

The Awty International School

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2022 and 2021

The Awty International School

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Independent Auditors' Report

To the Board of Directors of
The Awty International School:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Awty International School, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Awty International School as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of The Awty International School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Blazek & Vetterling

November 8, 2022

The Awty International School

Consolidated Statements of Financial Position as of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 51,180,069	\$ 43,820,285
Tuition and fees receivable, net	61,377	10,836
Textbook and uniform inventory	211,469	215,319
Prepaid expenses and other assets	963,280	1,173,383
Contributions receivable, net (<i>Note 4</i>)	7,443,201	7,915,938
Investments (<i>Note 5</i>)	36,882,039	35,541,601
Cash loan proceeds for capital projects (<i>Note 3</i>)	25,827,749	45,517,352
Property and equipment, net (<i>Note 6</i>)	<u>93,389,927</u>	<u>73,634,640</u>
TOTAL ASSETS	<u>\$ 215,959,111</u>	<u>\$ 207,829,354</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 734,999	\$ 836,171
Construction payable	3,477,597	829,635
Accrued expenses	2,519,928	2,351,341
Deferred tuition and fees	35,547,158	37,105,695
Notes payable, net (<i>Note 7</i>)	<u>63,837,968</u>	<u>64,223,952</u>
Total liabilities	<u>106,117,650</u>	<u>105,346,794</u>
Commitments (<i>Notes 2 and 12</i>)		
Net assets:		
Without donor restrictions (<i>Notes 8 and 10</i>)	95,768,800	90,009,496
With donor restrictions (<i>Note 9</i>)	<u>14,072,661</u>	<u>12,473,064</u>
Total net assets	<u>109,841,461</u>	<u>102,482,560</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 215,959,111</u>	<u>\$ 207,829,354</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition and fees	\$ 50,439,634		\$ 50,439,634
Auxiliary service fees	1,100,712		1,100,712
Other program service fees	2,813,737		2,813,737
Contributions:			
Government		\$ 2,004,719	2,004,719
Other contributions	877,622	2,688,595	3,566,217
Loss on valuation of contributions receivable		(584,984)	(584,984)
Fundraising events	776,320	228,733	1,005,053
Direct donor benefit costs	(165,458)		(165,458)
Net investment return	(1,346,010)		(1,346,010)
Loss on disposal of property and equipment	(239,118)		(239,118)
Other	<u>128,275</u>		<u>128,275</u>
Total revenue	54,385,714	4,337,063	58,722,777
Net assets released from restrictions:			
Program expenditures	2,173,398	(2,173,398)	
Expiration of time restrictions	253,000	(253,000)	
Capital campaign expenditures	<u>311,068</u>	<u>(311,068)</u>	
Total	<u>57,123,180</u>	<u>1,599,597</u>	<u>58,722,777</u>
EXPENSES:			
Instructional and student activities	45,647,657		45,647,657
Management and general	4,327,296		4,327,296
Fundraising	<u>1,388,923</u>		<u>1,388,923</u>
Total expenses	<u>51,363,876</u>		<u>51,363,876</u>
CHANGES IN NET ASSETS	5,759,304	1,599,597	7,358,901
Net assets, beginning of year	<u>90,009,496</u>	<u>12,473,064</u>	<u>102,482,560</u>
Net assets, end of year	<u>\$ 95,768,800</u>	<u>\$ 14,072,661</u>	<u>\$ 109,841,461</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Activities for the year ended June 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition and fees	\$ 48,524,235		\$ 48,524,235
Auxiliary service fees	966,363		966,363
Other program service fees	393,151		393,151
Contributions	868,940	\$ 4,229,356	5,098,296
Fundraising events	655,665	105,305	760,970
Direct donor benefit costs	(74,322)		(74,322)
Net investment return	2,055,654		2,055,654
Loss on disposal of property and equipment	(360,585)		(360,585)
Other	145,356		145,356
Total revenue	53,174,457	4,334,661	57,509,118
Net assets released from restrictions:			
Program expenditures	116,185	(116,185)	
Expiration of time restrictions	186,000	(186,000)	
Capital campaign expenditures	270,477	(270,477)	
Total	53,747,119	3,761,999	57,509,118
EXPENSES:			
Instructional and student activities	40,599,782		40,599,782
Management and general	3,646,710		3,646,710
Fundraising	1,379,137		1,379,137
Total expenses	45,625,629		45,625,629
CHANGES IN NET ASSETS	8,121,490	3,761,999	11,883,489
Net assets, beginning of year	81,888,006	8,711,065	90,599,071
Net assets, end of year	\$ 90,009,496	\$ 12,473,064	\$ 102,482,560

