

Amigos de las Américas

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Amigos de las Américas

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Amigos de las Américas:

Report on the Financial Statements

We have audited the accompanying financial statements of Amigos de las Américas, which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities and of cash flows for the years then ended, and the related statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of Amigos de las Américas as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Amigos de las Américas adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019 on our consideration of Amigos de las Américas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Amigos de las Américas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Amigos de las Américas' internal control over financial reporting and compliance.

Blazek & Vetterling

September 6, 2019

Amigos de las Américas

Statements of Financial Position as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 413,177	\$ 431,131
Receivable from AMIGOS Foundation <i>(Note 4)</i>	7,350	18,551
Receivable from AMIGOS Chapters <i>(Note 4)</i>	28,447	32,832
Government grant receivable	176,833	10,536
Prepaid expenses and other assets	264,267	359,071
Property, net <i>(Note 5)</i>	434,157	450,651
Investments <i>(Note 6)</i>	<u>1,515,336</u>	<u>1,609,865</u>
TOTAL ASSETS	<u>\$ 2,839,567</u>	<u>\$ 2,912,637</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 230,189	\$ 163,067
Due to AMIGOS Chapters <i>(Note 4)</i>	9,647	7,959
Participant deposits	37,151	33,994
Deferred revenue	191,600	85,146
Note payable <i>(Note 7)</i>	<u>46,059</u>	<u>70,636</u>
Total liabilities	<u>514,646</u>	<u>360,802</u>
Net assets:		
Without donor restrictions	1,991,735	2,237,624
With donor restrictions <i>(Notes 8 and 9)</i>	<u>333,186</u>	<u>314,211</u>
Total net assets	<u>2,324,921</u>	<u>2,551,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,839,567</u>	<u>\$ 2,912,637</u>

See accompanying notes to financial statements.

Amigos de las Américas

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Participant fees, net of financial aid of \$139,201	\$ 2,910,849		\$ 2,910,849
U. S. Department of State grants	804,753		804,753
Contributions	410,339	\$ 46,306	456,645
AMIGOS Foundation grant <i>(Note 4)</i>	89,416		89,416
AMIGOS Chapter training fees	8,900		8,900
AMIGOS Board and Chapter meeting fees	48,686		48,686
Special events	211,030		211,030
Cost of special event benefits	(102,813)		(102,813)
Net investment return	(35,422)	(8,641)	(44,063)
Other	<u>31,150</u>		<u>31,150</u>
Total revenue	4,376,888	37,665	4,414,553
Net assets released from restrictions:			
Financial aid and program support	<u>18,690</u>	<u>(18,690)</u>	
Total	<u>4,395,578</u>	<u>18,975</u>	<u>4,414,553</u>
EXPENSES:			
Program	3,440,722		3,440,722
Management and general	498,614		498,614
Fundraising	302,583		302,583
Marketing	<u>399,548</u>		<u>399,548</u>
Total expenses	<u>4,641,467</u>		<u>4,641,467</u>
CHANGES IN NET ASSETS	(245,889)	18,975	(226,914)
Net assets, beginning of year	<u>2,237,624</u>	<u>314,211</u>	<u>2,551,835</u>
Net assets, end of year	<u>\$ 1,991,735</u>	<u>\$ 333,186</u>	<u>\$ 2,324,921</u>

See accompanying notes to financial statements.

