

**UNIVERSITY SCHOOL OF NASHVILLE**

**Financial Statements**

**June 30, 2017 and 2016**

**(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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2017 and 2016, 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  
October 10, 2017

# UNIVERSITY SCHOOL OF NASHVILLE

## Statement of Financial Position

June 30, 2017

|  | <u>Unrestricted</u>         | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|--|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| <b><u>Assets</u></b>                             |                             |                                   |                                   |                             |
| Cash and cash equivalents                        | \$ 2,762,295                | \$ 2,268,916                      | \$ -                              | \$ 5,031,211                |
| Investments                                      | 7,661,201                   | 2,540,501                         | 14,403,302                        | 24,605,004                  |
| Tuition receivable, net                          | 169,894                     | -                                 | -                                 | 169,894                     |
| Prepaid expenses                                 | 41,746                      | -                                 | -                                 | 41,746                      |
| Inventories                                      | 86,235                      | -                                 | -                                 | 86,235                      |
| Property, buildings and equipment, net           | 23,844,793                  | -                                 | -                                 | 23,844,793                  |
| Other assets                                     | <u>552,320</u>              | <u>-</u>                          | <u>-</u>                          | <u>552,320</u>              |
| <b>Total assets</b>                              | <b>\$ <u>35,118,484</u></b> | <b>\$ <u>4,809,417</u></b>        | <b>\$ <u>14,403,302</u></b>       | <b>\$ <u>54,331,203</u></b> |
| <b><u>Liabilities and Net Assets</u></b>         |                             |                                   |                                   |                             |
| Accounts payable                                 | \$ 169,915                  | \$ -                              | \$ -                              | \$ 169,915                  |
| Accrued salaries and related benefits            | 1,520,309                   | -                                 | -                                 | 1,520,309                   |
| Other accrued liabilities                        | 113,897                     | -                                 | -                                 | 113,897                     |
| Deferred tuition revenue and enrollment deposits | 885,067                     | -                                 | -                                 | 885,067                     |
| Long-term debt                                   | 3,995,892                   | -                                 | -                                 | 3,995,892                   |
| Obligation under interest rate swap              | <u>1,642</u>                | <u>-</u>                          | <u>-</u>                          | <u>1,642</u>                |
| <b>Total liabilities</b>                         | <b><u>6,686,722</u></b>     | <b><u>-</u></b>                   | <b><u>-</u></b>                   | <b><u>6,686,722</u></b>     |
| <b>Net assets:</b>                               |                             |                                   |                                   |                             |
| <b>Unrestricted:</b>                             |                             |                                   |                                   |                             |
| Undesignated                                     | 1,801,577                   | -                                 | -                                 | 1,801,577                   |
| Designated - quasi endowment                     | 2,284,070                   | -                                 | -                                 | 2,284,070                   |
| Designated - plant reserve                       | 2,339,002                   | -                                 | -                                 | 2,339,002                   |
| Designated - plant improvement                   | 1,883,978                   | -                                 | -                                 | 1,883,978                   |
| Designated - invested plant                      | 19,876,417                  | -                                 | -                                 | 19,876,417                  |
| Designated - employee benefits                   | 150,000                     | -                                 | -                                 | 150,000                     |
| Designated - USN association                     | 96,718                      | -                                 | -                                 | 96,718                      |
| Temporarily restricted - other                   | -                           | 2,268,916                         | -                                 | 2,268,916                   |
| Temporarily restricted endowment                 | -                           | 2,540,501                         | -                                 | 2,540,501                   |
| Permanently restricted                           | <u>-</u>                    | <u>-</u>                          | <u>14,403,302</u>                 | <u>14,403,302</u>           |
| <b>Total net assets</b>                          | <b><u>28,431,762</u></b>    | <b><u>4,809,417</u></b>           | <b><u>14,403,302</u></b>          | <b><u>47,644,481</u></b>    |
| <b>Total liabilities and net assets</b>          | <b>\$ <u>35,118,484</u></b> | <b>\$ <u>4,809,417</u></b>        | <b>\$ <u>14,403,302</u></b>       | <b>\$ <u>54,331,203</u></b> |

See accompanying notes to the financial statements.

