

The Awty International School

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

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, 2020 and 2019 and the related consolidated statements of activities, of cash flows and of functional expenses for the years then ended, and the related notes to the financial statements.

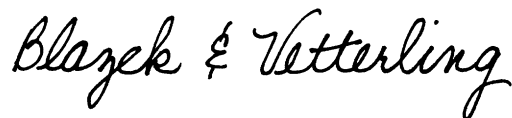
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2020 and 2019 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.



November 6, 2020

The Awty International School

Consolidated Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (<i>Note 4</i>)	\$ 28,364,762	\$ 8,652,572
Tuition and fees receivable, net	56,257	17,496
Textbook and uniform inventory	226,816	296,034
Prepaid expenses and other assets	916,453	478,715
Operating contributions receivable, net (<i>Note 5</i>)	1,301,429	2,401,979
Operating investments (<i>Notes 6 and 7</i>)	27,184,217	38,812,523
Investments designated for endowment (<i>Notes 6 and 7</i>)	6,334,866	6,025,332
Loan proceeds for capital projects (<i>Note 4</i>)	47,503,444	
Contributions receivable restricted for capital projects, net (<i>Note 5</i>)	4,294,477	2,909,051
Property and equipment, net (<i>Note 8</i>)	<u>73,563,444</u>	<u>71,953,057</u>
TOTAL ASSETS	<u>\$ 189,746,165</u>	<u>\$ 131,546,759</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,251,329	\$ 993,614
Construction payable	411,330	585,302
Accrued expenses	2,275,528	2,095,168
Deferred tuition and fees	30,606,014	32,416,526
Notes payable, net (<i>Note 9</i>)	<u>64,602,893</u>	<u>14,772,223</u>
Total liabilities	<u>99,147,094</u>	<u>50,862,833</u>
Commitments (<i>Note 14</i>)		
Net assets:		
Without donor restrictions (<i>Notes 10 and 12</i>)	81,888,006	74,884,518
With donor restrictions (<i>Note 11</i>)	<u>8,711,065</u>	<u>5,799,408</u>
Total net assets	<u>90,599,071</u>	<u>80,683,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 189,746,165</u>	<u>\$ 131,546,759</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition and fees	\$ 46,099,158		\$ 46,099,158
Auxiliary service fees	1,233,847		1,233,847
Other program service fees	1,447,376		1,447,376
Contributions	691,307	\$ 3,836,921	4,528,228
Fundraising events	757,208	136,799	894,007
Direct donor benefit costs	(221,685)		(221,685)
Net investment return	998,271		998,271
Other	<u>158,361</u>		<u>158,361</u>
Total revenue	51,163,843	3,973,720	55,137,563
Net assets released from restrictions:			
Program expenditures	400,331	(400,331)	
Expiration of time restrictions	406,500	(406,500)	
Capital campaign expenditures	<u>255,232</u>	<u>(255,232)</u>	
Total	<u>52,225,906</u>	<u>2,911,657</u>	<u>55,137,563</u>
EXPENSES:			
Instructional and student activities	40,256,686		40,256,686
Management and general	3,448,386		3,448,386
Fundraising	<u>1,517,346</u>		<u>1,517,346</u>
Total expenses	<u>45,222,418</u>		<u>45,222,418</u>
CHANGES IN NET ASSETS	7,003,488	2,911,657	9,915,145
Net assets, beginning of year	<u>74,884,518</u>	<u>5,799,408</u>	<u>80,683,926</u>
Net assets, end of year	<u>\$ 81,888,006</u>	<u>\$ 8,711,065</u>	<u>\$ 90,599,071</u>