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statements of Cash Flows for the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 7,358,901	\$ 11,883,489
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,706,780	3,755,094
Amortization of debt issuance costs	12,493	12,493
Contributions restricted for capital projects	(2,531,366)	(3,762,202)
Net realized and unrealized (gain) loss on investments	1,735,033	(1,531,732)
Loss on valuation of contribution receivable	584,984	
Loss on disposal of property and equipment	239,118	360,585
Changes in operating assets and liabilities:		
Tuition and fees receivable	(50,541)	45,421
Textbook and uniform inventory	3,850	11,497
Prepaid expenses and other assets	210,103	(256,930)
Contributions receivable	99,327	(236,981)
Accounts payable and accrued expenses	67,415	(339,345)
Deferred tuition and fees	<u>(1,558,537)</u>	<u>6,499,681</u>
Net cash provided by operating activities	<u>9,877,560</u>	<u>16,441,070</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	19,930,647	13,430,179
Purchases of investments	(20,921,697)	(13,934,629)
Change in money market mutual funds held as investments	(2,084,421)	13,664
Purchases of property and equipment	<u>(21,053,223)</u>	<u>(3,768,570)</u>
Net cash used by investing activities	<u>(24,128,694)</u>	<u>(4,259,356)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	2,319,792	1,679,151
Principal repayments of notes payable	<u>(398,477)</u>	<u>(391,434)</u>
Net cash provided by financing activities	<u>1,921,315</u>	<u>1,287,717</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,329,819)	13,469,431
Cash and cash equivalents, beginning of year	<u>89,337,637</u>	<u>75,868,206</u>
Cash and cash equivalents, end of year	<u>\$ 77,007,818</u>	<u>\$ 89,337,637</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 51,180,069	\$ 43,820,285
Cash loan proceeds for capital projects	<u>25,827,749</u>	<u>45,517,352</u>
Total cash and cash equivalents	<u>\$ 77,007,818</u>	<u>\$ 89,337,637</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$1,159,334	\$1,166,350

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Functional Expenses for the year ended June 30, 2022

<u>EXPENSES</u>	<u>INSTRUCTIONAL AND STUDENT ACTIVITIES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related costs	\$ 31,108,070	\$ 2,736,654	\$ 982,507	\$ 34,827,231
Depreciation	3,493,087	189,266	24,427	3,706,780
Utilities and maintenance	2,054,795	111,335	14,368	2,180,498
Cafeteria services	1,885,365			1,885,365
Travel and transportation services	1,843,271	4,659		1,847,930
Educational materials and student activities	1,465,633			1,465,633
Professional fees and contract services	585,181	515,517	116,571	1,217,269
Office expense, printing and postage	671,807	335,132	57,958	1,064,897
Conferences and meetings	582,822	95,475	83,684	761,981
Technology and communications	589,996	57,743	8,997	656,736
Interest and fees	312,128	161,090		473,218
Insurance	439,828	22,946	2,962	465,736
Cost of goods sold	453,134			453,134
Memberships, dues and subscriptions	157,939	11,485	6,995	176,419
Promotional expenses		2,600	90,422	93,022
Provision for uncollectible accounts		64,952		64,952
Other	<u>4,601</u>	<u>18,442</u>	<u>32</u>	<u>23,075</u>
Total expenses	<u>\$ 45,647,657</u>	<u>\$ 4,327,296</u>	<u>\$ 1,388,923</u>	51,363,876
Direct donor benefit costs				<u>165,458</u>
Total				<u>\$ 51,529,334</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Consolidated Statement of Functional Expenses for the year ended June 30, 2021

<u>EXPENSES</u>	<u>INSTRUCTIONAL AND STUDENT ACTIVITIES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related costs	\$ 28,829,209	\$ 2,407,025	\$ 1,054,451	\$ 32,290,685
Depreciation	3,541,077	189,552	24,465	3,755,094
Utilities and maintenance	1,807,706	96,765	12,489	1,916,960
Cafeteria services	1,762,752			1,762,752
Travel and transportation services	628,476	1,137		629,613
Educational materials and student activities	908,160			908,160
Professional fees and contract services	23,684	317,356	81,643	422,683
Office expense, printing and postage	823,987	326,783	57,956	1,208,726
Conferences and meetings	330,394	51,139	41,643	423,176
Technology and communications	622,110	100,372	13,120	735,602
Interest and fees	338,995	119,170		458,165
Insurance	409,219	21,397	2,762	433,378
Cost of goods sold	424,081			424,081
Memberships, dues and subscriptions	144,089	4,287	3,533	151,909
Promotional expenses			84,397	84,397
Provision for uncollectible accounts		4,184		4,184
Other	<u>5,843</u>	<u>7,543</u>	<u>2,678</u>	<u>16,064</u>
Total expenses	<u>\$ 40,599,782</u>	<u>\$ 3,646,710</u>	<u>\$ 1,379,137</u>	45,625,629
Direct donor benefit costs				<u>74,322</u>
Total				<u>\$ 45,699,951</u>

See accompanying notes to consolidated financial statements.