# UNIVERSITY SCHOOL OF NASHVILLE

## Statement of Financial Position

June 30, 2016

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b><u>Assets</u></b>                             |                      |                                   |                                   |                      |
| Cash and cash equivalents                        | \$ 3,101,436         | \$ 1,822,461                      | \$ -                              | \$ 4,923,897         |
| Investments                                      | 6,434,713            | 1,633,317                         | 12,876,727                        | 20,944,757           |
| Tuition receivable, net                          | 111,672              | -                                 | -                                 | 111,672              |
| Prepaid expenses                                 | 49,550               | -                                 | -                                 | 49,550               |
| Inventories                                      | 92,728               | -                                 | -                                 | 92,728               |
| Property, buildings and equipment, net           | 24,900,897           | -                                 | -                                 | 24,900,897           |
| Other assets                                     | <u>493,761</u>       | <u>-</u>                          | <u>-</u>                          | <u>493,761</u>       |
| Total assets                                     | <u>\$ 35,184,757</u> | <u>\$ 3,455,778</u>               | <u>\$ 12,876,727</u>              | <u>\$ 51,517,262</u> |
| <b><u>Liabilities and Net Assets</u></b>         |                      |                                   |                                   |                      |
| Accounts payable                                 | \$ 270,103           | \$ -                              | \$ -                              | \$ 270,103           |
| Accrued salaries and related benefits            | 1,421,300            | -                                 | -                                 | 1,421,300            |
| Other accrued liabilities                        | 126,907              | -                                 | -                                 | 126,907              |
| Deferred tuition revenue and enrollment deposits | 763,643              | -                                 | -                                 | 763,643              |
| Long-term debt                                   | 4,960,842            | -                                 | -                                 | 4,960,842            |
| Obligation under interest rate swap              | <u>17,029</u>        | <u>-</u>                          | <u>-</u>                          | <u>17,029</u>        |
| Total liabilities                                | <u>7,559,824</u>     | <u>-</u>                          | <u>-</u>                          | <u>7,559,824</u>     |
| <b>Net assets:</b>                               |                      |                                   |                                   |                      |
| <b>Unrestricted:</b>                             |                      |                                   |                                   |                      |
| Undesignated                                     | 1,676,733            | -                                 | -                                 | 1,676,733            |
| Designated - quasi endowment                     | 2,020,941            | -                                 | -                                 | 2,020,941            |
| Designated - capital resources                   | 56,759               | -                                 | -                                 | 56,759               |
| Designated - debt repayment                      | 218,305              | -                                 | -                                 | 218,305              |
| Designated - plant reserve                       | 2,194,163            | -                                 | -                                 | 2,194,163            |
| Designated - plant improvement                   | 1,253,919            | -                                 | -                                 | 1,253,919            |
| Designated - technology replacement              | 1,767                | -                                 | -                                 | 1,767                |
| Designated - invested plant                      | 19,957,861           | -                                 | -                                 | 19,957,861           |
| Designated - employee benefits                   | 150,000              | -                                 | -                                 | 150,000              |
| Designated - USN association                     | 94,485               | -                                 | -                                 | 94,485               |
| Temporarily restricted - other                   | -                    | 1,822,462                         | -                                 | 1,822,462            |
| Temporarily restricted endowment                 | -                    | 1,633,316                         | -                                 | 1,633,316            |
| Permanently restricted                           | <u>-</u>             | <u>-</u>                          | <u>12,876,727</u>                 | <u>12,876,727</u>    |
| Total net assets                                 | <u>27,624,933</u>    | <u>3,455,778</u>                  | <u>12,876,727</u>                 | <u>43,957,438</u>    |
| Total liabilities and net assets                 | <u>\$ 35,184,757</u> | <u>\$ 3,455,778</u>               | <u>\$ 12,876,727</u>              | <u>\$ 51,517,262</u> |

See accompanying notes to the financial statements.

