

UNIVERSITY SCHOOL OF NASHVILLE

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

UNIVERSITY SCHOOL OF NASHVILLE

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
University School of Nashville:

We have audited the accompanying financial statements of University School of Nashville, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 University School of Nashville as of June 30, 2021 and 2020, 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.

LBMC, PC

Brentwood, Tennessee
November 5, 2021

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,972,668	\$ 3,411,634	\$ 7,384,302
Investments	15,771,510	30,897,649	46,669,159
Tuition and other receivables, net	117,183	-	117,183
Prepaid expenses	40,975	-	40,975
Inventories	74,701	-	74,701
Property, buildings and equipment, net	20,229,015	-	20,229,015
Other assets	<u>789,358</u>	<u>-</u>	<u>789,358</u>
Total assets	<u>\$ 40,995,410</u>	<u>\$ 34,309,283</u>	<u>\$ 75,304,693</u>
<u>Liabilities and Net Assets</u>			
Accounts payable	\$ 454,688	\$ -	\$ 454,688
Accrued salaries and related benefits	1,877,362	-	1,877,362
Other accrued liabilities	104,932	-	104,932
Deferred tuition revenue and enrollment deposits	1,210,887	-	1,210,887
Long-term debt	586,405	-	586,405
Capital lease obligations	<u>359,908</u>	<u>-</u>	<u>359,908</u>
Total liabilities	<u>4,594,182</u>	<u>-</u>	<u>4,594,182</u>
Net assets:			
Without donor restrictions:			
Undesignated	3,032,980	-	3,032,980
Board designated:			
Quasi endowment	5,533,970	-	5,533,970
Plant reserve	4,080,567	-	4,080,567
Plant improvement	4,216,621	-	4,216,621
Technology replacement	126,092	-	126,092
Invested plant	19,288,904	-	19,288,904
USN association	122,094	-	122,094
With donor restrictions	<u>-</u>	<u>34,309,283</u>	<u>34,309,283</u>
Total net assets	<u>36,401,228</u>	<u>34,309,283</u>	<u>70,710,511</u>
Total liabilities and net assets	<u>\$ 40,995,410</u>	<u>\$ 34,309,283</u>	<u>\$ 75,304,693</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 2,816,538	\$ 2,754,914	\$ 5,571,452
Investments	13,843,057	23,100,522	36,943,579
Tuition and other receivables, net	84,778	-	84,778
Prepaid expenses	19,261	-	19,261
Inventories	80,502	-	80,502
Property, buildings and equipment, net	20,975,253	-	20,975,253
Other assets	<u>628,797</u>	<u>-</u>	<u>628,797</u>
Total assets	\$ <u>38,448,186</u>	\$ <u>25,855,436</u>	\$ <u>64,303,622</u>
<u>Liabilities and Net Assets</u>			
Accounts payable	\$ 817,412	\$ -	\$ 817,412
Accrued salaries and related benefits	1,533,400	-	1,533,400
Other accrued liabilities	118,096	-	118,096
Deferred tuition revenue and enrollment deposits	1,052,923	-	1,052,923
Long-term debt	1,028,901	-	1,028,901
Capital lease obligations	<u>293,416</u>	<u>-</u>	<u>293,416</u>
Total liabilities	<u>4,844,148</u>	<u>-</u>	<u>4,844,148</u>
Net assets:			
Without donor restrictions:			
Undesignated	3,396,331	-	3,396,331
Board designated:			
Quasi endowment	4,147,682	-	4,147,682
Plant reserve	2,453,033	-	2,453,033
Plant improvement	3,745,133	-	3,745,133
Technology replacement	81,092	-	81,092
Invested plant	19,664,865	-	19,664,865
USN association	115,902	-	115,902
With donor restrictions	<u>-</u>	<u>25,855,436</u>	<u>25,855,436</u>
Total net assets	<u>33,604,038</u>	<u>25,855,436</u>	<u>59,459,474</u>
Total liabilities and net assets	\$ <u>38,448,186</u>	\$ <u>25,855,436</u>	\$ <u>64,303,622</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid and scholarships totaling \$3,642,510	\$ 22,746,216	\$ -	\$ 22,746,216
Ancillary programs	858,979	-	858,979
Contributions	1,798,573	3,977,588	5,776,161
USN Association fundraising	146,361	46,354	192,715
Investment return	2,642,862	5,749,481	8,392,343
Other income	28,319	-	28,319
Net assets released from restrictions	<u>1,319,576</u>	<u>(1,319,576)</u>	<u>-</u>
Total support and revenues	<u>29,540,886</u>	<u>8,453,847</u>	<u>37,994,733</u>
Operating expenses:			
Program services:			
Instruction and student activities	20,807,503	-	20,807,503
Ancillary programs	<u>1,549,820</u>	<u>-</u>	<u>1,549,820</u>
Total program services	<u>22,357,323</u>	<u>-</u>	<u>22,357,323</u>
Supporting services:			
General and administration	3,045,190	-	3,045,190
USN Association and fundraising	<u>1,341,183</u>	<u>-</u>	<u>1,341,183</u>
Total supporting services	<u>4,386,373</u>	<u>-</u>	<u>4,386,373</u>
Total expenses	<u>26,743,696</u>	<u>-</u>	<u>26,743,696</u>
Change in net assets	2,797,190	8,453,847	11,251,037
Net assets at beginning of year	<u>33,604,038</u>	<u>25,855,436</u>	<u>59,459,474</u>
Net assets at end of year	<u>\$ 36,401,228</u>	<u>\$ 34,309,283</u>	<u>\$ 70,710,511</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid and scholarships totaling \$3,481,000	\$ 21,976,834	\$ -	\$ 21,976,834
Ancillary programs	1,325,408	-	1,325,408
Contributions	1,596,920	3,401,131	4,998,051
USN Association fundraising	494,917	204,342	699,259
Investment return	459,863	792,150	1,252,013
Other income	124,018	-	124,018
Net assets released from restrictions	<u>2,722,271</u>	<u>(2,722,271)</u>	<u>-</u>
Total support and revenues	<u>28,700,231</u>	<u>1,675,352</u>	<u>30,375,583</u>
Operating expenses:			
Program services:			
Instruction and student activities	19,965,880	-	19,965,880
Ancillary programs	<u>1,648,983</u>	<u>-</u>	<u>1,648,983</u>
Total program services	<u>21,614,863</u>	<u>-</u>	<u>21,614,863</u>
Supporting services:			
General and administration	2,695,991	-	2,695,991
USN Association and fundraising	<u>1,694,456</u>	<u>-</u>	<u>1,694,456</u>
Total supporting services	<u>4,390,447</u>	<u>-</u>	<u>4,390,447</u>
Total expenses	<u>26,005,310</u>	<u>-</u>	<u>26,005,310</u>
Change in net assets	2,694,921	1,675,352	4,370,273
Net assets at beginning of year	<u>30,909,117</u>	<u>24,180,084</u>	<u>55,089,201</u>
Net assets at end of year	<u>\$ 33,604,038</u>	<u>\$ 25,855,436</u>	<u>\$ 59,459,474</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Cash Flows

