

**THE AMARILLO COLLEGE FOUNDATION,
INCORPORATED**
Amarillo, Texas

FINANCIAL STATEMENTS
August 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
The Amarillo College Foundation, Incorporated
Amarillo, Texas

Report on Financial Statements

We have audited the accompanying financial statements of the Amarillo College Foundation, Incorporated (the Foundation) (a nonprofit organization) which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditor's 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 the audit 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 auditor's 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 Foundation'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 financial position of the Foundation as of August 31, 2018 and 2017, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Connor, McMillen, Mitchell & Shennum, PLLC

Amarillo, Texas
February 7, 2019

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
August 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash | \$ 5,486 | \$ 185,867 |
| Investments, at fair value | 41,902,611 | 39,629,416 |
| Unconditional promises to give | 8,500 | 7,000 |
| Accounts receivable | 8,813 | 6,476 |
| Computer software, net | 8,362 | - |
| Oil and gas properties | <u>674,349</u> | <u>674,349</u> |
| TOTAL ASSETS | <u><u>\$ 42,608,121</u></u> | <u><u>\$ 40,503,108</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Related party payable | \$ 35,544 | \$ 16,569 |
| Accounts payable | 61,907 | 20,101 |
| Accrued compensation payable | <u>20,573</u> | <u>19,490</u> |
| Total liabilities | <u>118,024</u> | <u>56,160</u> |
| NET ASSETS | | |
| Unrestricted | 2,534,900 | 2,487,453 |
| Temporarily restricted | 20,117,370 | 18,377,593 |
| Permanently restricted | <u>19,837,827</u> | <u>19,581,902</u> |
| Total net assets | <u>42,490,097</u> | <u>40,446,948</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 42,608,121</u></u> | <u><u>\$ 40,503,108</u></u> |

The accompanying notes are an integral part of the financial statements.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF ACTIVITIES
Year Ended August 31, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 133,385 | \$ 633,734 | \$ 233,250 | \$ 1,000,369 |
| Other revenue: | | | | |
| Interest and dividends | 49,488 | 744,328 | 6,463 | 800,279 |
| Net realized gains on investments | 328,946 | 4,997,162 | - | 5,326,108 |
| Oil and gas income | - | 103,592 | - | 103,592 |
| Net unrealized gains (losses) on investments | (181,296) | (2,750,151) | - | (2,931,447) |
| Miscellaneous revenue | - | 23,164 | - | 23,164 |
| Total other revenue | <u>197,138</u> | <u>3,118,095</u> | <u>6,463</u> | <u>3,321,696</u> |
| Net assets released from restrictions - satisfaction of time or purpose restrictions | <u>1,854,020</u> | <u>(1,870,232)</u> | <u>16,212</u> | <u>-</u> |
| Total revenue | <u>2,184,543</u> | <u>1,881,597</u> | <u>255,925</u> | <u>4,322,065</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Scholarships awarded | 1,231,458 | - | - | 1,231,458 |
| Grants awarded to other nonprofit entities | 10,048 | - | - | 10,048 |
| Institutional activities | 504,890 | - | - | 504,890 |
| Grant awarded to Amarillo College | <u>7,000</u> | <u>-</u> | <u>-</u> | <u>7,000</u> |
| Total program services | <u>1,753,396</u> | <u>-</u> | <u>-</u> | <u>1,753,396</u> |
| Supporting services: | | | | |
| Investment consulting and trustee fees | 8,871 | 141,820 | - | 150,691 |
| Management and general | 345,527 | - | - | 345,527 |
| Fundraising | 29,160 | - | - | 29,160 |
| Depreciation | <u>142</u> | <u>-</u> | <u>-</u> | <u>142</u> |
| Total supporting services | <u>383,700</u> | <u>141,820</u> | <u>-</u> | <u>525,520</u> |
| Total operating expenses | <u>2,137,096</u> | <u>141,820</u> | <u>-</u> | <u>2,278,916</u> |
| CHANGE IN NET ASSETS | <u>47,447</u> | <u>1,739,777</u> | <u>255,925</u> | <u>2,043,149</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>2,487,453</u> | <u>18,377,593</u> | <u>19,581,902</u> | <u>40,446,948</u> |
| NET ASSETS, END OF YEAR | <u>\$ 2,534,900</u> | <u>\$ 20,117,370</u> | <u>\$ 19,837,827</u> | <u>\$ 42,490,097</u> |

