The Awty International School

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

The Awty International School

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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, 2019 and 2018 and the related consolidated statements of activities and of cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended June 30, 2019 with comparative totals for the year ended June 30, 2018, 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, 2019 and 2018 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, The Awty International School adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

November 14, 2019

The Awty International School

Consolidated Statements of Financial Position as of June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents *(Note 4)*	$ 8,476,254	$ 15,550,548
Tuition and other receivables, net	13,059	172,139
Textbook and uniform inventory	296,034	329,816
Prepaid expenses and other assets	483,152	373,474
Operating contributions receivable, net *(Note 5)*	1,073,931	622,374
Operating investments *(Notes 6 and 7)*	38,812,523	20,019,895
Investments designated for endowment *(Notes 6 and 7)*	6,025,332	5,635,467
Cash restricted/designated for capital projects *(Note 4)*	176,318	3,464,196
Contributions receivable restricted/designated for capital projects, net *(Note 5)*	4,237,099	2,469,190
Property and equipment, net *(Note 8)*	71,953,057	71,734,337
TOTAL ASSETS	$ 131,546,759	$ 120,371,436
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 993,614	$ 893,092
Construction payable	585,302	
Accrued expenses	2,095,168	1,677,062
Deferred tuition and fees	32,416,526	29,365,250
Notes payable, net *(Note 9)*	14,772,223	17,307,607
Total liabilities	50,862,833	49,243,011
Commitments *(Note 14)*		
Net assets:		
Without donor restrictions *(Notes 10 and 12)*	74,884,518	68,996,214
With donor restrictions *(Note 11)*	5,799,408	2,132,211
Total net assets	80,683,926	71,128,425
TOTAL LIABILITIES AND NET ASSETS	$ 131,546,759	$ 120,371,436

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition and fees	$ 43,319,955		$ 43,319,955
Auxiliary service fees	1,463,356		1,463,356
Other program service fees	1,839,294		1,839,294
Contributions	917,643	$ 4,283,464	5,201,107
Fundraising events	941,779	398,481	1,340,260
Direct donor benefit costs	(191,623)		(191,623)
Net investment return	1,036,575		1,036,575
Other	165,072		165,072
Total revenue	49,492,051	4,681,945	54,173,996
Net assets released from restrictions:			
Program expenditures	518,716	(518,716)	
Expiration of time restrictions	331,500	(331,500)	
Capital campaign expenditures	164,532	(164,532)	
Total	50,506,799	3,667,197	54,173,996
EXPENSES:			
Instructional and student activities	39,736,274		39,736,274
Management and general	3,499,409		3,499,409
Fundraising	1,382,812		1,382,812
Total expenses	44,618,495		44,618,495
CHANGES IN NET ASSETS	5,888,304	3,667,197	9,555,501
Net assets, beginning of year	68,996,214	2,132,211	71,128,425
Net assets, end of year	$ 74,884,518	$ 5,799,408	$ 80,683,926

See accompanying notes to consolidated financial statements.

The Awty International School

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	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)
Net investment return	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 expenditures	535,107	(535,107)	
Expiration of time restrictions	291,500	(291,500)	
Capital campaign expenditures	3,067,392	(3,067,392)	
Total	48,774,013	(1,971,118)	46,802,895
EXPENSES:			
Instructional and student activities	37,483,944		37,483,944
Management and general	3,928,390		3,928,390
Fundraising	1,529,532		1,529,532
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 *(Note 2)*	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 Statements of Cash Flows for the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 9,555,501	$ 3,861,029
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,367,793	3,396,795
Amortization of debt issuance costs	64,414	42,503
Contributions restricted for capital projects	(3,694,767)	(1,468,004)
Net realized and unrealized gain on investments	(370,909)	(212,084)
Changes in operating assets and liabilities:		
Receivables	159,080	(40,978)
Textbook and uniform inventory	33,782	(125,503)
Prepaid expenses and other assets	(109,678)	(42,640)
Operating contributions receivable	(451,557)	52,241
Accounts payable and accrued expenses	518,628	288,244
Deferred tuition and fees	3,051,276	3,295,147
Net cash provided by operating activities	12,123,563	9,046,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	11,930,334	3,027,858
Purchases of investments	(20,315,944)	(13,612,872)
Change in money market mutual funds and certificates of deposit held as investments	(10,425,974)	(9,392,451)
Purchases of property and equipment	(3,001,211)	(2,246,390)
Net cash used by investing activities	(21,812,795)	(22,223,855)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	1,926,858	967,275
Principal repayments of notes payable	(2,599,798)	(1,752,973)
Net cash used by financing activities	(672,940)	(785,698)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,362,172)	(13,962,803)
Cash and cash equivalents, beginning of year	19,014,744	32,977,547
Cash and cash equivalents, end of year	$ 8,652,572	$ 19,014,744