Year ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>11,251,037</u>	\$ <u>4,370,273</u>
Adjustments to reconcile the change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,978,982	1,970,779
Bad debt expense	105,885	64,853
(Gain) Loss on disposal of equipment	(3,023)	3,263
Net gain on investments	(8,392,343)	(660,813)
Contributions permanently restricted for investment in endowment	(2,903,340)	(2,639,351)
Contributions restricted for building campaign	(1,214,007)	(920,759)
(Increase) decrease in operating assets:		
Tuition and other receivables	(138,290)	24,313
Prepaid expenses	(21,714)	7,260
Inventories	5,801	(2,376)
Other assets	(160,561)	9,180
Increase (decrease) in operating liabilities:		
Accounts payable	(362,724)	136,642
Accrued salaries and related benefits	343,962	(112,242)
Other accrued liabilities	(13,164)	(6,744)
Deferred tuition revenue	<u>157,964</u>	<u>(152,723)</u>
Total adjustments	<u>(10,616,572)</u>	<u>(2,278,718)</u>
Net cash provided by operating activities	<u>634,465</u>	<u>2,091,555</u>
Cash flows from investing activities:		
Purchases of buildings and equipment	(970,497)	(800,610)
Proceeds from sale of investments	5,385,119	5,950,987
Purchases of investments	<u>(6,718,356)</u>	<u>(9,743,843)</u>
Net cash used by investing activities	<u>(2,303,734)</u>	<u>(4,593,466)</u>
Cash flows from financing activities:		
Contributions permanently restricted for investment in endowment	2,903,340	2,639,351
Contributions restricted for building campaign	1,214,007	920,759
Payments on capital lease obligations	(192,732)	(138,477)
Payments of long-term debt	<u>(442,496)</u>	<u>(1,972,841)</u>
Net cash provided by financing activities	<u>3,482,119</u>	<u>1,448,792</u>
Increase (decrease) in cash and cash equivalents	1,812,850	(1,053,119)
Cash and cash equivalents at beginning of year	<u>5,571,452</u>	<u>6,624,571</u>
Cash and cash equivalents at end of year	<u>\$ <u>7,384,302</u></u>	<u>\$ <u>5,571,452</u></u>