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF ACTIVITIES, CONTINUED
Year Ended August 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 74,037 | \$ 1,758,609 | \$ 273,957 | \$ 2,106,603 |
| Other revenue: | | | | |
| Interest and dividends | 53,681 | 801,934 | 7,511 | 863,126 |
| Net realized gains on investments | 36,051 | 539,961 | - | 576,012 |
| Oil and gas income | - | 123,865 | - | 123,865 |
| Net unrealized gains (losses) on investments | 185,706 | 2,889,487 | - | 3,075,193 |
| Miscellaneous revenue | 44,237 | 34,382 | - | 78,619 |
| Total other revenue | 319,675 | 4,389,629 | 7,511 | 4,716,815 |
| Net assets released from restrictions - satisfaction of time or purpose restrictions | 1,788,728 | (1,798,474) | 9,746 | - |
| Total revenue | 2,182,440 | 4,349,764 | 291,214 | 6,823,418 |
| EXPENSES | | | | |
| Program services: | | | | |
| Scholarships awarded | 1,075,518 | - | - | 1,075,518 |
| Grants awarded to other nonprofit entities | 8,444 | - | - | 8,444 |
| Institutional activities | 536,193 | - | - | 536,193 |
| Grant awarded to Amarillo College | 47,000 | - | - | 47,000 |
| Total program services | 1,667,155 | - | - | 1,667,155 |
| Supporting services: | | | | |
| Investment consulting and trustee fees | 9,302 | 139,038 | - | 148,340 |
| Management and general | 322,533 | - | - | 322,533 |
| Fundraising | 23,331 | - | - | 23,331 |
| Depreciation | 17,605 | - | - | 17,605 |
| Total supporting services | 372,771 | 139,038 | - | 511,809 |
| Total operating expenses | 2,039,926 | 139,038 | - | 2,178,964 |
| CHANGE IN NET ASSETS | 142,514 | 4,210,726 | 291,214 | 4,644,454 |
| NET ASSETS, BEGINNING OF YEAR | 2,344,939 | 14,166,867 | 19,290,688 | 35,802,494 |
| NET ASSETS, END OF YEAR | <u>\$ 2,487,453</u> | <u>\$ 18,377,593</u> | <u>\$ 19,581,902</u> | <u>\$ 40,446,948</u> |

The accompanying notes are an integral part of the financial statements.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF CASH FLOWS
Years Ended August 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 2,043,149 | \$ 4,644,454 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Net realized (gain) loss on investments | (5,326,108) | (576,012) |
| Net unrealized (gain) loss on investments | 2,931,447 | (3,075,193) |
| Contributions and transfers to endowment | (249,462) | (283,703) |
| Investment income - restricted | (6,463) | (7,511) |
| Noncash dividends | (727,956) | (606,818) |
| Noncash contributions | - | (54,312) |
| Noncash distributions | - | 35,000 |
| Depreciation | 142 | 17,605 |
| Change in: | | |
| Promises to give | (1,500) | 7,000 |
| Accounts receivables | (2,337) | (6,476) |
| Accrued interest receivable | - | 69,877 |
| Payables to related parties | 18,975 | (124,471) |
| Accounts payable | 41,806 | (36,126) |
| Accrued compensation payable | 1,083 | 2,194 |
| Net cash provided (used) by operating activities | <u>(1,277,224)</u> | <u>5,508</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (24,133,430) | (10,433,338) |
| Proceeds from maturities and sales of investments | 24,761,636 | 10,233,036 |
| Distributions from Master Limited Partnerships | 32,194 | 61,754 |
| Distributions from Private Equity Funds | 189,022 | - |
| Purchases of equipment | (8,504) | - |
| Net cash provided (used) by investing activities | <u>840,918</u> | <u>(138,548)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions and transfers to endowment | 249,462 | 283,703 |
| Investment income - restricted | 6,463 | 7,511 |
| Net cash provided by financing activities | <u>255,925</u> | <u>291,214</u> |
| NET INCREASE (DECREASE) IN CASH | <u>(180,381)</u> | <u>158,174</u> |
| CASH, BEGINNING OF YEAR | <u>185,867</u> | <u>27,693</u> |
| CASH, END OF YEAR | <u><u>\$ 5,486</u></u> | <u><u>\$ 185,867</u></u> |
| Supplemental Cash Flow Information: | | |
| Contributed services | \$ 30,932 | \$ 28,251 |

