The Awty International School

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
The Awty International School:

We have audited the accompanying financial statements of The Awty International School, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities 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 consolidated financial position of The Awty International School as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

November 9, 2018

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The Awty International School

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents *(Note 2)*	$ 15,550,548	$ 31,635,821
Receivables:		
Tuition, net	161,023	105,368
Other	11,116	25,793
Textbook and uniform inventory	329,816	204,313
Prepaid expenses and other assets	373,474	330,834
Operating pledges receivable, net *(Note 3)*	622,374	674,615
Operating investments *(Notes 4 and 5)*	20,019,895	70,241
Investments designated for Endowment *(Notes 4 and 5)*	5,635,467	5,395,572
Cash restricted/designated for capital projects *(Note 2)*	3,464,196	1,341,726
Pledges receivable restricted/designated for capital projects *(Note 3)*	2,469,190	1,968,461
Property and equipment, net *(Note 6)*	71,734,337	70,706,924
TOTAL ASSETS	$ 120,371,436	$ 112,459,668
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 893,092	$ 684,196
Construction payable		4,932,820
Accrued expenses	1,677,062	1,597,714
Deferred tuition and fees	29,365,250	26,070,103
Notes payable, net *(Note 7)*	17,307,607	11,907,439
Total liabilities	49,243,011	45,192,272
Commitments *(Note 12)*		
Net assets:		
Unrestricted *(Notes 8 and 10)*	68,996,214	63,164,067
Temporarily restricted *(Note 9)*	2,132,211	4,103,329
Total net assets	71,128,425	67,267,396
TOTAL LIABILITIES AND NET ASSETS	$ 120,371,436	$ 112,459,668

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Tuition and fees	$ 39,839,256		$ 39,839,256
Auxiliary service fees	1,409,144		1,409,144
Other program service fees	1,740,446		1,740,446
Contributions	817,455	$ 1,657,528	2,474,983
Fundraising events	708,311	265,353	973,664
Direct donor benefit costs	(135,775)		(135,775)
Investment return, net *(Note 4)*	354,185		354,185
Other	146,992		146,992
Total revenue	44,880,014	1,922,881	46,802,895
Net assets released from restrictions:			
Program and fundraising expenditures	535,107	(535,107)	
Expiration of time restrictions	291,500	(291,500)	
Capital campaign expenditure	3,067,392	(3,067,392)	
Total	48,774,013	(1,971,118)	46,802,895
EXPENSES:			
Instructional and student activities	36,437,023		36,437,023
Management and general	5,063,184		5,063,184
Fundraising	1,441,659		1,441,659
Total expenses	42,941,866		42,941,866
CHANGES IN NET ASSETS	5,832,147	(1,971,118)	3,861,029
Net assets, beginning of year	63,164,067	4,103,329	67,267,396
Net assets, end of year	$ 68,996,214	$ 2,132,211	$ 71,128,425

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Tuition and fees	$ 36,176,955		$ 36,176,955
Auxiliary service fees	1,429,348		1,429,348
Other program service fees	1,489,924		1,489,924
Contributions	890,926	$ 915,869	1,806,795
Fundraising events	685,819	355,439	1,041,258
Direct donor benefit costs	(172,279)		(172,279)
Investment return, net *(Note 4)*	371,372		371,372
Other	106,628		106,628
Total revenue	40,978,693	1,271,308	42,250,001
Net assets released from restrictions:			
Program and fundraising expenditures	675,453	(675,453)	
Expiration of time restrictions	220,500	(220,500)	
Total	41,874,646	375,355	42,250,001
EXPENSES:			
Instructional and student activities	32,366,337		32,366,337
Management and general	5,174,806		5,174,806
Fundraising	1,334,169		1,334,169
Total expenses	38,875,312		38,875,312
CHANGES IN NET ASSETS	2,999,334	375,355	3,374,689
Net assets, beginning of year	60,164,733	3,727,974	63,892,707
Net assets, end of year	$ 63,164,067	$ 4,103,329	$ 67,267,396

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 3,861,029	$ 3,374,689
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	3,396,795	2,776,057
Amortization of loan issuance costs	42,503	20,592
Contributions restricted for capital projects	(1,468,004)	(650,163)
Net realized and unrealized gain on investments	(212,084)	(285,647)
Changes in operating assets and liabilities:		
Receivables	(40,978)	(43,804)
Textbook and uniform inventory	(125,503)	95,035
Prepaid expenses and other assets	(42,640)	169,052
Operating pledges receivable	52,241	31,394
Accounts payable and accrued expenses	288,244	(24,221)
Deferred tuition and fees	3,295,147	4,218,732
Net cash provided by operating activities	9,046,750	9,681,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	3,027,858	2,236,772
Purchases of investments	(13,612,872)	(2,268,750)
Change in money market mutual funds and certificates of deposit held as investments	(9,392,451)	(50,594)
Purchases of property and equipment	(2,246,390)	(10,572,076)
Net cash used by investing activities	(22,223,855)	(10,654,648)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	967,275	583,472
Principal repayments of notes payable	(1,752,973)	(1,978,338)
Loan issuance costs		(306,756)
Net cash used by financing activities	(785,698)	(1,701,622)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,962,803)	(2,674,554)
Cash and cash equivalents, beginning of year	32,977,547	35,652,101
Cash and cash equivalents, end of year	$ 19,014,744	$ 32,977,547