Supplemental disclosures of cash flow statement information

	<u>2021</u>	<u>2020</u>
Interest paid	\$ <u>44,806</u>	\$ <u>75,389</u>

Noncash transaction

	<u>2021</u>	<u>2020</u>
Equipment additions financed under capital lease	\$ <u>259,224</u>	\$ <u>-</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Functional Expenses

Year ended June 30, 2021

	Programs			Supporting Services		Total
	Institution and Student Activities	Ancillary	Total Program Services	General and Administration	USN Association and Fundraising	
Contracted services	\$ 896,348	\$ 230,688	\$ 1,127,036	\$ 223,659	\$ 92,707	\$ 1,443,402
Depreciation	1,978,982	-	1,978,982	-	-	1,978,982
Facility, software, & equipment rental	260,076	-	260,076	-	5,874	265,950
Food	17,302	92,203	109,505	12,081	4,525	126,111
Insurance	-	-	-	265,641	-	265,641
Interest	-	44,807	44,807	-	-	44,807
Maintenance	316,056	2,309	318,365	15,983	18,900	353,248
Memberships & subscriptions	31,735	102	31,837	49,402	6,925	88,164
Merchandise for resale	-	146,265	146,265	-	-	146,265
Payroll taxes and benefits	2,875,343	129,651	3,004,994	401,085	201,345	3,607,424
Printing and postage	130,044	3,979	134,023	8,658	39,628	182,309
Professional development	81,166	3,056	84,222	10,323	17,296	111,841
Restricted gift expense	189,592	-	189,592	-	-	189,592
Special events	137,138	393	137,531	5,230	19,705	162,466
Supplies & program	1,007,779	77,168	1,084,947	33,149	11,999	1,130,095
Utilities	574,962	-	574,962	3,980	-	578,942
Wages	12,229,191	819,199	13,048,390	1,786,473	845,640	15,680,503
Other	81,789	-	81,789	229,526	76,639	387,954
Total expenses	<u>\$ 20,807,503</u>	<u>\$ 1,549,820</u>	<u>\$ 22,357,323</u>	<u>\$ 3,045,190</u>	<u>\$ 1,341,183</u>	<u>\$ 26,743,696</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Functional Expenses

Year ended June 30, 2020

	Programs			Supporting Services		Total
	Institution and Student Activities	Ancillary	Total Program Services	General and Administration	USN Association and Fundraising	
Contracted services	\$ 896,229	\$ 362,971	\$ 1,259,200	\$ 212,343	\$ 153,435	\$ 1,624,978
Depreciation	1,970,779	-	1,970,779	-	-	1,970,779
Facility, software, & equipment rental	419,769	-	419,769	-	7,313	427,082
Food	19,160	233,481	252,641	20,724	44,800	318,165
Insurance	-	-	-	201,237	-	201,237
Interest	-	75,389	75,389	-	-	75,389
Maintenance	408,022	5,324	413,346	15,216	25,062	453,624
Memberships & subscriptions	42,705	100	42,805	55,861	2,555	101,221
Merchandise for resale	-	152,403	152,403	-	-	152,403
Payroll taxes and benefits	2,708,725	113,480	2,822,205	334,471	178,775	3,335,451
Printing and postage	137,716	2,517	140,233	9,224	83,128	232,585
Professional development	157,499	3,096	160,595	21,602	24,759	206,956
Restricted gift expense	156,022	-	156,022	-	-	156,022
Special events	112,803	359	113,162	4,942	282,361	400,465
Supplies & program	635,573	106,720	742,293	10,822	18,755	771,870
Utilities	643,356	-	643,356	3,138	-	646,494
Wages	11,532,394	587,965	12,120,359	1,651,229	784,650	14,556,238
Other	125,128	5,178	130,306	155,182	88,863	374,351
Total expenses	\$ 19,965,880	\$ 1,648,983	\$ 21,614,863	\$ 2,695,991	\$ 1,694,456	\$ 26,005,310

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(1) Nature of activities

University School of Nashville (the "School" or "USN"), a Tennessee not-for-profit corporation, is a private coeducational school for kindergarten through twelfth grade.