The accompanying notes are an integral part of the financial statements.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Amarillo College Foundation, Incorporated (the Foundation) is a nonprofit organization founded in 1962 to function as a legal conduit for the acceptance, investment and distribution of private gifts and grants given for the funding of activities and programs primarily related to the mission, role and scope of Amarillo College. The Board of Directors of the Foundation is composed of no more than 27 directors including three members of the Amarillo College Board of Regents, the President and the Vice President of Business Affairs of Amarillo College and other selected members of the Foundation who are not directly affiliated with Amarillo College.

Basis of Accounting

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* (or ASC 958-205), and is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Foundation or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Foundation. Generally, the donors permit the Foundation to use all or part of the income earned for either general or donor-specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of fair value of financial instruments, actual results could differ from those estimates.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

The Foundation also follows FASB ASC Subtopic 958-605, *Not-for-Profit Entities: Revenue Recognition* (or ASC 958-605). Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are required to be recorded when received and such contributions are required to be reported as permanently restricted support or temporarily restricted support and are then reclassified to unrestricted net assets upon satisfaction of donor restrictions.

Cash and Cash Equivalents

The Foundation's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

In accordance with FASB ASC Subtopic 958-320, *Not-for-Profit Entities: Investments* (or ASC 958-320) and Subtopic 958-225, *Not-for-Profit Entities: Income Statement* (or ASC 958-225), marketable equity and all debt securities are recorded at fair value and the realized and unrealized gains and losses on investments are recorded as increases or decreases in unrestricted, temporarily restricted or permanently restricted net assets based upon donor-imposed restrictions or applicable law.

The fair values of marketable equity and marketable debt securities are based on quoted market prices. The historical cost of money market funds and certificates of deposit approximates fair value because of the short maturity of those instruments. Other investments' fair values are generally estimated to approximate amortized cost.

For investments with limited marketability, including investments in certain partnerships, the Foundation has adopted the concept of "practical expedient," under which investments are stated at estimated fair value using net asset values as provided by the general partners and fund managers and as reviewed by management. These net asset values are based on underlying securities and holdings, which may be valued at quoted market prices comparable investments, appraised values, or discounted cash flows. As a practical expedient to determine fair value, investments in fund of funds are reported using net asset values of the underlying funds as provided by the individual fund managers. The fund of funds manager reserves the right to adjust the reported net asset value if it is deemed not to be reflective of fair value. Because of the inherent uncertainty of valuations of investments in the underlying funds, their estimated values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the difference could be material. Management relies upon the audited financial statements of the fund of funds performed by a third-party auditor. Interest and dividend income is presented net of investment advisory/management fees and is reflected as net interest and dividends in the statement of activities.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Investment income is reported as unrestricted or temporarily restricted unless otherwise restricted by the donor or required by accounting convention. All appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor, applicable law, or accounting convention.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation. The capitalization policy includes items valued at \$5,000 or more and a useful life of greater than two years. The costs of normal maintenance and repairs that do not add to the asset or materially extend the assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation/amortization is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

| | |
|-------------------|---------|
| Computer software | 5 years |
|-------------------|---------|

Oil and Gas Properties

Oil and gas properties are recorded at estimated fair value at date of gift.

Contributions and Revenue Recognition

The Foundation reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the Statement of Activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income Tax Status

The Foundation, a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code, is exempt from paying income taxes pursuant to Section 501(a) of the Code, except to the extent it has unrelated business taxable income. The Foundation is not classified by the Internal Revenue Service (IRS) as a private foundation. The Foundation believes that it has taken no significant uncertain tax positions.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

The Foundation's Federal tax returns for 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

Services Received from a Related Party

The Foundation receives accounting services from employees of Amarillo College, and the value of these services is measured by the Foundation at the cost recognized by Amarillo College for the personnel providing such services. The Foundation recognized in-kind contribution revenue and an offsetting in-kind expense, located in management and general operating expense, of approximately \$41,000 and \$28,000 for the years ended August 31, 2018 and 2017, respectively.

