>\$ 26,910,676</u>	<u>\$ 26,221,476</u>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are as follows:

	<u>2008</u>	<u>2007</u>
Capital projects	\$ 4,949,522	
Student activities	<u>248,774</u>	<u>\$ 190,268</u>
Total temporarily restricted net assets	<u>\$ 5,198,296</u>	<u>\$ 190,268</u>

**NOTE 9 – EMPLOYEE BENEFIT PLAN**

Awty has a defined contribution money purchase retirement plan covering full-time employees who have completed two years of continuous service. Awty contributed approximately \$411,000 and \$384,000 to the plan during 2008 and 2007, respectively.

**NOTE 10 – RELATED PARTY TRANSACTIONS**

Architectural services were provided by a firm that employs one of Awty's board members. Expenditures of \$103,000 in 2008 were incurred in connection with these services, which management of the School believes is fair value for the services received.

**NOTE 11 – SUBSEQUENT EVENT – INVESTMENT VALUATIONS**

Subsequent to June 30, 2008, domestic and global economic conditions deteriorated substantially resulting in a significant decline in the market value of most publicly-traded securities. Were the School's financial statements prepared at December 1, 2008 rather than June 30, 2008, the value of these investments would be approximately \$2,627,128 compared to the reported value of \$3,413,721 at June 30, 2008 which would have resulted in a reduction in the School's financial position.

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