(2) Summary of significant accounting policies

The financial statements of the School are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). The guidance eliminated the transaction and industry-specific revenue recognition guidance under current generally accepted accounting principals ("GAAP") and replaced it with a principles-based approach. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The five-step model defined by Topic 606 requires the School to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 additionally enhances the required disclosures surrounding the nature amount, timing and uncertainty of revenues and the associated cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract.

The School adopted the guidance on July 1, 2020 using the modified retrospective method. There was no cumulative effect adjustment to the opening balance of net assets, as the adoption did not result in a material change to the School's revenue recognition. All periods prior to July 1, 2020 are presented in accordance with prior revenue recognition guidance. ASC Topic 605, *Revenue Recognition*. The School does not expect the adoption of the new revenue standard to have a material impact on its change in net assets on an ongoing basis.

In August 2018, the Financial Accounting Standards Board FASB issued ASU 2018-13, *Fair Value Measurement* ("Topic 820"): *Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 eliminates, amends, and adds certain disclosure requirements for fair value measurement. During 2021, the School adopted the provisions of ASU 2018-13 with the primary effect being changes in disclosures for fair value measurements.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(b) Basis of presentation

In accordance with FASB ASC 958, *Not-For-Profit Entities*, the School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, as follows:

Without Donor Restrictions:

Undesignated - net assets that are not subject to donor-imposed stipulations and are available for support of School operations.

Board Designated - includes net assets without donor restrictions designated by the Board of Trustees ("Board") for the following purposes (although such designations may be terminated at the discretion of the Board and do not represent donor restrictions):

Quasi-Endowment - net assets without donor restrictions designated for future purposes. This portion of net assets without donor restrictions may be expended as authorized by the Board of Trustees Investment and Spending Policy or by Board action.

Plant reserve, plant improvement, and technology replacement - net assets without donor restrictions designated for future facility, technology improvements, and maintenance.

Invested plant - resources expended for plant, including land and equipment, less related debt.

USN Association - net assets without donor restrictions resulting from USN Association activities.

With Donor Restrictions:

Net assets that are restricted by the donor for a specific purpose or time period. These restrictions include but are not limited to the Horizons program and other program initiatives.

Endowment Fund - includes net assets subject to donor-imposed stipulations which state they must be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes as noted in the donor agreements.

Net market gains resulting from the investment of net assets with donor restrictions are not perpetual in nature. This portion of net assets with donor restrictions may be expended as authorized by the Board of Trustees Investment and Spending Policy for the purpose stipulated by the donor.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(c) Cash equivalents

The School considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(d) Investments and investment return

Investments are reported at fair value as discussed in Note 5. Investment return shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment return is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment return restricted by the donor is reported as an increase in net assets without donor restrictions if the restrictions are met or expire in the year in which the income is recognized. Substantially all other donor-restricted investment return is reported as an increase in net assets with donor restrictions.

(e) Tuition receivable and credit policies

The School reports tuition receivables, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the net realizable collection amount. The School reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. Late fees and interest are recorded when earned. Delinquent accounts receivable are charged off to the allowance when, in management's opinion, all collection efforts have been exhausted. Provision for uncollectible accounts is classified as a general administrative expense and amounted to \$105,885 and \$64,853 in 2021 and 2020, respectively.

(f) Contributions receivable and intentions to give

Unconditional promises to give which are expected to be collected within one year are recorded at their pledged amount which approximates net realizable value. Unconditional promises to give which are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted discount rate. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The School also receives pledges that are considered intentions to give which do not meet the criteria of unconditional promises to give. Such intentions to give are recorded only when the related gifts are actually received. The School had outstanding intentions to give future gifts of approximately \$87,000 and \$308,000 at June 30, 2021 and 2020, respectively.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(g) Inventories

Bookstore and other inventories are reported at the lower of cost (first-in, first-out method) or market.

(h) Property, buildings and equipment

Property, buildings and equipment are reported at cost. Depreciation is provided under the straight-line method based on estimated service lives of 3 to 10 years for equipment and 10 to 30 years for buildings and improvements. Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in other revenue in the statements of activities.