The Awty International School

Notes to Consolidated Financial Statements for the years ended June 30, 2022 and 2021

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The Awty International School (Awty) is a private day school that provides instruction to both American and international students in Houston, Texas. Awty’s enrollment for the 2021-2022 academic year was approximately 1,754 students in preschool through 12th grade. Founded in 1956, the purpose of Awty is to inspire learners through academic excellence, cultural diversity and multilingual fluency for a life of global impact. Awty provides a challenging education, leading to either the International Baccalaureate or the French Baccalauréate. Within a friendly and nurturing environment, which encourages learning and the pursuit of excellence, Awty celebrates linguistic, cultural and international diversity and seeks to maximize the potential in all of our students as they grow to become responsible world citizens.

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 taxes 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 and is disregarded for tax purposes.

Cash equivalents include highly liquid investments with original maturities of three months or less. Cash and cash equivalents held for investment purposes are grouped with investments and excluded from cash and cash equivalents in the statement of cash flows.

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 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 \$2,570,855 in 2022 and \$2,255,974 in 2021. Tuition and fees include tuition paid by the French government of \$90,588 in 2022 and \$114,744 in 2021.

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.

An allowance is provided when it is probable 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 are determined using a customer-by-customer analysis of receivable balances each period. The allowance for uncollectable tuition and fees receivable is \$129,552 and \$70,844 at June 30, 2022 and 2021, respectively. Tuition and fees receivable net of allowance represent non-interest-bearing balances reported at net realizable value. Tuition and fees receivable are \$61,377, \$10,836, and \$56,257 at June 30, 2022, 2021, and 2020, respectively. Tuition and fees collected in advance are reported as deferred tuition and fees. At June 30, 2022, 2021, and 2020, deferred tuition and fees are \$35,547,158, \$37,105,695, and \$30,606,014, respectively. All deferred tuition and fees are expected to be recognized in the following fiscal year.

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.

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. Direct donor benefit costs represent 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 buildings 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 – 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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 77,007,818	\$ 89,337,637
Tuition and fees receivable, net	61,377	10,836
Contributions receivable, net	7,443,201	7,915,938
Investments	<u>36,882,039</u>	<u>35,541,601</u>
Total financial assets	121,394,435	132,806,012
Less financial assets not available for general expenditure:		
Restricted or designated assets for capital projects	(31,831,866)	(51,894,880)
Board-designated endowment assets	(25,118,558)	(8,269,198)
Donor-restricted assets subject to satisfaction of restriction and the passage of time	<u>(1,139,636)</u>	<u>(1,258,177)</u>
Total financial assets available for general expenditure	<u>\$ 63,304,375</u>	<u>\$ 71,383,757</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 2022.

In 2011, the School launched a capital campaign, “*Building for Our Future.*” The goal of the campaign is to provide funds to significantly enhance building structures throughout the campus. Through June 30, 2022, contributions to the campaign totaled approximately \$25.4 million before allowances and discounts.

Concentration – At June 30, 2022, approximately 38% of contributions receivable are due from two donors. At June 30, 2021, approximately 52% of contributions receivable are due from two donors. During 2022, approximately 36% of other contribution revenue recognized is from two donors. During 2021, approximately 55% of contribution revenue recognized is from one donor.

NOTE 5 – INVESTMENTS AND 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, 2022 or 2021.

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, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAV-PE</u>	<u>TOTAL</u>
Investments:				
Fixed income:				
Corporate bonds and notes		\$ 10,545,214		\$ 10,545,214
U. S. Treasury securities	\$ 7,318,014			7,318,014
U. S. Government securities		2,539,730		2,539,730
Mutual funds	354,942			354,942
Money market mutual funds	10,046,576			10,046,576
Equity securities:				
Mutual funds	1,573,401			1,573,401
Exchange-traded funds	2,211,935			2,211,935
Common stock	2,047,970			2,047,970
Alternative investment in multi-strategy fund (a)			\$ 143,212	143,212
Other		101,045		101,045
Total assets measured at fair value	<u>\$ 23,552,838</u>	<u>\$ 13,185,989</u>	<u>\$ 143,212</u>	<u>\$ 36,882,039</u>