Reconciliation of cash reported in the consolidated statement of financial position with cash and cash equivalents reported in the consolidated statement of cash flows:

Cash and cash equivalents	$ 15,550,548	$ 31,635,821
Cash restricted/designated for capital projects	3,464,196	1,341,726
Total cash and cash equivalents	$ 19,014,744	$ 32,977,547

Supplemental disclosure of cash flow information:

Interest paid	$470,565	$459,754
Non-cash financing and investing transactions:		
Construction financing by note payable	$7,110,638	$1,356,303
Proceeds of note payable to repay 2014 loan		$4,003,260

See accompanying notes to consolidated financial statements.

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 current enrollment is approximately 1,640 students in preschool through 12th 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.

1110 NPO LLC (NPO) is a limited liability company formed in May 2014 to own, invest in, operate, maintain, lease, finance, pledge, and sell real property for the benefit of Awty. Awty is the sole member of NPO.

Basis of consolidation – The accompanying financial statements include the consolidated activities of Awty, Old Katy, POP and NPO (collectively the School). Significant intercompany balances and 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). NPO is a pass-through entity for tax purposes and is not subject to income taxes.

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

Allowance for uncollectible accounts – An allowance for accounts and pledges receivable is provided when it is believed balances may not be collected in full. It is Awty's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of accounts receivable balances each period. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

Textbook and uniform inventory is reported at net realizable value.

Pledges 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. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts are included in contribution revenue. An allowance for uncollectible pledges receivable is provided when it is believed balances may not be collected in full. It is possible that management's estimate regarding the collectability of pledges receivable will change in the near term resulting in a change in the carrying value of pledges receivable.

Investments are reported 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. The School's management determines the School's valuation policies utilizing information provided by investment managers. See Note 4 for discussion of fair value measurements. 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 are reported at cost if purchased or at fair value at the date of gift if donated. The School computes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years for furniture, fixtures, and equipment and 3 to 30 years for buildings and improvements.

Debt issuance costs are amortized over the repayment period of the associated debt. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

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 for 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.

Tuition and fees are recognized in the period in which the services are provided and are shown net of student financial aid of $1,633,453 in 2018 and $1,315,189 in 2017. Tuition and fees include tuition paid by the French government of $348,480 in 2018 and $360,271 in 2017. Amounts received for future periods are recognized as deferred tuition and fees until earned.

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 restricted revenue. Conditional promises to give are included in contribution revenue when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Awty is required to adopt this ASU for fiscal year 2020 using an appropriate retrospective method. Management believes the adoption of this ASU will not have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Awty is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Awty is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2018	2017
Bank deposits	$ 3,877,220	$ 32,977,547
Money market mutual funds	15,137,524	
Total	19,014,744	32,977,547
Less: Cash restricted/designated for capital projects	(3,464,196)	(1,341,726)
Total cash and cash equivalents	$ 15,550,548	$ 31,635,821

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2018	2017
Pledges receivable	$ 3,294,424	$ 2,822,699
Allowance for uncollectible pledges	(132,611)	(120,231)
Discount to net present value at 1.01% to 2.85%	(70,249)	(59,392)
Pledges receivable, net	$ 3,091,564	$ 2,643,076

Pledges receivable at June 30, 2018 are expected to be collected as follows:

Within one year	$ 1,442,590
In one to five years	1,751,834
Thereafter	100,000
Total pledges receivable	$ 3,294,424

In 2011, the School launched a capital campaign, *"Building for Our Future."* The goal of the campaign was to provide funds to significantly enhance building structures throughout the campus. Through June 30, 2018, contributions to the campaign totaled approximately $12 million before pledge allowances and discounts.