(i) Realization of long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(j) Revenue from contracts with customers and deferred tuition income

Prior to the adoption of Topic 606 on July 1, 2020, the School recognized tuition and fee revenue as well as auxiliary activity revenue when persuasive evidence of an arrangement existed, the fees were fixed or determinable, the product or service had been delivered and collectibility was assured. The School considered the terms of each arrangement to determine the appropriate accounting treatment

Subsequent to the adoption of Topic 606, the School identifies a contract for revenue recognition where there is approval and commitment from both parties, the rights of the parties and no payment terms are identified, the contract has commercial substance and the collectibility of consideration is probable. The School evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. Performance obligations are determined based on the nature of the services provided by the School.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

The School's primary source of revenue from contracts with customers are from tuition and education fees and auxiliary activities revenue. Tuition is recorded net of financial aid and other discounts. Net tuition revenue is recognized pro-rata over the applicable period of instruction. Students enter into contracts for a particular academic period and revenue is recognized at the start of the applicable academic instruction period. The school year generally runs from August to May. The School also charges certain upfront application or other fees which are deferred and recognized over the respective academic instruction period. Auxiliary activities revenues consists primarily of summer camps, after school fees, athletic events, various School sponsored events and food service. Revenues for these auxiliary activities are recognized either at a point in time the activities are provided or over the period the services are provided. The School does not have costs that are capitalized to obtain or fulfill a contract with a customer.

Accounts receivable include student receivables representing unconditional rights to consideration from contracts with students. Students are billed at predetermined periods prior to the commencement of services being provided. Installment billing is offered by the School which may reduce the amount of cash received in advance of performing services. However, the terms of student contracts provide that the student is liable for the total contract price which minimizes any exposure to losses associated with nonpayment. The School has determined that the installment billing does not represent a significant financing component. As a result, the receivables from students are considered unconditional rights to consideration. Student billings include all educational related items, including tuition, food service, educational materials, and other fees. The School has established refund policies that provide for a portion of tuition to be refunded if a student withdraws during established refund periods.

The School's contract liabilities are reported as deferred revenue in the accompanying statements of financial position. Deposits received for tuition or fees for subsequent school years.

(k) Income taxes

The School is exempt from federal income taxes under the provisions of Internal Revenue Code (the "Code") Section 501(c)(3). Accordingly, no provision for income taxes is included in the financial statements.

A tax position is recognized as a benefit only if it is "more likely than not" the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the amount of tax benefit greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

As of June 30, 2021 and 2020, the School has accrued no interest and no penalties related to uncertain tax positions. It is the School's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The School files a U.S. Federal information tax return.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(l) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(m) Functional allocation of expenses

The costs of programs and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs related to the operation and maintenance of the School, including depreciation of School assets, are allocated to operating programs and supporting activities using estimates made by management. Depreciation expense and costs of maintenance and repairs are classified under program services, since the amounts applicable to supporting services are considered insignificant. Salaries and related expenses, professional services, office expenses, information technology and insurance are allocated on the basis of estimated time and effort. Interest expense on external debt is allocated to the activities which have most directly benefited from the proceeds of the external debt.

The School's primary program services are instruction and auxiliary enterprises. Expenses reported as management and general support as well as fundraising are incurred in support of these primary program services.

(n) New accounting standards

The FASB's new lease accounting standard, ASU 2016-02, *Leases*, which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the School beginning for fiscal 2023. Management of the School is currently evaluating the impact adoption of ASU 2016-02 will have on its financial statements and disclosures.

(o) Events occurring after reporting date

Management of the School has evaluated events and transactions that occurred between June 30, 2021 and November 5, 2021 which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(3) Liquidity and availability

The following table reflects the School's financial assets as of June 30, 2021 and 2020 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,384,302	\$ 5,571,452
Investments	46,669,159	36,943,579
Tuition and other receivables, net	<u>117,183</u>	<u>84,778</u>
Financial assets at end of year	54,170,644	42,599,809
Less: assets unavailable for general expenditure within one year:		
Board designated funds	(5,980,408)	(7,343,885)
Donor restricted net assets	<u>(34,309,283)</u>	<u>(25,855,436)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>13,880,953</u>	\$ <u>9,400,488</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees to function as endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure.