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

	2019	2018
Cash and cash equivalents	$ 8,476,254	$ 15,550,548
Cash restricted/designated for capital projects	176,318	3,464,196
Total cash and cash equivalents	$ 8,652,572	$ 19,014,744

Supplemental disclosure of cash flow information:

	2019	2018
Interest paid	$553,916	$470,565
Non-cash financing and investing transactions:		
Construction financing by note payable		$7,110,638

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Functional Expenses for the year ended June 30, 2019
with comparative totals for the year ended June 30, 2018

EXPENSES	INSTRUCTIONAL AND STUDENT ACTIVITIES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL	2018 TOTAL
Salaries and related costs	$ 27,151,472	$ 2,151,001	$ 916,230	$ 30,218,703	$ 29,000,051
Depreciation	3,175,851	170,001	21,941	3,367,793	3,396,795
Cafeteria services	1,632,143			1,632,143	1,533,751
Utilities and maintenance	1,493,923	77,495	10,002	1,581,420	1,469,699
Educational materials and student activities	1,403,005			1,403,005	1,587,047
Travel and transportation services	1,313,847	5,232		1,319,079	1,131,716
Professional fees and contract services	523,691	285,866	164,532	974,089	1,059,547
Office expense, printing and postage	462,178	357,617	52,159	871,954	955,840
Conferences and meetings	684,506	70,640	84,474	839,620	672,092
Interest and fees	614,346	132,816		747,162	640,029
Technology and communications	324,469	75,097	5,272	404,838	347,096
Cost of goods sold	401,999			401,999	401,743
Insurance	360,558	18,785	2,425	381,768	392,798
Memberships, dues and subscriptions	179,039	5,741	2,729	187,509	125,442
Promotional expenses		2,261	114,428	116,689	120,214
Provision for uncollectible accounts		75,746		75,746	49,244
Other	15,247	71,111	8,620	94,978	58,762
Total expenses	$ 39,736,274	$ 3,499,409	$ 1,382,812	$ 44,618,495	$ 42,941,866

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 1,689 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 receivables – An allowance for tuition and contributions 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 contributions receivable 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 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.

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. 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.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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 as interest expense 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 – 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. 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.

Tuition and fees are recognized in the period in which the services are provided and are shown net of student financial aid of $1,874,282 in 2019 and $1,633,453 in 2018. Tuition and fees include tuition paid by the French government of $334,878 in 2019 and $348,480 in 2018. 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.

Functional allocation of expenses – Expenses are reported by their functional classification as instructional and student activities, management and general, and fundraising. Instructional and student activities are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building and improvements and occupancy costs are allocated based on 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 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 recognition of revenue but will result in additional disclosures.

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 believes the adoption of this ASU will not have a material impact on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Awty adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources and functional expenses has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – 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, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash and cash equivalents	$ 8,652,572
Tuition or other receivables, net	13,059
Contributions receivable, net	5,311,030
Investments	44,837,855
Total financial assets	58,814,516
Less financial assets not available for general expenditure:	
Donor-restricted assets subject to satisfaction of restriction and the passage of time	1,242,673
Donor-restricted for capital projects	3,085,369
Board-designated endowment assets	6,025,332
Total financial assets available for general expenditure	$ 48,461,142

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Awty considers all expenditures related to its ongoing mission, as well as the conduct of services undertaken to support those activities, to be general expenditures. Financial assets related to the capital campaign are not considered available for general expenditures although they are expected to be used in 2020.

As part of Awty's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Awty's Board of Directors has designated a portion of its net assets without donor restrictions as a board-designated endowment. These funds are invested for long-term appreciation and current income but remain available to be spent at the Board's discretion.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2019	2018
Bank deposits	$ 1,918,770	$ 3,877,220
Money market mutual funds	6,733,802	15,137,524
Total	$ 8,652,572	$ 19,014,744

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

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	2019	2018
Contributions receivable	$ 5,676,453	$ 3,294,424
Allowance for uncollectible contributions receivable	(229,397)	(132,611)
Discount to net present value at 1.49% to 2.73%	(136,026)	(70,249)
Contributions receivable, net	$ 5,311,030	$ 3,091,564

Contributions receivable at June 30, 2019 are expected to be collected as follows:

Within one year	$ 2,211,453
In one to five years	3,215,000
Thereafter	250,000
Total contributions receivable	$ 5,676,453

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, 2019, contributions to the campaign totaled approximately $15.7 million before allowances and discounts.

Concentration – At June 30, 2019, approximately 66% of contributions receivable are due from two donors. At June 30, 2018, approximately 37% of contributions receivable are due from three donors. These gifts include a contribution receivable 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 6 – INVESTMENTS

Investments consist of the following:

	2019	2018
Money market mutual funds	$ 19,998,480	$ 6,572,506
Corporate bonds and notes	12,627,257	10,204,270
Bond mutual funds	7,311,081	1,260,660
Common stock	1,782,250	1,863,444
Equity mutual funds	1,384,580	811,465
Exchange-traded funds	1,187,619	1,354,876
U. S. Government securities	300,192	284,796
Alternative investments	246,396	303,345
Certificates of deposit		3,000,000
Total investments	$ 44,837,855	$ 25,655,362

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.

