UNIVERSITY SCHOOL OF NASHVILLE

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

MAKE A GOOD BUSINESS BETTER

UNIVERSITY SCHOOL OF NASHVILLE

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LBMC MAKE A GOOD BUSINESS BETTER

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, 2019 and 2018, 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, 2019 and 2018, 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 21, 2019

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	$ 2,892,849	$ 3,731,722	$ 6,624,571
Investments	12,041,546	20,448,362	32,489,908
Tuition and other receivables, net	173,944	-	173,944
Prepaid expenses	26,521	-	26,521
Inventories	78,126	-	78,126
Property, buildings and equipment, net	21,870,188	-	21,870,188
Other assets	637,977	-	637,977
Total assets	$ 37,721,151	$ 24,180,084	$ 61,901,235
Liabilities and Net Assets			
Accounts payable	$ 402,271	$ -	$ 402,271
Accrued salaries and related benefits	1,645,642	-	1,645,642
Other accrued liabilities	124,840	-	124,840
Deferred tuition revenue and enrollment deposits	1,205,646	-	1,205,646
Long-term debt	3,001,742	-	3,001,742
Capital lease obligations	431,893	-	431,893
Total liabilities	6,812,034	-	6,812,034
Net assets:			
Without donor restrictions:			
Undesignated	1,793,409	-	1,793,409
Board designated:			
Quasi endowment	4,126,420	-	4,126,420
Plant reserve	2,570,326	-	2,570,326
Plant improvement	3,819,783	-	3,819,783
Technology replacement	41,092	-	41,092
Invested plant	18,454,207	-	18,454,207
USN association	103,880	-	103,880
With donor restrictions	-	24,180,084	24,180,084
Total net assets	30,909,117	24,180,084	55,089,201
Total liabilities and net assets	$ 37,721,151	$ 24,180,084	$ 61,901,235

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	$ 3,293,548	$ 3,013,387	$ 6,306,935
Investments	9,576,978	18,433,797	28,010,775
Tuition and other receivables, net	100,478	-	100,478
Prepaid expenses	41,431	-	41,431
Inventories	78,248	-	78,248
Property, buildings and equipment, net	22,588,653	-	22,588,653
Other assets	584,791	-	584,791
Total assets	$ 36,264,127	$ 21,447,184	$ 57,711,311
Liabilities and Net Assets			
Accounts payable	$ 421,117	$ -	$ 421,117
Accrued salaries and related benefits	1,547,741	-	1,547,741
Other accrued liabilities	126,828	-	126,828
Deferred tuition revenue and enrollment deposits	1,068,100	-	1,068,100
Long-term debt	3,394,055	-	3,394,055
Total liabilities	6,557,841	-	6,557,841
Net assets:			
Without donor restrictions:			
Undesignated	1,755,974	-	1,755,974
Board designated:			
Quasi endowment	3,218,906	-	3,218,906
Plant reserve	2,553,519	-	2,553,519
Plant improvement	2,842,979	-	2,842,979
Technology replacement	20,546	-	20,546
Invested plant	19,218,029	-	19,218,029
USN association	96,333	-	96,333
With donor restrictions	-	21,447,184	21,447,184
Total net assets	29,706,286	21,447,184	51,153,470
Total liabilities and net assets	$ 36,264,127	$ 21,447,184	$ 57,711,311

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid, scholarships, and tuition remission totaling $3,284,141	$ 21,251,978	$ -	$ 21,251,978
Ancillary programs	2,128,662	-	2,128,662
Contributions	1,655,099	2,929,294	4,584,393
USN Association fundraising	430,408	193,679	624,087
Investment return	439,726	904,078	1,343,804
Other income	152,856	-	152,856
Net assets released from restrictions	1,294,151	(1,294,151)	-
Total support and revenues	27,352,880	2,732,900	30,085,780
Operating expenses:			
Program services:			
Instruction and student activities	19,644,093	-	19,644,093
Ancillary programs	2,125,070	-	2,125,070
Total program services	21,769,163	-	21,769,163
Supporting services:			
General and administration	2,740,353	-	2,740,353
USN Association and fundraising	1,640,533	-	1,640,533
Total supporting services	4,380,886	-	4,380,886
Total expenses	26,150,049	-	26,150,049
Change in net assets	1,202,831	2,732,900	3,935,731
Net assets at beginning of year	29,706,286	21,447,184	51,153,470
Net assets at end of year	$ 30,909,117	$ 24,180,084	$ 55,089,201