Board-designated endowment funds of \$5,533,970 and \$4,147,682 at June 30, 2021 and 2020, respectively, are subject to the School's spending policy as described in Note 13. The School does not intend to spend from the board-designated endowment funds other than amounts appropriated for expenditure in accordance with the spending policy, and has deducted the funds from financial assets available in the table above. However, these amounts, as well as other board designated net assets, could be made available if necessary. As part of the School's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash is held in interest bearing bank accounts and is invested in short and intermediate term fixed income investments and money market funds.

(4) Credit risk and other concentrations

The School generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The School has not experienced any losses in such accounts and management believes the School is not exposed to any significant credit risk related to cash and cash equivalents.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(5) Fair value measurements, investments and investment return

FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology which are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset and liability measurement at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

- (i) *Mutual funds*: Valued at the net asset value of shares held by the School at year end based on a quoted price in an active market.
- (ii) *Private equity investment fund*: Valued at fair value based on the beginning of year value of the School's interest plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses.
- (iii) *Life insurance policies*: Valued at the cash value of the underlying insurance policies.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2021 and 2020:

Fair Value Measurements as of June 30, 2021 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 4,378,141	\$ -	\$ -	\$ 4,378,141
Mutual funds	42,190,004	-	-	42,190,004
Cash value of life insurance	<u>-</u>	<u>101,014</u>	<u>-</u>	<u>101,014</u>
Total investments	46,568,145	101,014	-	46,669,159
Mutual funds held for deferred compensation plans (Note 10)	<u>783,155</u>	<u>-</u>	<u>-</u>	<u>783,155</u>
Total financial assets	<u>\$ 47,351,300</u>	<u>\$ 101,014</u>	<u>\$ -</u>	<u>\$ 47,452,314</u>

Fair Value Measurements as of June 30, 2020 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 4,797,604	\$ -	\$ -	\$ 4,797,604
Mutual funds	32,024,649	-	-	32,024,649
Private equity investment fund	-	-	23,487	23,487
Cash value of life insurance	<u>-</u>	<u>97,839</u>	<u>-</u>	<u>97,839</u>
Total investments	36,822,253	97,839	23,487	36,943,579
Mutual funds held for deferred compensation plans (Note 10)	<u>616,868</u>	<u>-</u>	<u>-</u>	<u>616,868</u>
Total financial assets	<u>\$ 37,439,121</u>	<u>\$ 97,839</u>	<u>\$ 23,487</u>	<u>\$ 37,560,447</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(6) Tuition and other receivables

A summary of tuition and other receivables at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Tuition	\$ 64,404	\$ 43,255
Other receivables	<u>84,981</u>	<u>63,153</u>
	149,385	106,408
Less: allowance for uncollectible accounts	<u>(32,202)</u>	<u>(21,630)</u>
Net tuition and other receivables	<u>\$ 117,183</u>	<u>\$ 84,778</u>

(7) Property, buildings and equipment

Property, buildings and equipment at June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,814,767	\$ 2,814,767
Buildings and improvements	39,281,694	38,667,484
Equipment	6,517,061	6,300,842
Construction in progress	<u>292,779</u>	<u>433,017</u>
	48,906,301	48,216,110
Accumulated depreciation	<u>(28,677,286)</u>	<u>(27,240,857)</u>
Property, buildings and equipment, net	<u>\$ 20,229,015</u>	<u>\$ 20,975,253</u>

Construction in process at June 30, 2021 and 2020 relates to expenditures made for planned campus improvements to be placed in service during fiscal year 2022. As of June 30, 2021, there were no outstanding commitments under construction contracts.

(8) Long term debt

The School has an \$8,000,000 construction loan agreement with a bank. This arrangement was comprised of two \$4,000,000 promissory notes. The first promissory note bore interest at the annual LIBOR plus 1.25% with a maximum rate of 10% per year and was repaid during 2020. The second promissory note bears interest at a fixed rate of 3.95% per annum. Interest on the outstanding promissory note is payable monthly. The School is required to make monthly payments of \$43,000, including interest, until maturity on December 31, 2026. The agreement requires the School to meet certain financial and non-financial covenants. As of June 30, 2021 and 2020, the School was in compliance with such covenants. The remaining promissory note is unsecured but subject to a negative pledge agreement on certain real estate of the School. The balance of the outstanding loans was \$586,405 and \$1,028,901 at June 30, 2021 and 2020, respectively.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

A summary of future maturities of the construction notes payable as of June 30, 2021 is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 437,741
2023	<u>148,664</u>
	\$ <u>586,405</u>