NOTE 2 - INVESTMENTS

A summary of investments at August 31, 2018 and 2017 follows:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain (Loss)</u> |
|---------------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| <u>August 31, 2018</u> | | | |
| Money market mutual funds | \$ 6,359,766 | \$ 6,359,766 | \$ - |
| Mutual funds | 15,458,417 | 16,023,893 | 565,476 |
| Private global equity fund | 10,000,000 | 11,097,884 | 1,097,884 |
| Private equity fund of funds | 915,375 | 1,294,135 | 378,760 |
| Fund of hedge funds - absolute return | 4,750,000 | 6,583,869 | 1,833,869 |
| Angeles private fund | 537,506 | 543,064 | 5,558 |
| Total | <u>\$ 38,021,064</u> | <u>\$ 41,902,611</u> | <u>\$ 3,881,547</u> |
| <u>August 31, 2017</u> | | | |
| Money market mutual funds | \$ 60,566 | \$ 60,566 | \$ - |
| Mutual funds | 25,201,167 | 30,525,166 | 5,323,999 |
| Exchange traded funds | 622,264 | 710,767 | 88,503 |
| Master limited partnership fund | 1,167,136 | 876,639 | (290,497) |
| Private equity fund of funds | 799,672 | 1,026,746 | 227,074 |
| Fund of hedge funds - absolute return | 4,750,000 | 6,217,903 | 1,467,903 |
| Angeles private fund | 220,133 | 211,629 | (8,504) |
| Total | <u>\$ 32,820,938</u> | <u>\$ 39,629,416</u> | <u>\$ 6,808,478</u> |

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS

The Foundation adopted Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, as guidance on fair value measurements. The standard established a three-level valuation hierarchy for disclosure based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset's fair value measurement level within the hierarchy is based on the lowest level of input that is significant to the valuation.

The three levels are defined as follows:

- Level 1 – Quoted or published prices for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs were not available. In accordance with ASU-2015-17, investments for which fair value is measured using net asset value have not been categorized within the fair value hierarchy.

Assets Measured at Fair Value on a Recurring Basis

| | Fair Value | Fair Value Measurements Using: | | | |
|---------------------------------------|----------------------|---|---|------------------------------------|------------------------|
| | | Quoted Prices in Active Identical Assets (Level 1) | Significant Other Inputs (Level 2) | Significant Inputs (Level 3) | Measured at NAV (1) |
| <u>August 31, 2018:</u> | | | | | |
| Money market mutual funds | \$ 6,359,766 | \$ 6,359,766 | \$ - | \$ - | \$ - |
| Mutual funds | 16,023,893 | 16,023,893 | - | - | - |
| Private global equity fund | 11,097,884 | - | - | - | 11,097,884 |
| Private equity fund of funds | 1,294,135 | - | - | - | 1,294,135 |
| Fund of hedge funds - absolute return | 6,583,869 | - | - | - | 6,583,869 |
| Private markets fund | 543,064 | - | - | - | 543,064 |
| | <u>\$ 41,902,611</u> | <u>\$ 22,383,659</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 19,518,952</u> |

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis (Continued)

| | | Fair Value Measurements Using: | | | |
|---------------------------------------|--------------------------|---|---|------------------------------------|------------------------|
| | | Quoted Prices in Active Identical Assets (Level 1) | Significant Other Inputs (Level 2) | Significant Inputs (Level 3) | Measured at NAV (1) |
| <u>August 31, 2017:</u> | <u>Fair Value</u> | | | | |
| Money market mutual funds | \$ 60,566 | \$ 60,566 | \$ - | \$ - | \$ - |
| Mutual funds | 30,525,166 | 30,525,166 | - | - | - |
| Exchange traded funds | 710,767 | 710,767 | - | - | - |
| Master limited partnership fund | 876,639 | - | - | - | 876,639 |
| Private equity fund of funds | 1,026,746 | - | - | - | 1,026,746 |
| Fund of hedge funds - absolute return | 6,217,903 | - | - | - | 6,217,903 |
| Private markets fund | 211,629 | - | - | - | 211,629 |
| | <u>\$ 39,629,416</u> | <u>\$ 31,296,499</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,332,917</u> |

(1) Investments measured at NAV are presented in the table to allow for reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

For the valuation of certain mutual funds and exchange-traded funds at August 31, 2018 and 2017, the Foundation used quoted prices in principal active markets for identical assets as of the valuation date (Level 1).