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid, scholarships, and tuition remission totaling $3,131,000	$ 20,785,809	$ -	$ 20,785,809
Ancillary programs	2,103,599	-	2,103,599
Contributions	1,470,953	2,272,945	3,743,898
USN Association fundraising	395,651	185,965	581,616
Investment return	305,123	981,049	1,286,172
Other income	89,191	-	89,191
Net assets released from restrictions	1,205,494	(1,205,494)	-
Total support and revenues	26,355,820	2,234,465	28,590,285
Operating expenses:			
Program services:			
Instruction and student activities	18,805,256	-	18,805,256
Ancillary programs	2,101,463	-	2,101,463
Total program services	20,906,719	-	20,906,719
Supporting services:			
General and administration	2,673,089	-	2,673,089
USN Association and fundraising	1,503,130	-	1,503,130
Total supporting services	4,176,219	-	4,176,219
Total expenses	25,082,938	-	25,082,938
Non-operating activity - gain on hedging activity, net	1,642	-	1,642
Change in net assets	1,274,524	2,234,465	3,508,989
Net assets at beginning of year	28,431,762	19,212,719	47,644,481
Net assets at end of year	$ 29,706,286	$ 21,447,184	$ 51,153,470

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Cash Flows

Year ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 3,935,731	$ 3,508,989
Adjustments to reconcile the change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,924,408	1,866,161
Bad debt expense	119,472	78,833
Loss on disposal of equipment	833	-
Net (gain) loss on investments	(690,188)	(790,253)
Gain on hedging activity	-	(1,642)
Contributions permanently restricted for investment in endowment	(1,837,947)	(1,136,868)
Contributions restricted for building campaign	(1,224,829)	(1,258,821)
(Increase) decrease in operating assets:		
Tuition and other receivables	(192,938)	(9,417)
Prepaid expenses	14,910	315
Inventories	122	7,987
Other assets	(53,186)	(32,471)
Increase (decrease) in operating liabilities:		
Accounts payable	(18,846)	251,202
Accrued salaries and related benefits	97,901	27,432
Other accrued liabilities	(1,988)	12,931
Deferred tuition revenue	137,546	183,033
Total adjustments	(1,724,730)	(801,578)
Net cash provided by operating activities	2,211,001	2,707,411
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	8,500	-
Purchases of buildings and equipment	(783,383)	(610,018)
Proceeds from sale of investments	4,406,352	1,985,070
Purchases of investments	(8,195,297)	(4,600,588)
Net cash used by investing activities	(4,563,828)	(3,225,536)
Cash flows from financing activities:		
Contributions permanently restricted for investment in endowment	1,837,947	1,136,868
Contributions restricted for building campaign	1,224,829	1,258,818
Payments of long-term debt	(392,313)	(601,837)
Net cash provided by financing activities	2,670,463	1,793,849
Increase in cash and cash equivalents	317,636	1,275,724
Cash and cash equivalents at beginning of year	6,306,935	5,031,211
Cash and cash equivalents at end of year	$ 6,624,571	$ 6,306,935

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Functional Expenses

Year ended June 30, 2019

	Programs			Supporting Services		
	Institution and Student Activities	Ancillary	Total Program Services	General and Administration	USN Association and Fundraising	Total
Contracted services	$ 866,320	$ 459,441	$ 1,325,761	$ 156,791	$ 126,546	$ 1,609,098
Depreciation	1,924,408	-	1,924,408	-	-	1,924,408
Facility, software, & equipment rental	519,748	-	519,748	-	6,806	526,554
Food	25,619	335,822	361,441	24,072	42,670	428,183
Insurance	-	-	-	204,250	-	204,250
Interest	127,611	-	127,611	-	-	127,611
Maintenance	426,334	8,424	434,758	13,100	24,839	472,697
Memberships & subscriptions	40,217	390	40,607	55,777	2,791	99,175
Merchandise for resale	-	166,938	166,938	-	-	166,938
Payroll taxes and benefits	2,482,228	138,866	2,621,094	348,038	169,362	3,138,494
Printing and postage	177,165	6,998	184,163	8,254	92,293	284,710
Professional development	190,055	8,317	198,372	20,171	19,688	238,231
Restricted gift expense	233,181	-	233,181	-	-	233,181
Special events	146,132	6,834	152,966	13,307	285,781	452,054
Supplies & program	632,962	115,397	748,359	8,122	13,127	769,608
Utilities	659,092	-	659,092	3,835	-	662,927
Wages	11,092,391	887,834	11,980,225	1,639,075	781,263	14,400,563
Other	100,630	(10,191)	90,439	245,561	75,367	411,367
Total expenses	$ 19,644,093	$ 2,125,070	$ 21,769,163	$ 2,740,353	$ 1,640,533	$ 26,150,049

See accompanying notes to the financial statements.