(9) Capital lease obligations

The School entered into capital lease agreements to finance the acquisition of certain equipment. The School's obligation under these capital leases as of June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Minimum lease payments payable	\$ 369,951	\$ 305,308
Less: portion representing interest	<u>(10,043)</u>	<u>(11,892)</u>
Capital lease obligations	359,908	293,416
Less: current portion	<u>(234,988)</u>	<u>(143,894)</u>
Long-term portion	\$ <u>124,920</u>	\$ <u>149,522</u>

Future minimum annual lease payments payable under the capital leases as of June 30, 2021 are as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 242,570
2023	89,916
2024	<u>37,465</u>
	\$ <u>369,951</u>

Property and equipment utilized under capital leases at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Capital leases of equipment	\$ 691,117	\$ 431,893
Less: accumulated amortization	<u>(357,568)</u>	<u>(156,000)</u>
	\$ <u>333,549</u>	\$ <u>275,893</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(10) Retirement and deferred compensation plans

The School sponsors a defined contribution retirement plan covering all full-time employees. The School makes matching contributions to the plan based on the employees' participation election, up to 6% of each participant's salary. Total expense recognized by the School under the plan amounted to \$833,011 and \$799,776 for the years ended June 30, 2021 and 2020, respectively.

The School has a deferred compensation arrangement with its Director. The arrangement consists of an eligible plan under Section 457(b) of the Code, and an ineligible plan under Section 457(f) of the Code. Eligible plan contributions vest when made; ineligible plan contributions and related earnings vest only if the director's employment term continues through age 62. The School has also entered into a similar arrangement with another key employee. This plan qualifies as an eligible plan under Section 457(b) of the Code. Contributions to this plan vest when funded, provided the employee remains a full-time employee of the School.

The assets in these deferred compensation plans are held by the School, subject to the claims of its general creditors. As of June 30, 2021 and 2020, assets of \$783,155 and \$616,868, respectively, are included in other assets on the statements of financial position and are reported based on the current fair value of the underlying investments. Related and offsetting liabilities are included in accrued salaries and related benefits with the corresponding expense recognized in general administration.

The School contributed \$39,000 to the deferred compensation plan for the year ended June 30, 2021. The School did not contribute to the deferred compensation plan in the year ended 2020.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(11) USN Association

The USN Association is a service organization whose accounts and operations are included in the financial statements of the School. The USN Association's sole mission is to enhance the educational experience of the School's students by supporting the School with needed resources. A summary of the activity of the USN Association follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
USN Association revenue	\$ <u>192,714</u>	\$ <u>699,258</u>
USN Association expenses:		
Fundraising expenses	103,700	449,905
Association activities	<u>36,469</u>	<u>32,990</u>
Total USN Association expenses	<u>140,169</u>	<u>482,895</u>
Transfers to the school:		
Proceeds from used book sale	(287)	(14,758)
Proceeds from Artclectic - to endowment	(24,191)	(103,581)
Music night transfer	(7,398)	(17,224)
Bonus bucks	(7,719)	(7,005)
Tiger Club	-	(2,164)
TAP - Tiger Arts Patrons	-	(7,375)
Proceeds from evening classes - to endowment	<u>(6,758)</u>	<u>(52,234)</u>
Total transfers to the school	<u>(46,353)</u>	<u>(204,341)</u>
Change in USN Association assets	6,192	12,022
Designated USN Association - beginning of year	<u>115,902</u>	<u>103,880</u>
Designated USN Association - end of year	<u>\$ <u>122,094</u></u>	<u>\$ <u>115,902</u></u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(12) Nature and amount of net assets with donor restrictions

Donor restricted net assets are available for the following purposes at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Centennial Campaign Pending Designation	\$ 240,841	\$ 187,982
Horizons	1,874,890	1,489,948
Curricular Design	220,007	223,020
Program Initiatives	240,113	214,646
Scholarship/ Financial Aid	272,291	351,121
USNA Funded	164,237	148,830
Director's Discretionary Fund	85,257	91,257
Edgehill 2020 Projects	309,639	47,000
Other	4,359	1,109
Endowment	<u>7,976,842</u>	<u>3,083,055</u>
	11,388,476	5,837,968
Endowment subject to spending policy and appropriation:		
Financial aid and scholarships	<u>22,920,807</u>	<u>20,017,468</u>
	<u>\$ 34,309,283</u>	<u>\$ 25,855,436</u>