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	<u>165,072</u>		<u>165,072</u>
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	<u>164,532</u>	<u>(164,532)</u>	
Total	<u>50,506,799</u>	<u>3,667,197</u>	<u>54,173,996</u>
EXPENSES:			
Instructional and student activities	39,736,274		39,736,274
Management and general	3,499,409		3,499,409
Fundraising	<u>1,382,812</u>		<u>1,382,812</u>
Total expenses	<u>44,618,495</u>		<u>44,618,495</u>
CHANGES IN NET ASSETS	5,888,304	3,667,197	9,555,501
Net assets, beginning of year	<u>68,996,214</u>	<u>2,132,211</u>	<u>71,128,425</u>
Net assets, end of year	<u>\$ 74,884,518</u>	<u>\$ 5,799,408</u>	<u>\$ 80,683,926</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 9,915,145	\$ 9,555,501
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,475,450	3,367,793
Amortization of debt issuance costs	285,930	64,414
Contributions restricted for capital projects	(3,726,158)	(3,694,767)
Net realized and unrealized gain on investments	(224,209)	(370,909)
Changes in operating assets and liabilities:		
Tuition and fees receivable	(38,761)	143,146
Textbook and uniform inventory	69,218	33,782
Prepaid expenses and other assets	(437,738)	(93,744)
Operating contributions receivable	1,100,550	(451,557)
Accounts payable and accrued expenses	438,075	518,628
Deferred tuition and fees	<u>(1,810,512)</u>	<u>3,051,276</u>
Net cash provided by operating activities	<u>9,046,990</u>	<u>12,123,563</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	15,785,393	11,930,334
Purchases of investments	(16,265,073)	(20,315,944)
Change in money market mutual funds and certificates of deposit held as investments	12,022,661	(10,425,974)
Purchases of property and equipment	<u>(5,259,809)</u>	<u>(3,001,211)</u>
Net cash provided (used) by investing activities	<u>6,283,172</u>	<u>(21,812,795)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	2,340,732	1,926,858
Proceeds of borrowings from notes payable	51,786,804	
Principal repayments of notes payable	(1,867,277)	(2,599,798)
Loan issuance costs	<u>(374,787)</u>	
Net cash provided (used) by financing activities	<u>51,885,472</u>	<u>(672,940)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,215,634	(10,362,172)
Cash and cash equivalents, beginning of year	<u>8,652,572</u>	<u>19,014,744</u>
Cash and cash equivalents, end of year <i>(Note 4)</i>	<u>\$ 75,868,206</u>	<u>\$ 8,652,572</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$798,519	\$553,916
Non-cash financing and investing transactions:		
Proceeds of note payable to repay loan	\$13,213,517	

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Functional Expenses for the year ended June 30, 2020

<u>EXPENSES</u>	<u>INSTRUCTIONAL AND STUDENT ACTIVITIES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related costs	\$ 28,360,902	\$ 2,181,349	\$ 1,032,883	\$ 31,575,134
Depreciation	3,277,371	175,436	22,643	3,475,450
Utilities and maintenance	1,385,702	74,176	9,574	1,469,452
Cafeteria services	1,388,156			1,388,156
Interest and fees	1,042,068	133,983		1,176,051
Office expense, printing and postage	715,315	362,482	43,855	1,121,652
Professional fees and contract services	474,092	290,092	204,398	968,582
Educational materials and student activities	1,143,202			1,143,202
Travel and transportation services	698,017	1,603		699,620
Conferences and meetings	521,504	52,827	71,902	646,233
Technology and communications	378,828	75,513	7,001	461,342
Cost of goods sold	382,513			382,513
Insurance	339,976	17,302	2,233	359,511
Memberships, dues and subscriptions	135,198	10,021	1,320	146,539
Promotional expenses			116,390	116,390
Provision for uncollectible accounts		58,844		58,844
Other	<u>13,842</u>	<u>14,758</u>	<u>5,147</u>	<u>33,747</u>
Total expenses	<u>\$ 40,256,686</u>	<u>\$ 3,448,386</u>	<u>\$ 1,517,346</u>	<u>\$ 45,222,418</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Functional Expenses for the year ended June 30, 2019

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

See accompanying notes to consolidated financial statements.