Amigos de las Américas

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Participant fees, net of financial aid of \$121,171	\$ 2,946,562		\$ 2,946,562
U. S. Department of State grants	480,952		480,952
Contributions	441,957	\$ 4,001	445,958
AMIGOS Foundation (Note 4):			
Management fee	140,000		140,000
Grant	62,179		62,179
AMIGOS Chapter training fees	19,150		19,150
AMIGOS Board and Chapter meeting fees	44,201		44,201
Special events	38,040		38,040
Cost of special event benefits	(9,066)		(9,066)
Net investment return	143,938	35,672	179,610
Other	<u>15,600</u>		<u>15,600</u>
Total revenue	4,323,513	39,673	4,363,186
Net assets released from restrictions:			
Financial aid and program support	<u>60,692</u>	<u>(60,692)</u>	
Total	<u>4,384,205</u>	<u>(21,019)</u>	<u>4,363,186</u>
EXPENSES:			
Program	3,171,130		3,171,130
Management and general	390,015		390,015
Fundraising	377,456		377,456
Marketing	<u>288,319</u>		<u>288,319</u>
Total expenses	<u>4,226,920</u>		<u>4,226,920</u>
CHANGES IN NET ASSETS	157,285	(21,019)	136,266
Net assets, beginning of year (Note 2)	<u>2,080,339</u>	<u>335,230</u>	<u>2,415,569</u>
Net assets, end of year	<u>\$ 2,237,624</u>	<u>\$ 314,211</u>	<u>\$ 2,551,835</u>

See accompanying notes to financial statements.

Amigos de las Américas

Statement of Functional Expenses for the year ended December 31, 2018

	<u>PROGRAM</u>	MANAGEMENT AND <u>GENERAL</u>	<u>FUNDRAISING</u>	<u>MARKETING</u>	<u>TOTAL EXPENSES</u>
Salaries and other costs	\$ 1,359,946	\$ 296,402	\$ 159,893	\$ 190,168	\$ 2,006,409
Travel	1,366,372	13,625	21,857	5,034	1,406,888
Professional fees and contract services	164,935	72,489	13,991	199	251,614
Program supplies	248,746				248,746
Occupancy	113,446	25,781	13,679	17,043	169,949
Advertising and promotional supplies		2,405		106,027	108,432
Dues, taxes and fees	51,533	25,652	15,366	1,176	93,727
Information technology	55,116	2,362	6,192	29,986	93,656
Printing and postage	26,566	7,833	23,783	23,027	81,209
Meetings, events and workshops	20,868	28,017	3,019	20,753	72,657
Office and event supplies	961	8,688	35,871	70	45,590
Insurance	19,039	4,249	2,299	2,718	28,305
Depreciation	11,095	2,476	1,339	1,584	16,494
Other	<u>2,099</u>	<u>8,635</u>	<u>5,294</u>	<u>1,763</u>	<u>17,791</u>
Total expenses	<u>\$ 3,440,722</u>	<u>\$ 498,614</u>	<u>\$ 302,583</u>	<u>\$ 399,548</u>	4,641,467
Cost of special event benefits					<u>102,813</u>
Total					<u>\$ 4,744,280</u>

See accompanying notes to financial statements.

Amigos de las Américas

Statements of Cash Flows for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (226,914)	\$ 136,266
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Realized and unrealized (gain) loss on investments	71,320	(155,446)
Depreciation	16,494	28,143
Changes in operating assets and liabilities:		
Contributions receivable		25,000
Receivable from AMIGOS Foundation	11,201	(18,551)
Receivable from AMIGOS Chapters	4,385	(10,473)
Government grant receivable	(166,297)	24,835
Prepaid expenses and other assets	94,804	(130,109)
Accounts payable and accrued expenses	67,122	3,150
Due to AMIGOS Foundation		(13,729)
Due to AMIGOS Chapters	1,688	(7,109)
Participant deposits	3,157	23,604
Deferred revenue	<u>106,454</u>	<u>10,371</u>
Net cash used by operating activities	<u>(16,586)</u>	<u>(84,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(398,625)	(634,438)
Proceeds from sales and maturities of investments	422,890	633,933
Net change in money market mutual funds held as investments	<u>(1,056)</u>	<u>(28,189)</u>
Net cash provided (used) by investing activities	<u>23,209</u>	<u>(28,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	<u>(24,577)</u>	<u>(23,384)</u>
NET CHANGE IN CASH	(17,954)	(136,126)
Cash, beginning of year	<u>431,131</u>	<u>567,257</u>
Cash, end of year	<u>\$ 413,177</u>	<u>\$ 431,131</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$3,076	\$4,267

See accompanying notes to financial statements.

