LBMC MAKE A GOOD BUSINESS BETTER

University School of Nashville

2018 Client Service Communication

LBMC MAKE A GOOD BUSINESS BETTER

The Board of Trustees of
University School of Nashville

Dear Members of the Board:

We have audited the financial statements of University School of Nashville (the "School"), as of and for the year ended June 30, 2018, and have issued our report thereon dated November 16, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated January 29, 2018. Professional standards also require that we communicate to you certain other matters related to our audit.

This report is intended solely for the information and use of the audit committee, board of trustees, and management of the School and is not intended to be, and should not be used by anyone other than these specified parties.

We appreciate the confidence you place in LBMC as your business advisor. We strive to help you stay compliant, manage risk, and improve performance in every way as you grow your business.

LBMC, PC

Brentwood, Tennessee
November 16, 2018

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Overview of the
Audit and Responsibilities

Scope of Attest Services	LBMC was engaged to perform an audit of the School’s 2018 financial statements.
Management's Responsibilities	Management is responsible for the preparation and fair presentation of the financial statements and maintaining internal controls.
Attest Deliverable	LBMC issued an unmodified opinion on the School’s 2018 financial statements and communicated certain matters relating to the audited financial statements.
Other Services	LBMC performed certain nonattest services such as drafting financial statements and preparation of the School’s federal information tax return (Form 990).

Qualitative Assessments and Corrected and Uncorrected Misstatements

Area	Detail
Qualitative Aspects of Accounting Practices – Accounting Policies	Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2018. We are not aware of any transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
Qualitative Aspects of Accounting Practices – Estimates	Accounting estimates are an integral part of the School's financial statements and are based on management's knowledge and experience, as well as certain assumptions. Certain accounting estimates are particularly sensitive due to: (i) their significance to the financial statements; and (ii) uncertainties inherent in the estimation process. The most sensitive estimates affecting the financial statements relate to: • *Capitalization of property and equipment and related depreciable lives* • *Anticipated collection of receivables* • *Recognition of pledges receivable and classification as an unconditional promise or intention to give* • *Fair values of investments and related disclosures* • *Classification of net assets as unrestricted, temporarily restricted and permanently restricted* We evaluated the key factors and assumptions used to develop each of these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
Qualitative Aspects of Accounting Practices –	Financial statement disclosures are neutral, consistent, and clear.
Corrected and Uncorrected Misstatements	While professional standards require communication of all misstatements identified during the audit that are more than trivial in nature and magnitude to management, we are pleased to report that no such misstatements were identified as a result of our audit procedures.

Interaction with Management, Independence, and Other Matters

Area	Detail
Difficulties Encountered in Performing the Audit	For purposes of this report, “difficulties” may include matters such as: • the unavailability of, or significant delays in management providing information, • an unreasonable time frame within which to complete the audit, • extensive unexpected effort required to obtain audit evidence, or • restrictions imposed on the auditor by management. We encountered no significant difficulties in performing and completing our audit.
Disagreements with Management	For purposes of this report “disagreements with management” include matters that, individually or in the aggregate, could be significant to the School’s financial statements or the auditors’ report, regardless of whether they were satisfactorily resolved. Examples of such matters include, but are not limited to, the application of accounting principles to a specific transaction, the basis for management’s judgments about accounting estimates, and the scope of the audit. We are pleased to report that no such disagreements arose during the course of our audit.
Management Consultations with Other Independent Accountants	If management were to consult with other accountants about the application of an accounting principle to the School’s financial statements or the type of auditors’ opinion that may be expressed on those statements, professional standards require the consulting accountant to confer with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.
Management Representations	We have requested certain representations from management that are included in the management representation letter dated November 16, 2018.
Independence	We are not aware of any relationships between our firm and the School that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2017 through the date of this report.
Other Findings or Issues	We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year both prior to, and subsequent to retention as the School’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.
Internal control related matters	In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

Recent Accounting Pronouncements

Financial Reporting for Not-For-Profit Organizations

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-For-Profit Entitles*. The ASU was issued to address certain complexities in current presentation requirements for net assets, resolve deficiencies in the transparency of information regarding an organization's liquidity and inconsistencies in the type of information provided by organizations about expenses. As a result, the primary provisions of ASU 2016-14 include:

- Reduction in the number of net asset classifications from three to two: net assets with donor restrictions and net assets without donor restrictions. Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used.
- Organizations will be required to disclose, either on the face of the statements or in notes, the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use.
- In addition to reporting expenses by functional classifications under current requirements, organizations will be required to provide information about expenses by their nature through an analysis demonstrating how the nature of expenses relate to the programs and supporting activities. Additional disclosures about the methods used to allocate costs among program and support functions will also be required.

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 with early adoption allowed. In the year of adoption, organizations are required to disclose the nature of any reclassifications or restatements resulting from the adoption and their effect, if any, on the change in the net asset classes for each year. The requirements must be applied retrospectively; however, entities can elect not to provide certain comparative disclosures in the year of adoption.

Revenue recognition

The FASB has issued a new standard on revenue recognition that is intended to provide a single framework that generally replaces existing industry and transaction specific guidance. The unit of account under the new standard is a performance obligation (a good or service), and revenue is recognized when the good or service is transferred to the customer, which may be over time or at a point in time. Compliance with the new standard will require certain judgments and estimates, such as the realizable amounts of variable or contingent consideration, and the application of separation criteria to bundled goods or services and financing components of the arrangement. The new standard also provides for capitalization of costs incurred to obtain contracts, with a practical expedient available for contracts with terms of less than one year.

The new Standard is effective for nonpublic companies for fiscal years beginning after December 15, 2018, with early adoption allowed for fiscal years beginning after December 15, 2016. Companies can elect to transition to the new standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption.

Recent Accounting Pronouncements

Leases

The FASB's new lease accounting standard, which is expected to be issued early 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.

Nonpublic companies will be required to apply the new leasing standard for fiscal years beginning after December 15, 2019, with required retrospective application to prior years.

How will these new standards impact your organization?

Between now and the respective effective dates, management should focus on gathering the required information on existing policies and accounting practices and capturing data on new arrangements. These new accounting and disclosure requirements will impact various business sectors, and may significantly affect a number of financial metrics. Accordingly, management should assess not only the impact of adoption on accounting and information system processes and controls, but also on other related matters such as employee compensation arrangements, debt covenants or liquidity measurements.

Client Service is a Priority

For additional information or if you have questions please contact the Audit Service Team.

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