# UNIVERSITY SCHOOL OF NASHVILLE

## Statement of Activities

Year ended June 30, 2017

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Changes in net assets:  |                      |                                   |                                   |                      |
| Support and revenues:   |                      |                                   |                                   |                      |
| Tuition and fees, net of financial aid, scholarships,<br>and tuition remission totaling \$2,846,000 | \$ 19,667,619        | \$ -                              | \$ -                              | \$ 19,667,619        |
| Ancillary programs  | 2,058,136            | -                                 | -                                 | 2,058,136            |
| Contributions   | 1,429,251            | 1,312,632                         | 1,419,335                         | 4,161,218            |
| USN Association fundraising   | 406,212              | 66,811                            | 104,103                           | 577,126              |
| Investment income   | 403,414              | 1,399,593                         | 3,137                             | 1,806,144            |
| Other income  | 131,622              | -                                 | -                                 | 131,622              |
| Net assets released from restrictions   | <u>1,425,397</u>     | <u>(1,425,397)</u>                | <u>-</u>                          | <u>-</u>             |
| Total support and revenues  | <u>25,521,651</u>    | <u>1,353,639</u>                  | <u>1,526,575</u>                  | <u>28,401,865</u>    |
| Operating expenses:   |                      |                                   |                                   |                      |
| Program services:   |                      |                                   |                                   |                      |
| Instruction and student activities  | 13,351,217           | -                                 | -                                 | 13,351,217           |
| Ancillary programs  | 2,009,520            | -                                 | -                                 | 2,009,520            |
| Buildings, grounds and vehicle expense  | 3,332,013            | -                                 | -                                 | 3,332,013            |
| Depreciation and amortization   | 1,858,760            | -                                 | -                                 | 1,858,760            |
| Interest  | <u>152,836</u>       | <u>-</u>                          | <u>-</u>                          | <u>152,836</u>       |
| Total program services  | <u>20,704,346</u>    | <u>-</u>                          | <u>-</u>                          | <u>20,704,346</u>    |
| Supporting services:  |                      |                                   |                                   |                      |
| General administration  | 2,456,092            | -                                 | -                                 | 2,456,092            |
| Development, alumni and communications  | 1,173,592            | -                                 | -                                 | 1,173,592            |
| USN Association activities and fundraising expense  | <u>396,179</u>       | <u>-</u>                          | <u>-</u>                          | <u>396,179</u>       |
| Total supporting services   | <u>4,025,863</u>     | <u>-</u>                          | <u>-</u>                          | <u>4,025,863</u>     |
| Total expenses  | <u>24,730,209</u>    | <u>-</u>                          | <u>-</u>                          | <u>24,730,209</u>    |
| Non-operating activity  |                      |                                   |                                   |                      |
| Gain on hedging activity, net   | <u>15,387</u>        | <u>-</u>                          | <u>-</u>                          | <u>15,387</u>        |
| Change in net assets  | 806,829              | 1,353,639                         | 1,526,575                         | 3,687,043            |
| Net assets at beginning of year   | <u>27,624,933</u>    | <u>3,455,778</u>                  | <u>12,876,727</u>                 | <u>43,957,438</u>    |
| Net assets at end of year   | <u>\$ 28,431,762</u> | <u>\$ 4,809,417</u>               | <u>\$ 14,403,302</u>              | <u>\$ 47,644,481</u> |

See accompanying notes to the financial statements.