Fair Value Measurements Using Significant Unobservable Inputs

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of August 31, 2018 and 2017:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|--|------------------------------|--|--|--|
| <u>August 31, 2018:</u> | | | | |
| Fund of hedge funds – absolute return (a) | \$ 6,583,869 | \$ – | Quarterly | 90 Days |
| Private equity fund of funds (b) | 1,294,135 | 402,000 | N/A | N/A |
| Private global equity fund (f) | 11,097,884 | – | N/A | Monthly w/ 16 Business Days |
| Private markets fund (d) (e) | <u>543,064</u> | <u>961,405</u> | N/A | N/A |
| Totals | <u>\$19,518,952</u> | <u>\$ 1,363,405</u> | | |
| <u>August 31, 2017:</u> | | | | |
| Fund of hedge funds – absolute return (a) | \$ 6,217,903 | \$ – | Quarterly | 90 Days |
| Private equity fund of funds (b) | 1,026,746 | 612,000 | N/A | N/A |
| Master limited partnership fund (c) | 876,639 | – | Monthly | 30 Days |
| Private markets fund (d) (e) | <u>211,629</u> | <u>1,276,257</u> | N/A | N/A |
| Totals | <u>\$ 8,332,917</u> | <u>\$ 1,888,257</u> | | |

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis (Continued)

- (a) The strategies of the underlying hedge funds in this category include long/short equity, multi-strategy, credit and global macro. The portfolio managers may utilize leverage, engage in short-selling, access the option and future markets, and engage in a wide variety of over-the-counter derivative transactions. Some funds may invest in illiquid investments, which are typically segregated into "side pockets" (sub funds within the investment fund) and are not available for redemption until the investment is liquidated by the manager.

Certain investments in this category have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions if they receive redemptions in excess of the gate (a level stated in their governing documents). Several of the underlying hedge funds contain lock-up periods of up to one year. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

- (b) The strategies of the private equity fund of funds are to offer the mix of primary, secondary, and direct co-investments which is expected to accelerate capital deployment while seeking to generate both early and long-term performance. This diversified global fund of funds invests in a combination of primary partnerships, secondary investments, and direct co-investments. Private equity investments are defined in the partnership agreement as investments in buyout, growth equity, venture capital, distressed debt, special situation recapitalization, and other private equity transactions. No limited partner may assign or otherwise transfer all or any part in the Partnership to another entity unless the General Partner has consented to the transfer in writing in accordance with the partnership agreement. The Partnership is scheduled to terminate on June 30, 2024. The General Partner may extend the Partnership for up to three one-year periods. The fair values of the investment in this category have been estimated using the net asset value per share of the investment.
- (c) The strategies of the Master Limited Partnership (MLP) fund are to seek absolute return by investing in long-only in income producing publicly traded MLPs with a particular focus on energy sector MLPs.
- (d) The strategies of the Private markets fund is to achieve attractive risk-adjusted returns that are not highly correlated with traditional asset classes by investing in investment funds advised by investment managers primarily pursuing private equity, real estate, private debt and/or real assets strategies and co-investments into direct investments in equity or debt alongside portfolio funds or other direct investments in equity or debt. The fund maintains clawback provisions for all partners.
- (e) This nonmarketable fund does not permit redemptions. The timing of the return of capital is at the manager's discretion, subject to provisions documented in limited partnership agreements. In general, capital and realized gains are distributed to investors when an investment is liquidated. It is estimated that the term of the fund will be ten years following

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
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NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis (Continued)

final closing of the fund. However, the general partner in its sole discretion may extend the term of the Fund for up to four one-year extensions and may further extend the term of the Fund in the event the Portfolio has not been liquidated.