The Awty International School

Notes to Consolidated Financial Statements for the years ended June 30, 2020 and 2019

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 1,731 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.

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 is included in contribution revenue. An allowance for contributions receivable is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of receivable balances each period.

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, Auxiliary Services, Other Program Service Fees, Tuition and Fees Receivable, and Allowances for Uncollectible Tuition and Fees

Tuition and fees are derived from providing education services to students and are recognized ratably over time as those services are provided. All performance obligations related to tuition and fees are satisfied within the academic year, which is contained within the fiscal year. Financial aid reduces the amount of consideration the School expects to be entitled to receive, and the tuition and fees are presented net of financial aid of \$2,006,678 in 2020 and \$1,874,282 in 2019. Tuition and fees include tuition paid by the French government of \$185,232 in 2020 and \$334,878 in 2019.

Tuition and fees are due in accordance with the payment plan selected in the executed tuition contract, all of which are due within the academic year. As a practical expedient, the School considers application, registration, and building fees, as well as financing fees associated with payment plans, to be immaterial and accordingly, they are not disaggregated from tuition and fees.

Auxiliary and other program service fees are derived from bookstore sales, bus fees, and from optional extracurricular programs. Bookstore sales are recognized at a point in time when goods are provided to the students. All other fees are recognized ratably over time as those services are provided to the students. Bookstore fees are due when the goods are provided to the student. Bus fees and extracurricular program fees are due prior to services being provided. All performance obligations related to auxiliary and other program service fees are satisfied within the academic year, which is contained within the fiscal year.

Contract assets are related to the School's right to consideration for services performed but not billed at the reporting date. There are no contract assets at June 30, 2020, 2019, or 2018. Tuition and fees receivable represent non-interest-bearing balances and are net of an allowance for estimated uncollectible amounts. Tuition and fees receivable, net was \$56,257, \$17,496, and \$161,023 at June 30, 2020, 2019, and 2018, respectively. Tuition and fees collected in advance are contract liabilities and are reported as deferred tuition and fees. At June 30, 2020, 2019, and 2018, deferred tuition and fees are \$30,606,014, \$32,416,516, and \$29,365,250, respectively.

Allowance for uncollectible tuition and fees receivable is recorded when it is believed balances may not be collected in full as there has been an adverse change in the family's ability to pay. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of the period is determined using a customer-by-customer analysis of receivable balances each period.

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 with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before the School is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Fundraising events revenue includes elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits provided represents the costs of goods and services provided to event attendees. Amounts received in advance are reported as refundable advances.

Functional allocation of expenses – Expenses are reported by their functional classification. 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 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.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

Effective July 1, 2019, Awty adopted the guidance in Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. The core principle of this 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 using a 5-step process to determine when performance obligations are satisfied, and revenue is recognized. Also effective July 1, 2019, Awty adopted the guidance in Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2019. Because the timing and amount of revenue recognized previously is not different from revenue recognized under the new guidance, adoption of these standards had no impact on total beginning or ending net assets or on total changes in net assets for the year ended June 30, 2019. Presentation and disclosure pertaining to the year ended June 30, 2019 have been updated as appropriate to conform to the new standards.

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 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 75,868,206	\$ 8,652,572
Tuition or other receivables, net	56,257	17,496
Contributions receivable, net	5,595,906	5,311,030
Investments	<u>33,519,083</u>	<u>44,837,855</u>
Total financial assets	115,039,452	58,818,953
Less financial assets not available for general expenditure:		
Donor-restricted assets subject to satisfaction of restriction and the passage of time	(1,056,403)	(1,242,673)
Restricted or designated assets for capital projects	(51,797,921)	(3,085,369)
Board-designated endowment assets	<u>(6,344,866)</u>	<u>(6,025,332)</u>
Total financial assets available for general expenditure	<u>\$ 55,840,262</u>	<u>\$ 48,465,579</u>

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 2021.