Amigos de las Américas

Notes to Financial Statements for the years ended December 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Amigos de las Américas (AMIGOS) is a nonprofit organization incorporated in Texas that inspires and builds young leaders through collaborative community development and immersion in cross-cultural experiences throughout the Americas. The National Office of AMIGOS plans and implements field projects in the United States and Latin America and provides materials and support for volunteer recruitment and training.

Affiliates – AMIGOS is affiliated with Foundation for Amigos de las Américas (AMIGOS Foundation), a Texas nonprofit corporation formed in 2003 to support the youth leadership and sustainable development work of AMIGOS. AMIGOS also is affiliated with 25 chapters (AMIGOS Chapters) throughout the United States which recruit, fundraise, train, organize, and support participants and their families. AMIGOS Foundation and AMIGOS Chapters are separately incorporated organizations governed by independent boards of directors which share AMIGOS' mission and vision.

Basis of presentation – These financial statements do not include the assets, liabilities, net assets or activities of AMIGOS Foundation or AMIGOS Chapters.

Federal income tax status – AMIGOS holds a group exemption under which AMIGOS and AMIGOS Chapters are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and are classified as public charities under §509(a)(1) and §170(b)(1)(A)(vi).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Government grant receivable that is expected to be collected within one year is reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows.

Allowance for receivables – An allowance is provided when it is believed balances may not be collected in full. The amount of bad debt expense or loss on contributions receivable recognized each period and the resulting adequacy of the allowance at the end of each period are determined using an individual account-by-account analysis of receivable balances. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

Property is reported at cost if purchased or estimated fair value at the date of the gift if donated using capitalization thresholds of \$1,000 for equipment and \$5,000 for furniture and software. Depreciation is computed using the straight-line method over estimated useful lives of three to five years for furniture, equipment, and software.

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.

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. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Participant fees are recognized over the period the participants' program occurs. Fees received for programs that have not yet occurred or have not yet been completed are reported as deferred revenue until earned.

U. S. Department of State grants are recognized as the related expenses are incurred.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met. However, contributions for which restrictions are met in the period of recognition are reported as unrestricted.

In-kind contributions – Donated materials and use of facilities are recognized as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Except for the professional staff in Houston, most persons connected with AMIGOS are volunteers. While such services are indispensable to AMIGOS, no amount is recognized in these financial statements for such services as they do not meet the criteria for recognition under generally accepted accounting principles.

Related party meeting and training fees are recognized as the services are provided.

Special events revenue is recognized when the event occurs. Amounts received in advance of the event are reported in the statement of financial position as deferred revenue. The cost of special event benefits represents the cost of goods and services provided to attendees of special events.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services 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. Marketing is a supporting activity that includes the promotion of AMIGOS and its programs to potential participants but is exclusive of fundraising activities. Expenses that are attributable to one or more programs or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*.

The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when revenue is recognized. Management plans to adopt the ASU on a retrospective basis in fiscal year 2019 and does not expect adoption to have a significant impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. AMIGOS plans to adopt this ASU for fiscal year 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

AMIGOS adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources and presentation of expenses by both nature and function has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

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 December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	\$ 413,177
Receivables and other assets	266,181
Investments	<u>1,515,336</u>
Total financial assets	<u>2,194,694</u>
Less financial assets not available for general expenditure:	
Donor-restricted endowment assets	283,586
Other donor-restricted assets subject to satisfaction of restriction	<u>9,054</u>
Total financial assets available for general expenditure	<u>\$ 1,902,054</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, AMIGOS considers all expenditures related to its mission and ongoing activities, as well as all expenditures made toward functions that support those activities, to be general expenditures.

As part of AMIGOS' liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash and investments.

NOTE 4 – TRANSACTIONS WITH AMIGOS FOUNDATION AND AMIGOS CHAPTERS

In 2014, AMIGOS entered into an affiliation agreement with AMIGOS Foundation. AMIGOS Foundation works with AMIGOS in its activities to educate persons and institutions in the United States and elsewhere about initiatives and activities performed by AMIGOS in Latin America and elsewhere. AMIGOS Foundation and AMIGOS also entered into a shared services agreement for AMIGOS to provide certain management and support services. The shared service agreement was suspended for fiscal year 2018.