- (f) The strategy of the Fund is to achieve attractive risk-adjusted returns versus its benchmark index by investing assets with a group of independent investments managers primarily pursuing long-only public equity strategies.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the estimated fair value of investments reported in the statement of financial position as of August 31, 2018 and 2017. However, the diversification of the Foundation's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

The Foundation's policy is to recognize transfers between Levels 1, 2 and 3 and transfers due to strategy reclassifications, if any, as if the transfer occurred at the beginning of the year. For the year ended August 31, 2018 and 2017, the Foundation had no transfers.

A summary of investments classified according to any restrictions at August 31, 2018 and 2017 is as follows:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|----------------------------|----------------------------|
| Unrestricted investments | <u>\$ 2,630,263</u> | <u>\$ 2,351,270</u> |
| Restricted investments: | | |
| Temporarily restricted | 20,108,870 | 18,370,593 |
| Permanently restricted | <u>19,163,478</u> | <u>18,907,553</u> |
| Total restricted investments | <u>39,272,348</u> | <u>37,278,146</u> |
| Total investments | <u>\$41,902,611</u> | <u>\$39,629,416</u> |

Assets Measured at Fair Value on a Nonrecurring Basis

There were no fair values of assets and liabilities measured on a nonrecurring basis at August 31, 2018 and 2017.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 4 - UNCONDITIONAL PROMISES

The Foundation anticipates collections of unconditional promises to give at August 31, 2018 and 2017, as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------|------------------------|------------------------|
| Less than one year | \$ 8,500 | \$ 7,000 |
| Total | <u>\$ 8,500</u> | <u>\$ 7,000</u> |

The Foundation has determined all amounts to be collectible; therefore, no allowance for doubtful accounts is maintained.

NOTE 5 - COMPUTER SOFTWARE

A summary of computer software as of August 31 follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|------------------------|--------------------|
| Computer software | \$ 143,681 | \$ 135,177 |
| Less accumulated depreciation | <u>(135,319)</u> | <u>(135,177)</u> |
| Temporarily restricted | <u>\$ 8,362</u> | <u>\$ –</u> |

Depreciation expense for the years ended August 31, 2018 and 2017 was \$142 and \$17,605, respectively.

NOTE 6 - COMPENSABLE ABSENCES

Foundation employees receive the same benefits as Amarillo College (College) employees including compensable absences. Full-time employees earn annual leave from eight to twelve hours per month depending on the number of years employed with the Foundation. The Foundation's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 160 for those employees with five or less years of service, up to 200 hours for those employees with more than five years but under ten years of service, and up to 240 hours for those employees with more than ten years of service. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The Foundation recognized the accrued liability for the unpaid annual leave in the amount of \$20,573 and \$19,490 as of August 31, 2018 and 2017, respectively. Sick leave, which can be accumulated up to 120 days, is earned at the rate of eight hours per month; however, sick leave is not paid at termination. The Foundation's policy is to recognize the cost of sick leave when utilized by employees.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
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NOTE 7 - OIL AND GAS PROPERTIES

During fiscal year 2001, a living trust (the Trust) elected to contribute certain oil and gas properties to the Foundation. Effective January 1, 2008, the Foundation conveyed all of its rights, title, and interest in 50% of the properties to a certain other nonprofit entity. The amount conveyed was \$674,349. The Foundation received approximately \$104,000 and \$124,000 during the years ended August 31, 2018 and 2017, respectively, for oil and gas income related to the properties. During the years ended August 31, 2018 and 2017, the Foundation distributed approximately \$10,000 and \$8,500, respectively, of the oil and gas income received to another nonprofit entity.

NOTE 8 - THE SYBIL B. HARRINGTON SCHOLARSHIP FUND

On December 27, 1989, Sybil B. Harrington established the Sybil B. Harrington Scholarship Fund at the Foundation. It is an endowment fund to provide scholarships to academically deserving high school graduates from the northern 26 counties of Texas and Amarillo College graduates.

Annually, five percent of the income will be retained and contributed to the corpus of the fund, until such time as the corpus reaches \$5,000,000. Income from the funds in excess of the 5% is to be allocated 80% for scholarships to eligible high school graduates to attend accredited Texas colleges and universities other than Amarillo College, 10% for scholarships to eligible Amarillo College applicants, and 10% for scholarships to eligible Amarillo College graduates.