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 of Director's discretion.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2020</u>	<u>2019</u>
Bank deposits	\$ 55,001,436	\$ 1,918,770
Money market mutual funds	<u>20,866,770</u>	<u>6,733,802</u>
Total cash and cash equivalents	<u>\$ 75,868,206</u>	<u>\$ 8,652,572</u>

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

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2020</u>	<u>2019</u>
Contributions receivable	\$ 5,930,615	\$ 5,676,453
Allowance for uncollectible contributions receivable	(256,466)	(229,397)
Discount to net present value at 1.49% to 2.73%	<u>(78,243)</u>	<u>(136,026)</u>
Contributions receivable, net	<u>\$ 5,595,906</u>	<u>\$ 5,311,030</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

2021	\$ 2,639,365
2022	1,369,000
2023	1,175,000
2024	472,250
2025	<u>275,000</u>
Total contributions receivable	<u>\$ 5,930,615</u>

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, 2020, contributions to the campaign totaled approximately \$19.4 million before allowances and discounts.

Concentration – At June 30, 2020, approximately 54% of contributions receivable are due from two donors. At June 30, 2019, approximately 66% of contributions receivable are due from two donors. During 2020, approximately 33% of contributions revenue recognized is from one donor. During 2019, approximately 77% of contributions revenue recognized are from two donors.

NOTE 6 – INVESTMENTS

Investments consist of the following:

	<u>2020</u>	<u>2019</u>
Corporate bonds and notes	\$ 12,981,082	\$ 12,627,257
Money market mutual funds	7,975,819	19,998,480
Bond mutual funds	7,465,070	7,311,081
Common stock	1,931,947	1,782,250
Equity mutual funds	1,417,959	1,384,580
Exchange-traded funds	1,281,414	1,187,619
U. S. Government securities	303,266	300,192
Alternative investment	<u>162,526</u>	<u>246,396</u>
Total investments	<u>\$ 33,519,083</u>	<u>\$ 44,837,855</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.

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, 2020 or 2019.

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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAV-PE</u>	<u>TOTAL</u>
Cash and cash equivalents:				
Money market mutual funds	\$ 20,866,770			\$ 20,866,770
Investments:				
Corporate bonds and notes		\$ 12,981,082		12,981,082
Money market mutual funds	7,975,819			7,975,819
Bond mutual funds:				
Managed income	7,176,373			7,176,373
Total return	288,697			288,697
Common stock:				
Domestic	1,931,947			1,931,947
Equity mutual funds:				
International	849,102			849,102
Domestic	568,857			568,857
Exchange-traded funds:				
Domestic	1,281,414			1,281,414
U. S. Government securities		303,266		303,266
Alternative investment in multi-strategy fund (a)			\$ 162,526	162,526
Total assets measured at fair value	<u>\$ 40,938,979</u>	<u>\$ 13,284,348</u>	<u>\$ 162,526</u>	<u>\$ 54,385,853</u>

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

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAV-PE</u>	<u>TOTAL</u>
Cash and cash equivalents:				
Money market mutual funds	\$ 6,733,802			\$ 6,733,802
Investments:				
Corporate bonds and notes		\$ 12,627,257		12,627,257
Money market mutual funds	19,998,480			19,998,480
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)	<u> </u>	<u> </u>	\$ 246,396	<u>246,396</u>
Total assets measured at fair value	<u>\$ 38,397,812</u>	<u>\$ 12,927,449</u>	<u>\$ 246,396</u>	<u>\$ 51,571,657</u>

(a) The primary investment objective of the fund 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 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* and *U. S. Government 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.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 14,139,756	\$ 14,139,756
Buildings and improvements	82,108,826	81,653,620
Furniture, fixtures, and equipment	10,835,858	9,862,221
Construction in progress	<u>4,943,305</u>	<u>1,286,312</u>
Total property and equipment, at cost	112,027,745	106,941,909
Accumulated depreciation	<u>(38,464,301)</u>	<u>(34,988,852)</u>
Property and equipment, net	<u>\$ 73,563,444</u>	<u>\$ 71,953,057</u>