Concentration – At June 30, 2018, approximately 37% of pledges are due from three donors. At June 30, 2017, approximately 57% of pledges are due from four donors. These gifts include a pledge from an individual for $200,000 per year over the donor's remaining lifetime that has been recognized based on a life-expectancy table published by the United States Social Security Administration.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	2018	2017
Corporate bonds and notes	$ 10,204,270	$ 663,593
Money market mutual funds	6,572,506	180,055
Certificates of deposit	3,000,000	
Common stock	1,863,444	1,451,177
Exchange-traded funds	1,354,876	965,920
Bond mutual funds	1,260,660	540,893
Equity mutual funds	811,465	658,411
Alternative investments	303,345	291,840
U. S. Government securities	284,796	295,589
Preferred securities		418,335
Total investments	$ 25,655,362	$ 5,465,813

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 consists of the following:

	2018	2017
Net realized and unrealized gain on investments	$ 212,084	$ 285,647
Interest and dividends	187,412	124,896
Investment management fees	(45,311)	(39,171)
Investment return, net	$ 354,185	$ 371,372

NOTE 5 – FAIR VALUE MEASUREMENTS

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.

Assets measured at fair value at June 30, 2018 consist of investments as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Corporate bonds and notes		$ 10,204,270		$ 10,204,270
Money market mutual funds	$ 6,572,506			6,572,506
Certificates of deposit		3,000,000		3,000,000
Common stock:				
Domestic	1,767,228			1,767,228
International	96,216			96,216
Exchange-traded funds:				
Domestic	953,305			953,305
International	401,571			401,571
Bond mutual funds:				
Managed income	1,000,025			1,000,025
Total return	260,635			260,635
Equity mutual funds:				
International	811,465			811,465
U. S. Government securities		284,796		284,796
Total	11,862,951	13,489,066		25,352,017
Other investments measured at net asset value using the practical expedient: Multi-strategy fund (a)			$ 303,345	303,345
Total investments measured at fair value	11,862,951	13,489,066	303,345	25,655,362
Money market mutual funds included in cash and cash equivalents	15,137,524			15,137,524
Total assets measured at fair value	$ 27,000,475	$ 13,489,066	$ 303,345	$ 40,792,886

Assets measured at fair value at June 30, 2017 consist of investments as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Corporate bonds and notes		$ 663,593		$ 663,593
Money market mutual funds	$ 180,055			180,055
Common stock:				
Domestic	1,386,227			1,386,227
International	64,950			64,950
Exchange-traded funds:				
Domestic	664,009			664,009
International	301,911			301,911
Bond mutual funds:				
Total return	540,893			540,893
Equity mutual funds:				
International	423,065			423,065
Domestic	235,346			235,346
U. S. Government securities		295,589		295,589
Preferred securities		418,335		418,335
Total	3,796,456	1,377,517		5,173,973
Other investments measured at net asset value using the practical expedient:				
Multi-strategy fund (a)			$ 291,840	291,840
Total assets measured at fair value	$ 3,796,456	$ 1,377,517	$ 291,840	$ 5,465,813

(a) The primary investment objective is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments. The fund's secondary objective is to provide capital appreciation with less volatility than that of the equity markets. Redemptions from the fund may be made on the last day of each calendar quarter, with a redemption notice of 65 calendar days prior to the redemption day. Redemptions during any calendar quarter are limited to 20% of the fund's net assets.

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the published net asset value of shares held.
- *Corporate bonds and notes, certificates of deposit, U. S. Government securities* and *preferred securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Common stock* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Alternative investments* are valued at net asset value per share as a practical expedient to determine the fair value of investments in hedge funds that do not have a readily determinable fair value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets for the years ended June 30, 2018 and 2017 consist of the following:

Balance at July 1, 2016	$ 273,296
Net realized and unrealized loss	18,544
Balance at June 30, 2017	291,840
Net unrealized gain	11,505
Balance at June 30, 2018	$ 303,345

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	2018	2017
Land	$ 14,139,756	$ 14,139,756
Buildings and improvements	79,175,113	59,379,874
Furniture, fixtures, and equipment	9,527,160	8,333,565
Construction in progress	513,366	17,077,992
Total property and equipment, at cost	103,355,395	98,931,187
Accumulated depreciation	(31,621,058)	(28,224,263)
Property and equipment, net	$ 71,734,337	$ 70,706,924

NOTE 7 – NOTES PAYABLE

In April 2017, the School obtained a loan with a bank to borrow up to $12,500,000. Proceeds from the loan were used to repay a bank loan and to finance the construction of the Early Learning Campus (Early Learning Campus Debt). The loan bears interest at 3.41% and is collateralized by real property of the School. The loan matures on December 31, 2024.

In July 2011, the School obtained a $10,000,000 tax-exempt loan from a bank. Proceeds from the loan were used to finance the construction of a new administration and classroom building (Administration and Classroom Building Debt). The loan bears interest at 3.02% and is collateralized by real property of the School. The loan matures on July 6, 2021.