During the years ended August 31, 2018 and 2017, the Foundation awarded approximately \$221,000 and \$249,000, respectively, in scholarships from this fund. As of August 31, 2018 and 2017, the total net assets are approximately \$6,822,000 and \$6,513,000, respectively.

NOTE 9 - RESTRICTED NET ASSETS

Temporarily restricted net assets consist of funds primarily for scholarships from various estates, trusts, and other contributions that are generally time and use restricted.

Temporarily restricted net assets are available for the following purposes at August 31, 2018 and 2017.

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-----------------------------|-----------------------------|
| Scholarships | \$ 13,729,176 | \$ 12,382,324 |
| Programs/Other specific purpose | <u>6,388,194</u> | <u>5,995,269</u> |
| | <u>\$ 20,117,370</u> | <u>\$ 18,377,593</u> |

Permanently restricted net assets consist of endowment investments to be held indefinitely, the income from which is generally restricted based upon donor-imposed restrictions or applicable law.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
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NOTE 10 - ENDOWMENTS

Effective September 1, 2007, the State of Texas enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date.

FASB ASC Subtopic 958-205, *Not-for-Profit: Financial Statement*, (ASC 958-205) provides guidance on the net asset classification of donor-restricted funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation's endowment consists of donor-restricted endowment funds and does not include any funds designated by the Board of Directors to function as endowments. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Based on the interpretation of UPMIFA by the Board of Directors of the Foundation, the guidance in ASC 958-205, and absent explicit donor stipulations to the contrary, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) the duration and preservation of the fund
- 2) the purposes of the Foundation and the donor-restricted endowment fund
- 3) general economic conditions
- 4) the possible effect of inflation and deflation
- 5) the expected total return from income and the appreciation of investments
- 6) other resources of the Foundation
- 7) the investment policies of the Foundation

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 10 - ENDOWMENTS (CONTINUED)

Net asset classification by type of endowment as of August 31, 2018, is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------|
| <u>August 31, 2018:</u> | | | | |
| Donor-restricted endowment funds | \$ - | \$ 11,486,597 | \$ 19,837,827 | \$ 31,324,424 |

Changes in endowment net assets for the year ended August 31, 2018, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------|
| <u>August 31, 2018:</u> | | | | |
| Endowment net assets, August 31, 2017 | \$ - | \$ 10,277,495 | \$ 19,581,902 | \$ 29,859,397 |
| Investment return | - | 4,891,100 | 6,463 | 4,897,563 |
| Net depreciation | - | (2,511,067) | - | (2,511,067) |
| Total investment return | - | 2,380,033 | 6,463 | 2,386,496 |
| Contributions | - | - | 233,250 | 233,250 |
| Reclassification | - | 44,652 | 16,212 | 60,864 |
| Appropriation of endowment assets for expenditure | - | (1,215,583) | - | (1,215,583) |
| Endowment net assets, August 31, 2018 | \$ - | \$ 11,486,597 | \$ 19,837,827 | \$ 31,324,424 |

Net asset classification by type of endowment as of August 31, 2017, is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------|
| <u>August 31, 2017:</u> | | | | |
| Donor-restricted endowment funds | \$ - | \$ 10,277,495 | \$ 19,581,902 | \$ 29,859,397 |

Changes in endowment net assets for the year ended August 31, 2017, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------|
| <u>August 31, 2017:</u> | | | | |
| Endowment net assets, August 31, 2016 | \$ - | \$ 7,962,006 | \$ 19,290,688 | \$ 27,252,694 |
| Investment return | - | 1,073,452 | 7,511 | 1,080,963 |
| Net depreciation | - | 2,310,655 | - | 2,310,655 |
| Total investment return | - | 3,384,107 | 7,511 | 3,391,618 |