(1) Nature of activities

University School of Nashville (the "School"), 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 standard

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (with donor restrictions and without donor restrictions), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard was adopted effective July 1, 2018 and has been retrospectively applied to the 2018 financial statements. Total net assets did not change as a result of adopting ASU 2016-14.

(b) Basis of presentation

In accordance with FASB Accounting Standards Codification ("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 Directors 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.

Employee benefits - net assets without donor restrictions designated for future employee benefit expenses.

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. These restrictions include but are not limited to the Horizon program and the library fund.

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.

(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 income

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 income 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 income 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 income 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 $119,472 and $78,833 in 2019 and 2018, 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 $712,112 and $1,455,052 at June 30, 2019 and 2018, respectively.

(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) Deferred tuition revenue and enrollment deposits

Deferred tuition revenue represents advance tuition payments for the upcoming or future academic years. Such amounts are recognized as revenues as earned ratably over the related academic fiscal year. At June 30, 2019, deferred tuition of approximately $219,000 related to fiscal periods subsequent to 2020.

New incoming students are required to make an enrollment deposit which is applied to the student's last bill of the first year of enrollment. These amounts are held as deposits until the final month of the next fiscal year, at which point they are recognized as revenue. Deposits received for tuition for future school years are recorded as deferred revenue until earned.

(j) 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.

(k) Tuition and ancillary program revenue recognition

Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered, which generally runs from August to June.

Ancillary program revenues represents revenue from after school programs, bookstore sales, camps and other related activities and are recognized as revenue when the materials are sold or as the services are rendered.

(l) Financial aid, scholarships and tuition remission

Tuition and fees reflect the School's normal tuition charges and additional fees for all students and are presented net of financial aid, scholarships and tuition. Scholarships, given on the basis of financial need and/or academic performance, are netted against tuition and fees. Employees with continuous service prior to the 1994 - 1995 school year receive a tuition remission benefit for dependents.

(m) Contributions and support

Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions.

Contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. Amounts received which are restricted by the donor for future periods or for specific purposes are reported as net assets with donor restrictions. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as net assets without donor restrictions.

The School reports any gifts of equipment or materials as support without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as support with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

(n) 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, 2019 and 2018, 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.

(o) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(p) 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.

(q) New accounting standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09, along with subsequent amendments, supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue. This standard is effective for fiscal years beginning after December 15, 2018 and will be adopted by the School for fiscal year 2020. The School continues to evaluate its population of revenue sources to assess the potential effects ASU 2014-09 will have on its financial statements and related disclosures; however, the School expects the primary impact to be in the form of additional financial statement disclosures.

The FASB's new lease accounting standard, ASU No. 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 2022. Management of the School is currently evaluating the impact adoption of ASU 2016-02 will have on its financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the School's fiscal year beginning July 1, 2019 for transactions in which the School serves as a resource recipient, and for its fiscal year beginning July 1, 2020, for transactions in which the School serves as a resource provider. Early adoption is permitted.

(r) Events occurring after reporting date

The School has evaluated events and transactions that occurred between June 30, 2019 and November 21, 2019 which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No such events or transactions were noted requiring recognition or disclosure in the financial statements.

(3) Liquidity and availability

The following table reflects the University's financial assets as of June 30, 2019 and 2018 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.

	2019	2018
Cash and cash equivalents	$ 6,624,571	$ 6,306,935
Tuition and other receivables, net	173,944	100,478
Investments	32,489,908	28,010,775
Financial assets at end of year	39,288,423	34,418,188
Less: assets unavailable for general expenditure within one year:		
Board designated funds	(10,557,621)	(8,635,950)
Financial assets subject to expenditures for specific purposes	(6,801,968)	(5,907,012)
Endowment funds	(20,448,364)	(18,433,797)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,480,470	$ 1,441,429

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 $20,448,364 and $18,433,797 at June 30, 2019 and 2018, respectively, are subject to the School's spending policy as described in Note 14. 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.

(5) Fair value measurements, investments and investment income

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, 2019 and 2018.