NOTE 9 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
Series 2020B loan agreement for \$49,700,000 with a bank issued by Arlington Higher Education Finance Corporation. The loan bears interest at 1.78% and payments are due in monthly installments through April 1, 2040. The proceeds are to be used to finance the construction of the Campus Center Project. The loan is unsecured.	\$ 49,700,000	
Series 2020A loan agreement for \$15,300,000 with a bank issued by Arlington Higher Education Finance Corporation. The loan bears interest at 1.76% and payments are due in monthly installments through April 1, 2040. The proceeds were used to retire existing debt and fund the issuance of the Series 2020 debt. The loan is unsecured.	15,275,598	
Loan agreement for \$12,500,000 with a bank issued by Arlington Higher Education Finance Corporation. Proceeds were used to repay a bank loan and finance the construction of the Early Learning Campus. The loan bears interest at 3.41% and is collateralized by real property of the School.		\$ 9,801,786
Loan agreement for \$10,000,000 with a bank issued by Ames Higher Education Facilities Corporation. Proceeds were used to finance the construction of a new administration and classroom building. The loan bears interest at 3.02% and is collateralized by real property of the School.		<u>5,254,285</u>
Total notes payable	64,975,598	15,056,071
Unamortized loan issuance costs	<u>(372,705)</u>	<u>(283,848)</u>
Notes payable, net	<u>\$ 64,602,893</u>	<u>\$ 14,772,223</u>

Interest expense totaled approximately \$1,042,000 in 2020 and \$614,000 in 2019. Interest expense includes amortization of debt issuance costs of \$285,930 in 2020 and \$64,414 in 2019.

Principal payments on notes at June 30, 2020 are due as follows:

2021	\$ 391,435
2022	398,477
2023	643,811
2024	1,856,393
2025	1,893,177
Thereafter	<u>59,792,305</u>
Total notes payable	<u>\$ 64,975,598</u>

Line of credit – Awty maintains a \$3,500,000 revolving line of credit with a bank. The note bears interest at LIBOR plus .80% with interest due monthly. This line of credit expires on April 21, 2023. At June 30, 2020, there were no amounts outstanding under the line of credit.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Property and equipment, net of related notes payable	\$ 56,463,995	\$ 53,150,599
Undesignated	19,089,145	15,708,587
Board-designated for general endowment	<u>6,334,866</u>	<u>6,025,332</u>
Total net assets without donor restrictions	<u>\$ 81,888,006</u>	<u>\$ 74,884,518</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Capital projects	\$ 7,501,161	\$ 4,030,235
Student activities	737,904	981,673
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>472,000</u>	<u>787,500</u>
Total net assets with donor restrictions	<u>\$ 8,711,065</u>	<u>\$ 5,799,408</u>

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, 2020 and 2019 are as follows:

	<u>WITHOUT DONOR RESTRICTIONS</u>
Endowment net assets, June 30, 2018	\$ 5,635,467
Net investment return	<u>389,865</u>
Endowment net assets, June 30, 2019	6,025,332
Net investment return	<u>309,534</u>
Endowment net assets, June 30, 2020	<u>\$ 6,334,866</u>

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:

<u>VALUE OF FUNDS</u>	<u>DISTRIBUTION OF FUNDS</u>
\$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 2020 and 2019.

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 \$813,000 and \$774,000 to the plan during 2020 and 2019, 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 \$175,000 and \$199,000 during 2020 and 2019, respectively, for the annual fee.

At June 30, 2020, the School had outstanding contractual commitments totaling approximately \$1.2 million related to the construction of modular buildings and a new Student Center.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2020, 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.