During 2017, AMIGOS charged AMIGOS Foundation a fee of \$140,000 for general management and fundraising services and AMIGOS Foundation reimbursed AMIGOS \$88,044 for estimated direct employee costs. AMIGOS Foundation awarded grants of \$89,416 and \$62,179 to AMIGOS during 2018 and 2017, respectively.

At times, AMIGOS receives contributions intended for AMIGOS Foundation and pays expenses on behalf of AMIGOS Foundation. The amount reported as receivable from or payable to AMIGOS Foundation is the net amount due from all transactions between AMIGOS and AMIGOS Foundation.

AMIGOS Chapters fundraise and collect fees for participants they recruit and train. AMIGOS invoices AMIGOS Chapters for fees for their respective participants. AMIGOS' employees provide training and other support to some AMIGOS Chapters for which AMIGOS is reimbursed.

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 409,721	\$ 409,721
Furniture and equipment	524,366	524,366
Software	<u>215,086</u>	<u>215,086</u>
Total property	1,149,173	1,149,173
Accumulated depreciation	<u>(715,016)</u>	<u>(698,522)</u>
Property, net	<u>\$ 434,157</u>	<u>\$ 450,651</u>

NOTE 6 – 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.

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Healthcare	\$ 144,998			\$ 144,998
Information technology	103,993			103,993
Industrials	94,137			94,137
Financials	87,541			87,541
Telecommunications	71,496			71,496
Consumer staples	51,173			51,173
Consumer discretionary	50,739			50,739
Utilities	42,446			42,446
Energy	34,748			34,748
Materials	32,029			32,029
Real estate	24,289			24,289
Fixed-income bonds:				
Corporate		\$ 350,212		350,212
Municipal		198,197		198,197
Government agency		48,867		48,867
Mutual funds:				
Money market	131,686			131,686
Fixed-income bond	<u>48,785</u>			<u>48,785</u>
Total assets measured at fair value	<u>\$ 918,060</u>	<u>\$ 597,276</u>	<u>\$ 0</u>	<u>\$ 1,515,336</u>

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Healthcare	\$ 112,442			\$ 112,442
Information technology	145,382			145,382
Industrials	145,125			145,125
Financials	116,004			116,004
Telecommunications	52,792			52,792
Consumer staples	71,224			71,224
Consumer discretionary	116,288			116,288
Utilities	42,542			42,542
Energy	55,475			55,475
Materials	49,053			49,053
Fixed-income bonds:				
Corporate		\$ 273,534		273,534
Municipal		200,428		200,428
Government agency		49,273		49,273
Mutual funds:				
Money market	130,630			130,630
Fixed-income bond	<u>49,673</u>			<u>49,673</u>
Total assets measured at fair value	<u>\$ 1,086,630</u>	<u>\$ 523,235</u>	<u>\$ 0</u>	<u>\$ 1,609,865</u>

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

- *Common stock* is valued at the closing price reported on the active market on which the individual securities are traded.
- *Fixed-income bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.
- *Mutual funds* are valued at the reported net asset 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 AMIGOS 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 7 – NOTE PAYABLE

AMIGOS’ note payable consists of a promissory note to an individual, which is secured by property purchased in September 2010. The note bears interest at a fixed rate of 5.00%. Principal and interest payments of \$6,913 are due quarterly. The lender may accelerate maturity of the note upon 120-days written notice. Unless accelerated by the lender, the principal balance of the note is due as follows:

2019	\$ 25,828
2020	<u>20,231</u>
Total note payable	<u>\$ 46,059</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Endowment subject to spending policy and appropriation	\$ 283,586	\$ 305,916
Financial aid	38,546	
Other	<u>11,054</u>	<u>8,295</u>
Total net assets with donor restrictions	<u>\$ 333,186</u>	<u>\$ 314,211</u>

NOTE 9 – ENDOWMENT FUNDS

AMIGOS maintains donor-restricted endowment funds that are intended to support AMIGOS and to provide volunteers with an opportunity to participate in the various programs offered by AMIGOS. The specific criteria to award financial aid may be limited by donors.