Assets measured at fair value at June 30, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>NAV-PE</u>	<u>TOTAL</u>
Investments:				
Fixed income:				
Corporate bonds and notes		\$ 1,536,958		\$ 1,536,958
U. S. Government securities		300,902		300,902
Mutual funds	\$ 19,333,220			19,333,220
Money market mutual funds	7,962,155			7,962,155
Equity securities:				
Mutual funds	2,046,074			2,046,074
Exchange-traded funds	1,898,591			1,898,591
Common stock	2,309,155			2,309,155
Alternative investment in multi-strategy fund (a)	<u> </u>	<u> </u>	\$ 154,546	<u>154,546</u>
Total investments	33,549,195	1,837,860	154,546	35,541,601
Money market mutual funds held as cash equivalents	<u>8,979,836</u>	<u> </u>	<u> </u>	<u>8,979,836</u>
Total assets measured at fair value	<u>\$ 42,529,031</u>	<u>\$ 1,837,860</u>	<u>\$ 154,546</u>	<u>\$ 44,521,437</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:

- *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.
- *U. S. Treasury securities* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Mutual funds* are valued at the published net asset value of shares held.
- *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 investment* is 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.

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 6 – PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 14,139,756	\$ 14,139,756
Buildings and improvements	80,166,333	80,975,491
Furniture, fixtures, and equipment	11,433,999	11,044,001
Construction in progress	<u>29,973,066</u>	<u>7,244,381</u>
Total property and equipment, at cost	135,713,154	113,403,629
Accumulated depreciation	<u>(42,323,227)</u>	<u>(39,768,989)</u>
Property and equipment, net	<u>\$ 93,389,927</u>	<u>\$ 73,634,640</u>

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2022</u>	<u>2021</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	\$ 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.	<u>14,485,687</u>	<u>14,884,164</u>
Total notes payable	64,185,687	64,584,164
Unamortized debt issuance costs	<u>(347,719)</u>	<u>(360,212)</u>
Notes payable, net	<u>\$ 63,837,968</u>	<u>\$ 64,223,952</u>

Interest expense totaled approximately \$312,000 in 2022 and \$339,000 in 2021. Interest expense includes amortization of debt issuance costs of \$12,493 in 2022 and 2021. Interest of approximately \$860,000 and \$840,000 was capitalized in 2022 and 2021, respectively.

Principal payments are due as follows:

2023	\$ 643,811
2024	1,856,393
2025	1,893,177
2026	1,927,541
2027	1,962,529
Thereafter	<u>55,902,236</u>
Total notes payable	<u>\$ 64,185,687</u>

Line of credit – Awty maintains a \$3.5 million 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, 2022, there were no amounts outstanding under the line of credit.

NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2022</u>	<u>2021</u>
Property and equipment, net of related notes payable	\$ 55,379,708	\$ 54,928,040
Board-designated for general endowment	25,118,558	8,269,198
Undesignated	<u>15,270,534</u>	<u>26,812,258</u>
Total net assets without donor restrictions	<u>\$ 95,768,800</u>	<u>\$ 90,009,496</u>

The Board of Directors does not have a specific policy in regard to establishing board-designated reserves or endowments. However, the Board of Directors may designate excess cash flows for resources on endowments.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Capital projects	\$ 12,598,201	\$ 10,962,887
Student activities	774,900	744,177
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>699,560</u>	<u>766,000</u>
Total net assets with donor restrictions	<u>\$ 14,072,661</u>	<u>\$ 12,473,064</u>

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, 2022 and 2021 are as follows:

	<u>WITHOUT DONOR RESTRICTIONS</u>
Endowment net assets, June 30, 2020	\$ 6,334,866
Net investment return	<u>1,934,332</u>
Endowment net assets, June 30, 2021	8,269,198
Transfers	18,200,000
Net investment return	<u>(1,350,640)</u>
Endowment net assets, June 30, 2022	<u>\$ 25,118,558</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 endowment fund is currently in an accumulation phase and therefore there have been no distributions in fiscal years 2022 and 2021. During this time, fund assets are invested to maximize total return while maintaining a reasonable level of risk. It will be the intent of the School to provide any future spending from accumulated investment income and to avoid any drawdown of principal, unless specifically instructed to do so by a vote from the Board of Directors.

NOTE 11 – EMPLOYEE BENEFIT PLAN

Retirement benefits – Awty has a defined contribution, money purchase retirement plan covering full-time employees who have completed two years of continuous service. Awty contributed approximately \$902,000 and \$841,000 to the plan during 2022 and 2021, respectively.

Health benefits – Awty self insures health benefits for its employees. Under this plan, health benefit claims are the responsibility of Awty subject to a maximum per employee and in the aggregate limit based on the number of its employees currently covered. Awty maintains a stop-loss policy that becomes effective when individual claims rise above a predetermined amount of \$100,000 per employee or when claims aggregate to the predetermined amount of approximately \$4,600,000 in 2022 and 2021.

NOTE 12 – COMMITMENTS

At June 30, 2022, the School had outstanding contractual commitments totaling approximately \$30 million related to construction of a new Campus Center.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2022, 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.