In 2002, the School obtained a $6,000,000 tax-exempt loan from a bank. Proceeds from the loan were used to repay a prior bank loan and to finance the purchase and renovation of a new lower school building (New Lower School Building Debt). In June 2011, the loan was refinanced with another bank. The loan bears interest at 2.61% and is collateralized by real property of the School. The loan matured on March 31, 2018.

Principal amounts due under the notes payable at June 30, 2018 are as follows:

	NOTES PAYABLE	LOAN ISSUANCE COSTS	NOTES PAYABLE, NET
Early Learning Campus Debt	$ 11,582,142	$ (284,845)	$ 11,297,297
Administration and Classroom Building Debt	6,073,727	(63,417)	6,010,310
Total	$ 17,655,869	$ (348,262)	$ 17,307,607

Principal amounts due under the notes payable at June 30, 2017 are as follows:

	NOTES PAYABLE	LOAN ISSUANCE COSTS	NOTES PAYABLE, NET
Early Learning Campus Debt	$ 5,364,362	$ (306,756)	$ 5,057,606
Administration and Classroom Building Debt	6,550,387	(84,009)	6,466,378
New Lower School Building Debt	383,455		383,455
Total	$ 12,298,204	$ (390,765)	$ 11,907,439

Notes payable are due as follows:

2019	$ 2,443,211
2020	2,463,402
2021	2,484,210
2022	5,811,477
2023	1,782,143
Thereafter	2,671,426
Total	$ 17,655,869

Interest expense totaled approximately $517,000 in 2018 and $406,000 in 2017. Amortization of loan issuance costs totaled $42,503 in 2018 and $20,592 in 2017.

NOTE 8 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2018	2017
Property and equipment, net of related notes payable	$ 54,426,730	$ 56,700,097
Undesignated	8,934,017	1,068,398
Board-designated for general endowment	5,635,467	5,395,572
Total unrestricted net assets	$ 68,996,214	$ 63,164,067

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Student activities	$ 1,013,211	$ 1,193,441
Use in future periods	619,000	810,500
Capital projects	500,000	2,099,388
Total temporarily restricted net assets	$ 2,132,211	$ 4,103,329

NOTE 10 – ENDOWMENT FUNDS

The School's endowment funds represent quasi-endowments established by its Board of Directors. Changes in endowment funds for the years ended June 30, 2018 and 2017 are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 30, 2016	$ 5,031,549	$ 0	$ 0	$ 5,031,549
Investment return:				
Net realized and unrealized gain	285,647			285,647
Interest and dividends	117,547			117,547
Investment management fees	(39,171)			(39,171)
Net investment return	364,023			364,023
Endowment net assets, June 30, 2017	5,395,572	0	0	5,395,572
Investment return:				
Net realized and unrealized gain	140,694			140,694
Interest and dividends	144,512			144,512
Investment management fees	(45,311)			(45,311)
Net investment return	239,895			239,895
Endowment net assets, June 30, 2018	$ 5,635,467	$ 0	$ 0	$ 5,635,467

Investment Policies and Strategy

Endowment funds are maintained in an investment account managed by an independent financial firm that follows guidance provided in an investment policy approved by the School's Board of Directors. The funds are invested for the long term. The Board of Directors recognizes that higher long-term returns are realized through higher exposure to equity and is willing to tolerate declines in the fund values in the short term, with the understanding that this may be necessary to maximize long-term return. The funds are currently in an accumulation phase and have no distributions. During this time, fund assets are invested to maximize total return while maintaining a reasonable level of risk.

Spending Policy

Once the fund assets exceed $1.5 million in a 3-year trailing average value, distributions from the funds may be made according to the following:

VALUE OF FUNDS	DISTRIBUTION OF FUNDS
$1,500,000 to $3,000,000	1% of 3-year trailing average value of funds
$3,000,000 to $5,000,000	2% of 3-year trailing average value of funds
$5,000,000 and above	3% of 3-year trailing average value of funds

Yearly distributions from the fund are determined by the Board of Directors. There were no distributions from the funds in 2018 and 2017.

NOTE 11 – 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 $737,000 and $682,000 to the plan during 2018 and 2017, respectively.

NOTE 12 – COMMITMENTS

In January 2011, the School entered into an agreement with a French charitable corporation (the Corporation) to establish a curriculum parallel to that of schools in France and the State of Texas. The Corporation will be paid an annual fee of 1.5% of tuition revenue for students enrolled in the French section. The annual fee will be no less than $120,000 each year. The agreement was amended in November 2016. The annual fee for the next three school years will be approximately $199,000 each year. The agreement will remain in effect for 30 years and shall automatically renew for two successive terms of 10 years each unless either party shall notify the other in writing, at least two years prior to the expiration of any such term, that it elects to allow the agreement to terminate at the end of such term. The School paid the Corporation approximately $199,000 during 2018 and 2017 for the annual fee.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2018, 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.