Endowment net asset composition at December 31, 2018 is as follows:

	WITH DONOR RESTRICTIONS		TOTAL
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Donor-restricted endowments – financial aid	\$ 9,522	\$ 267,787	\$ 277,309
Donor-restricted endowment – general	<u>230</u>	<u>6,047</u>	<u>6,277</u>
Endowment net assets	<u>\$ 9,752</u>	<u>\$ 273,834</u>	<u>\$ 283,586</u>

Endowment net asset composition at December 31, 2017 is as follows:

	WITH DONOR RESTRICTIONS		TOTAL
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Donor-restricted endowments – financial aid	\$ 31,359	\$ 267,787	\$ 299,146
Donor-restricted endowment – general	<u>723</u>	<u>6,047</u>	<u>6,770</u>
Endowment net assets	<u>\$ 32,082</u>	<u>\$ 273,834</u>	<u>\$ 305,916</u>

Changes in net assets of the endowment funds are as follows:

	WITH DONOR RESTRICTIONS		TOTAL
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, December 31, 2016	\$ 10,102	\$ 273,834	\$ 283,936
Net investment return	35,672		35,672
Distributions	<u>(13,692)</u>		<u>(13,692)</u>
Endowment net assets, December 31, 2017	<u>32,082</u>	<u>273,834</u>	<u>305,916</u>
Net investment return	(8,641)		(8,641)
Distributions	<u>(13,689)</u>		<u>(13,689)</u>
Endowment net assets, December 31, 2018	<u>\$ 9,752</u>	<u>\$ 273,834</u>	<u>\$ 283,586</u>

The Board of Directors of AMIGOS has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, AMIGOS classifies the original value of gifts and the unappropriated investment earnings on donor-restricted endowments as *net assets with donor restrictions*. In accordance with TUPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of AMIGOS and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation

- The expected total return from income and the appreciation of investments
- Other resources of AMIGOS
- The investment policies of AMIGOS

Investment and Spending Policies

AMIGOS has adopted a policy that the maximum distribution from the endowment fund each year is 4% of corpus. The distribution percentage is a function of a three-year average (based on the three preceding years ending March 31) of the market value of the endowment funds. In establishing this policy, AMIGOS considered the long-term expected return on its endowment.

Endowment funds are maintained in an investment account which is managed by an independent financial firm that follows guidance provided in an investment policy approved by the Board of Directors. AMIGOS 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 purchasing power of the endowment assets.

To satisfy its long-term rate-of-return objectives, AMIGOS 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). AMIGOS 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.

NOTE 10 – EMPLOYEE BENEFIT PLAN

AMIGOS maintains a tax deferred annuity plan that qualifies under §403(b) of the Code. The plan is an agreement whereby an amount to be determined annually at AMIGOS’ discretion is paid to an annuity contract owned by individual employees. Net of forfeitures, AMIGOS contributed \$40,442 to the plan in 2018 and \$56,227 in 2017.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

AMIGOS receives government grants that require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of noncompliance by AMIGOS with the terms of the contracts. Management believes such disallowances, if any, would not be material to AMIGOS’ financial position or changes in net assets.

NOTE 12 – OPERATING LEASE

AMIGOS entered into a noncancelable operating lease agreement for office space on May 1, 2016, which will expire January 31, 2020. AMIGOS also has a noncancelable copier lease, which expires in September 2020. Future minimum lease payments are as follows:

2019	\$ 83,491
2020	<u>9,718</u>
Total	<u>\$ 93,209</u>

The office lease requires AMIGOS to pay a portion of the building's operating costs. AMIGOS recognized rent and operating costs of approximately \$136,000 in 2018 and \$134,000 in 2017.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 6, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