(i) ***Common trust funds*: Common trust funds are invested in separate trust funds which hold investments in a variety of investment instruments, including domestic governmental and corporate debt and equity securities, mutual funds, limited partnerships and foreign equity securities. The funds are valued at the net asset value of shares held at the end of the year. The net asset value is determined by the funds' manager, Diversified Trust Company, Inc., at the end of each month. Units are issued and redeemed only at the month-end net asset value.**

(ii) ***Mutual funds and master limited partnerships*: Valued at the net asset value of shares held by the School at year end based on a quoted price in an active market.**

(iii) ***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.**

(iv) ***Life insurance policies*: Valued at the cash value of the underlying insurance policies.**

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, 2019 and 2018:

	Fair Value Measurements as of June 30, 2019 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 5,840,582	$ -	$ -	$ 5,840,582
Mutual funds	26,522,562	-	-	26,522,562
Private equity investment fund	-	-	27,076	27,076
Cash value of life insurance	-	99,688	-	99,688
Total investments	32,363,144	99,688	27,076	32,489,908
Mutual funds held for deferred compensation plans (Note 10)	620,322	-	-	620,322
Total financial assets	$ 32,983,466	$ 99,688	$ 27,076	$ 33,110,230

	Fair Value Measurements as of June 30, 2018 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 4,841,131	$ -	$ -	$ 4,841,131
Mutual funds	10,058,371	-	-	10,058,371
Master LTD Partnerships	1,509,292	-	-	1,509,292
Common trust funds	-	11,469,908	-	11,469,908
Private equity investment fund	-	-	40,536	40,536
Cash value of life insurance	-	91,537	-	91,537
Total investments	16,408,794	11,561,445	40,536	28,010,775
Mutual funds held for deferred compensation plans (Note 10)	561,410	-	-	561,410
Total financial assets	$ 16,970,204	$ 11,561,445	$ 40,536	$ 28,572,185

The following table provides a summary of changes in fair value of the Plan's Level 3 assets for the years ended June 30, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Private Equity Investment
Balance at June 30, 2017	$ 79,250
Unrealized gains relating to instruments still held at the reporting date	(17,464)
Distributions	(21,250)
Balance at June 30, 2018	40,536
Unrealized gain relating to instruments still held at the reporting date	7,436
Distributions	(20,896)
Balance at June 30, 2019	$ 27,076

The majority of the investment holdings can be liquidated within 30 days or less. At June 30, 2019 and 2018, restrictions for 0.1% and 0.2% of the total investment holdings, respectively, represent the outstanding fair market value associated with capital committed to a private equity fund that cannot be liquidated at the School's discretion. The School invests in a private equity fund which requires periodic capital contributions based on the original capital commitment. At June 30, 2019, the School has a remaining capital obligation of $15,000 related to this commitment. Currently the fund manager expects no additional capital calls will be made, but the School's obligation will remain until termination of the fund which is expected in 2019 unless otherwise extended or terminated as contemplated in the Partnership Agreement.

(6) Tuition and other receivables

A summary of tuition and other receivables at June 30, 2019 and 2018 is as follows:

	2019	2018
Tuition	$ 147,052	$ 161,414
Other receivables	95,988	19,840
	243,040	181,254
Less: allowance for uncollectible accounts	(69,096)	(80,776)
Net tuition and other receivables	$ 173,944	$ 100,478

(7) Property, buildings and equipment

Property, buildings and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Land	$ 2,814,767	$ 2,814,767
Buildings and improvements	38,384,457	38,187,911
Equipment	6,157,314	5,509,939
Construction in progress	46,936	183,248
	47,403,474	46,695,865
Accumulated depreciation	(25,533,286)	(24,107,212)
Property, buildings and equipment, net	$ 21,870,188	$ 22,588,653

(8) Long term debt

The School has an $8,000,000 unsecured line of credit and construction loan agreement with a bank, which is comprised of a $4,000,000 promissory note bearing interest at the annual LIBOR, plus 1.25% with a maximum rate of 10% per year (3.69% at June 30, 2019) and a $4,000,000 promissory note bearing interest at a fixed rate of 3.95% per annum (together, the "Construction Notes Payable"). Interest on the Construction Notes Payable 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, 2019 and 2018, the School was in compliance with such covenants. The Construction Notes Payable are unsecured but are subject to a negative pledge agreement on certain real estate of the School. The balance of the Construction Notes Payable was $3,001,742 and $3,394,055 at June 30, 2019 and 2018, respectively.

A summary of future maturities of the Bonds as of June 30, 2019 is as follows:

Year	Amount
2020	$ 404,344
2021	420,605
2022	437,741
2023	455,492
2024 and later years	1,283,560
	$ 3,001,742

(9) Capital lease obligations

The School has entered into capital lease agreements to finance the acquisition of certain equipment. The School's obligation under these capital leases as of June 30, 2019 was as follows:

Minimum lease payments payable	$ 457,962
Less: portion representing interest	(26,069)
Capital lease obligations	431,893
Less: current portion	138,476
Long-term portion	$ 293,417

Future minimum annual lease payments payable under the capital leases as of June 30, 2019 total $457,962 to be paid during the subsequent fiscal years.