NOTE 7 – 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. The School held no Level 3 assets at June 30, 2019 or 2018.

Investments that have no readily determinable fair value but qualify to be measured at their net asset value per share or its equivalent as a practical expedient (NAV-PE) are not required to be assigned to one of the levels of the fair value hierarchy.

Assets measured at fair value at June 30, 2019 are as follows:

	LEVEL 1	LEVEL 2	NAV-PE	TOTAL
Cash and cash equivalents:				
Money market mutual funds	$ 6,733,802			$ 6,733,802
Investments:				
Money market mutual funds	19,998,480			19,998,480
Corporate bonds and notes		$ 12,627,257		12,627,257
Bond mutual funds:				
Managed income	7,028,719			7,028,719
Total return	282,362			282,362
Common stock:				
Domestic	1,782,250			1,782,250
Equity mutual funds:				
International	839,448			839,448
Domestic	545,132			545,132
Exchange-traded funds:				
Domestic	1,187,619			1,187,619
U. S. Government securities		300,192		300,192
Alternative investment in multi-strategy fund (a)			$ 246,396	246,396
Total assets measured at fair value	$ 38,397,812	$ 12,927,449	$ 246,396	$ 51,571,657

Assets measured at fair value at June 30, 2018 are as follows:

	LEVEL 1	LEVEL 2	NAV-PE	TOTAL
Cash and cash equivalents:				
Money market mutual funds	$ 15,137,524			$ 15,137,524
Investments:				
Money market mutual funds	6,572,506			6,572,506
Corporate bonds and notes		$ 10,204,270		10,204,270
Bond mutual funds:				
Managed income	1,000,025			1,000,025
Total return	260,635			260,635
Common stock:				
Domestic	1,767,228			1,767,228
International	96,216			96,216
Equity mutual funds:				
International	811,465			811,465
Exchange-traded funds:				
Domestic	953,305			953,305
International	401,571			401,571
U. S. Government securities		284,796		284,796
Certificates of deposit		3,000,000		3,000,000
Alternative investment in multi-strategy fund (a)			$ 303,345	303,345
Total assets measured at fair value	$ 27,000,475	$ 13,489,066	$ 303,345	$ 40,792,886

(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, U. S. Government securities* and *certificates of deposit* 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.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	2019	2018
Land	$ 14,139,756	$ 14,139,756
Buildings and improvements	80,627,030	79,175,113
Furniture, fixtures, and equipment	9,862,221	9,527,160
Construction in progress	2,312,902	513,366
Total property and equipment, at cost	106,941,909	103,355,395
Accumulated depreciation	(34,988,852)	(31,621,058)
Property and equipment, net	$ 71,953,057	$ 71,734,337

NOTE 9 – 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.

Principal amounts due under the notes payable at June 30, 2019 are as follows:

	NOTES PAYABLE	DEBT ISSUANCE COSTS	NOTES PAYABLE, NET
Early Learning Campus Debt	$ 9,801,786	$ (241,023)	$ 9,560,763
Administration and Classroom Building Debt	5,254,285	(42,825)	5,211,460
Total	$ 15,056,071	$ (283,848)	$ 14,772,223

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

	NOTES PAYABLE	DEBT 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

Notes payable are due as follows:

2020	$ 2,460,039
2021	6,358,532
2022	1,782,143
2023	1,782,143
2024	1,782,143
Thereafter	891,071
Total	$ 15,056,071

Interest expense totaled approximately $614,000 in 2019 and $559,000 in 2018. Interest expense includes amortization of debt issuance costs of $64,414 in 2019 and $42,503 in 2018.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	2019	2018
Property and equipment, net of related notes payable	$ 53,150,599	$ 54,426,730
Undesignated	15,708,587	8,934,017
Board-designated for general endowment	6,025,332	5,635,467
Total net assets without donor restrictions	$ 74,884,518	$ 68,996,214

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are comprised of the following:

	2019	2018
Subject to expenditure for specified purpose:		
Capital projects	$ 4,030,235	$ 500,000
Student activities	981,673	1,013,211
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	787,500	619,000
Total net assets with donor restrictions	$ 5,799,408	$ 2,132,211

NOTE 12 – 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, 2019 and 2018 are as follows:

	WITHOUT DONOR RESTRICTIONS
Endowment net assets, June 30, 2017	$ 5,395,572
Net investment return	239,895
Endowment net assets, June 30, 2018	5,635,467
Net investment return	389,865
Endowment net assets, June 30, 2019	$ 6,025,332

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 2019 and 2018.

NOTE 13 – 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 $774,000 and $737,000 to the plan during 2019 and 2018, respectively.

NOTE 14 – 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 March 2019. The annual fee for the next three school years will be approximately $175,000 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 2019 and 2018 for the annual fee.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 14, 2019, 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.