Net assets with donor restrictions were released to net assets without donor restrictions as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Property, plant and equipment purchases	\$ 5,000	\$ 1,624,491
Curricular design	3,013	17,303
Library	-	6,700
Horizons	272,466	150,579
Other	14,993	18,658
Scholarship award	28,808	15,000
Financial aid	134,187	30,887
Endowment spending rate - financial aid and scholarships	852,518	776,178
Program initiatives	<u>8,591</u>	<u>82,475</u>
	<u>\$ 1,319,576</u>	<u>\$ 2,722,271</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(13) Endowment funds

Net assets with donor restrictions include the School's endowment funds established for the purpose of financial aid and scholarships. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the School to retain as a fund of perpetual duration. These deficiencies generally result from unfavorable market fluctuations that occur shortly after the investment of new endowment fund contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2021 or 2020.

Spending policy

The School has a policy of appropriating for distribution each year 4.0% of the most recent September 30 balance of the endowment as of the time of the annual budget approval, except as otherwise stipulated by donors for specific restricted funds. This amount should not exceed 5% nor be less than 2% of the trailing three-year average of the fiscal year end market value for the three fiscal years immediately preceding the respective budget approval.

The Malone Foundation scholarship fund stipulates an annual spending of 5% of the fair market value of the fund.

Investment return objective, risk parameters and strategies

The School's primary objectives for the investment of its endowments are to:

- Preserve the real purchasing power of the principal, and
- Provide a reasonably stable source of perpetual financial support.

To arrive at a specific asset allocation, the Board endorses the following principles:

- Diversification is critical at both the asset and security level;
- As a perpetual fund, cash reserves should be minimal;
- The timing of initial investments will be made over an appropriate period as determined by the finance committee;
- Liquidity is important to consider for investment in securities; and
- An allocation to real estate, private equity, and other non-marketable investments may be appropriate given the possibility of both added diversification and enhanced return.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

Endowments should have as their objective an asset allocation sufficient to meet the spending policy herein. This allocation should include:

- Total cash funds to not exceed 10%.
- Between 30-50% investment in fixed income securities with a portion in cash equivalents as determined appropriate by the investment subcommittee and/or finance committee.
- Between 50-70% investment in real estate, private equity and hedge funds.

A summary of endowment asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 5,533,970	\$ -	\$ 5,533,970
Donor-restricted	<u>-</u>	<u>30,897,649</u>	<u>30,897,649</u>
Total	<u>\$ 5,533,970</u>	<u>\$ 30,897,649</u>	<u>\$ 36,431,619</u>

A summary of endowment asset composition by type of fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 4,147,682	\$ -	\$ 4,147,682
Donor-restricted	<u>-</u>	<u>23,100,523</u>	<u>23,100,523</u>
Total	<u>\$ 4,147,682</u>	<u>\$ 23,100,523</u>	<u>\$ 27,248,205</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

Changes in endowment net assets for the fiscal years ended June 30, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 4,126,420	\$ 20,448,363	\$ 24,574,783
Contributions	152,173	2,636,188	2,788,361
Realized and unrealized gain	-	792,150	792,150
Amounts appropriated for expenditures	<u>(130,911)</u>	<u>(776,178)</u>	<u>(907,089)</u>
Endowment net assets, June 30, 2020	4,147,682	23,100,523	27,248,205
Contributions	-	2,900,163	2,900,163
Realized and unrealized gain	1,551,975	5,749,481	7,301,456
Amounts appropriated for expenditures	<u>(165,687)</u>	<u>(852,518)</u>	<u>(1,018,205)</u>
Endowment net assets, June 30, 2021	\$ <u>5,533,970</u>	\$ <u>30,897,649</u>	\$ <u>36,431,619</u>

(14) Lease commitments

The School leases student computers, office computers and maintenance equipment under operating leases. Rent expense under these leases amounted to approximately \$80,000 and \$156,000 in 2021 and 2020, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2021 is as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2022	\$ 61,200
2023	31,100
2024	2,200
2025	<u>1,900</u>
	\$ <u>96,400</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2021.

(15) Related party transactions

The School may receive pledges and, on occasion, purchase goods or services from individuals, companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2021 and 2020

(16) Subsequent event

Subsequent to June 30, 2021, the School entered into a line of credit for \$5,000,000.