Year	Amount
2020	$ 152,654
2021	152,654
2022	152,654
	$ 457,962

The School did not utilize property and equipment under capital leases as of June 30, 2018. Property and equipment utilized under capital leases at June 30, 2019 amounted to $431,893. There was no amortization of the equipment during 2019.

(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 5% of each participant's salary. Total expense recognized by the School under the plan amounted to $733,581 and $622,832 for the years ended June 30, 2019 and 2018, respectively.

The School entered 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, 2019 and 2018, assets of $620,322 and $561,410, 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 $37,500 and $36,500 to the deferred compensation plan for the years ended June 30, 2019 and 2018, respectively.

(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, 2019 and 2018:

	2019	2018
USN Association revenue	$ 624,087	$ 581,616
USN Association expenses:		
Fundraising expenses	395,738	365,022
Association activities	27,123	31,014
Total USN Association expenses	422,861	396,036
Transfers to the school:		
Proceeds from used book sale	(12,915)	(19,886)
Proceeds from Artclectic - to endowment	(80,705)	(62,543)
Music night transfer	(28,875)	(18,922)
Bonus bucks	(7,622)	(7,144)
Tiger Club	(3,840)	(6,211)
TAP - Tiger Arts Patrons	(7,096)	(7,720)
Transfer of savings	(3,000)	(6,482)
Proceeds from evening classes - to endowment	(49,626)	(57,057)
Total transfers to the school	(193,679)	(185,965)
Change in USN Association assets	7,547	(385)
Designated USN Association - beginning of year	96,333	96,718
Designated USN Association - end of year	$ 103,880	$ 96,333

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

Donor restricted net assets are available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose:		
Centennial Campaign Pending Designation	$ 1,674,947	$ 1,409,309
Horizons	1,018,821	632,895
Curricular Design	240,323	266,172
Program Initiatives	204,071	206,790
Scholarship/ Financial Aid	321,108	236,496
USNA Funded	148,125	121,046
Director's Discretionary Fund	97,257	99,807
Other	27,069	40,872
Endowment	3,070,246	2,893,627
	6,801,967	5,907,014
Endowment subject to spending policy and appropriation:		
Financial aid and scholarships	17,378,117	15,540,170
	$ 24,180,084	$ 21,447,184

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

	2019	2018
Purpose restrictions accomplished:		
Property, plant and equipment purchases	$ 66,247	$ 97,362
Curricular Design	25,849	54,818
Library	6,925	6,230
Horizons	245,415	201,391
Other	61,028	19,277
Scholarship award	14,808	11,000
Faculty professional development award	-	13,446
Financial aid	55,980	28,027
Endowment spending rate - Financial aid and scholarships	724,308	624,779
Student summer opportunity	-	93,810
Program Initiatives	93,591	55,354
	$ 1,294,151	$ 1,205,494

(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, 2019 or 2018.

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.

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, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 4,126,420	$ -	$ 4,126,420
Donor-restricted	-	20,448,363	20,448,363
Total	$ 4,126,420	$ 20,448,363	$ 24,574,783

A summary of endowment asset composition by type of fund as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 3,218,906	$ -	$ 3,218,906
Donor-restricted	-	18,433,797	18,433,797
Total	$ 3,218,906	$ 18,433,797	$ 21,652,703

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	$ 2,284,070	$ 16,943,803	$ 19,227,873
Contributions	934,836	1,133,724	2,068,560
Realized and unrealized gain	-	981,049	981,049
Amounts appropriated for expenditures	-	(624,779)	(624,779)
Endowment net assets, June 30, 2018	3,218,906	18,433,797	21,652,703
Contributions	1,001,391	1,834,796	2,836,187
Realized and unrealized gain	-	904,078	904,078
Amounts appropriated for expenditures	(93,877)	(724,308)	(818,185)
Endowment net assets, June 30, 2019	$ 4,126,420	$ 20,448,363	$ 24,574,783

(14) Lease commitments

The School leases student computers, office computers and maintenance equipment under operating leases. Rent expense under these leases amounted to approximately $241,000 and $347,000 in 2019 and 2018, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2019 is as follows:

Year ending June 30	Amount
2020	$ 152,600
2021	33,000
2022	3,600
2023	2,200
2024 and later years	3,200
	$ 194,600

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 2019.

(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.

(16) Supplemental disclosures of cash flow statement information

	2019	2018
Interest paid	$ 121,885	$ 119,805

During 2019, the School obtained technology equipment under a capital lease obligation totaling $431,893.