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 10 - ENDOWMENTS (CONTINUED)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| August 31, 2017: (Continued) | | | | |
| Contributions | - | - | 273,957 | 273,957 |
| Reclassification | - | 12,214 | 9,746 | 21,960 |
| Appropriation of endowment assets for expenditure | - | (1,080,832) | - | (1,080,832) |
| Endowment net assets, August 31, 2017 | <u>\$ -</u> | <u>\$ 10,277,495</u> | <u>\$ 19,581,902</u> | <u>\$ 29,859,397</u> |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the fund. There were no deficiencies of this nature as of August 31, 2018 and 2017.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historical dollar value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. The Foundation currently expects its endowment funds, over time, to provide total investment rate of return over the long term which exceeds the rate of inflation as measured by the Consumer Price Index (CPI) by at least 3%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term, rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy which allows for appropriating expenditures each year up to 3% of its endowment fund's average fair value over the prior five years through the calendar year-end preceding the fiscal year in which the expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 11 - TRANSACTIONS WITH AFFILIATES

The primary purpose of the Foundation is to support the educational and other activities of various entities, including Amarillo College (the College). The Foundation awards scholarships to eligible students. During the years ended August 31, 2018 and 2017, the Foundation awarded approximately \$1,042,000 and \$844,000, respectively, to students of the College.

In addition, the College provides the Foundation with facilities in which to conduct the Foundation's business. The Foundation recognized \$19,200 as facility costs in 2018. Prior to this year the Foundation has not recognized this expense as it was not deemed determinable.

In 2017, the College also contributed the salary and benefits for one employee who is solely dedicated to working for the Foundation. The cost of this employee is recorded in other revenue as a like-kind contribution and offset in the management and general expenses. The amount recorded as a like-kind contribution was \$44,237 for the fiscal year ended 2017. The College did not contribute these salary and benefits in 2018.

Amarillo College provides payroll services for four Foundation employees. These employees are afforded the same benefits as College employees. During the years ended August 31, 2018 and 2017, the Foundation reimbursed the College approximately \$246,000 and \$190,000, respectively, for salaries and benefits.

During the 2012/2013 year and the 2013/2014 year the Foundation performed a campaign to raise capital support for the construction of the Amarillo College Hereford Campus. When the funds had been raised by the Foundation, the Foundation gifted the monies to the College. The Foundation has continued to receive contributions for the Hereford Campus and all contributions have been gifted to the College. For the years ended August 31, 2018 and 2017, the total amount of funds given to the College was \$7,000 and \$12,000, respectively.

During the 2015/2016 year the Foundation received \$1,500,000 from the Don and Sybil Harrington Foundation to be gifted to Amarillo College for construction on the East Campus. During 2016/2017 the Foundation received approximately \$283,000 for other capital improvements at Amarillo College. No additional capital improvement contributions were received in 2017/2018.

In the 2016/2017 year the Foundation received an in-kind donation of a truck engine valued at \$35,000, this engine was donated to Amarillo College for use in their diesel program. In 2017/2018, \$58,000 was received by the Foundation and gifted to the College for the purchase of a diesel engine.

NOTE 12 - RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 12 - RISKS AND UNCERTAINTIES (CONTINUED)

with certain investment securities, 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.

NOTE 13 - CONTINGENCIES

The federal matching grant programs are governed by various rules and regulations of the grantor agency. Costs charged to these programs are subject to audit and adjustment by the grantor agency. In the opinion of the Foundation's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for the Foundation July 1, 2019. Early application is permitted for the Foundation. The Foundation is evaluating the effect that ASU 2014-09 and 2015-14 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows.

The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes;
- Investment Return;
- Expenses;
- Liquidity and Availability of Resources; and
- Presentation of Operating Cash Flows.

THE AMARILLO COLLEGE FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Not-for-profit organizations that will be affected include charities, foundations, colleges and universities, health care providers, religious organization, trade associations, and cultural institutions, among others. The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is evaluating the effect of this pronouncement.

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This statement clarifies GAAP specific guidance on eight cash flow classification issues, thereby reducing the current potential future diversity in practice. This statement is effective for annual financial statements with fiscal years beginning after December 31, 2018. This statement is not expected to have a significant impact on the Foundation.

NOTE 15 - SUBSEQUENT EVENT

As of December 31, 2018, the Foundation's investment portfolio had a loss of approximately \$1,384,000. Management considers this loss to be temporary.

The Foundation has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to February 7, 2019, the date that the financial statements were available to be issued.

This information is an integral part of the accompanying financial statements.