# UNIVERSITY SCHOOL OF NASHVILLE

## Statement of Activities

Year ended June 30, 2016

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Changes in net assets:  |                      |                                   |                                   |                      |
| Support and revenues:   |                      |                                   |                                   |                      |
| Tuition and fees, net of financial aid, scholarships,<br>and tuition remission totaling \$2,710,000 | \$ 19,283,314        | \$ -                              | \$ -                              | \$ 19,283,314        |
| Ancillary programs  | 1,937,212            | -                                 | -                                 | 1,937,212            |
| Contributions   | 1,403,363            | 1,525,332                         | 949,357                           | 3,878,052            |
| USN Association fundraising   | 387,425              | 115,137                           | 120,953                           | 623,515              |
| Investment income   | 42,604               | 46,041                            | 3,189                             | 91,834               |
| Other income  | 42,325               | -                                 | -                                 | 42,325               |
| Net assets released from restrictions   | <u>2,666,447</u>     | <u>(2,666,447)</u>                | <u>-</u>                          | <u>-</u>             |
| Total support and revenues  | <u>25,762,690</u>    | <u>(979,937)</u>                  | <u>1,073,499</u>                  | <u>25,856,252</u>    |
| Operating expenses:   |                      |                                   |                                   |                      |
| Program services:   |                      |                                   |                                   |                      |
| Instruction and student activities  | 13,189,408           | -                                 | -                                 | 13,189,408           |
| Ancillary programs  | 1,862,495            | -                                 | -                                 | 1,862,495            |
| Buildings, grounds and vehicle expense  | 3,131,602            | -                                 | -                                 | 3,131,602            |
| Depreciation and amortization   | 2,020,245            | -                                 | -                                 | 2,020,245            |
| Interest  | <u>183,921</u>       | <u>-</u>                          | <u>-</u>                          | <u>183,921</u>       |
| Total program services  | <u>20,387,671</u>    | <u>-</u>                          | <u>-</u>                          | <u>20,387,671</u>    |
| Supporting services:  |                      |                                   |                                   |                      |
| General administration  | 2,495,944            | -                                 | -                                 | 2,495,944            |
| Development, alumni and communications  | 1,126,131            | -                                 | -                                 | 1,126,131            |
| USN Association activities and fundraising expense  | <u>397,149</u>       | <u>-</u>                          | <u>-</u>                          | <u>397,149</u>       |
| Total supporting services   | <u>4,019,224</u>     | <u>-</u>                          | <u>-</u>                          | <u>4,019,224</u>     |
| Total expenses  | <u>24,406,895</u>    | <u>-</u>                          | <u>-</u>                          | <u>24,406,895</u>    |
| Non-operating activity  |                      |                                   |                                   |                      |
| Gain on hedging activity, net   | <u>25,503</u>        | <u>-</u>                          | <u>-</u>                          | <u>25,503</u>        |
| Change in net assets  | 1,381,298            | (979,937)                         | 1,073,499                         | 1,474,860            |
| Net assets at beginning of year   | <u>26,243,635</u>    | <u>4,435,715</u>                  | <u>11,803,228</u>                 | <u>42,482,578</u>    |
| Net assets at end of year   | <u>\$ 27,624,933</u> | <u>\$ 3,455,778</u>               | <u>\$ 12,876,727</u>              | <u>\$ 43,957,438</u> |

See accompanying notes to the financial statements.

# UNIVERSITY SCHOOL OF NASHVILLE

## Statements of Cash Flows

Years ended June 30, 2017 and 2016

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ <u>3,687,043</u> | \$ <u>1,474,860</u> |
| Adjustments to reconcile increase in net assets to cash flows provided by operating activities: |                     |                     |
| Depreciation and amortization   | 1,858,760           | 2,020,245           |
| Bad debt expense  | 6,350               | 58,236              |
| Gain on disposal of equipment   | (47,509)            | -                   |
| Net (gain) loss on investments  | (1,394,329)         | 381,248             |
| Gain on hedging activity  | (15,387)            | (25,503)            |
| Contributions permanently restricted for investment in endowment                                | (1,526,575)         | (1,073,499)         |
| Contributions restricted for building campaign  | (1,312,632)         | (1,525,331)         |
| (Increase) decrease in operating assets:  |                     |                     |
| Tuition and pledges receivable  | (64,572)            | 55,309              |
| Prepaid expenses  | 7,804               | (9,820)             |
| Inventories   | 6,493               | (12,327)            |
| Other assets  | (58,559)            | (19,190)            |
| Increase (decrease) in operating liabilities:   |                     |                     |
| Accounts payable  | (100,188)           | (33,059)            |
| Accrued salaries and related benefits   | 99,009              | 96,589              |
| Other accrued liabilities   | (13,010)            | (6,866)             |
| Enrollment deposits   | -                   | (119,240)           |
| Deferred tuition revenue  | <u>121,424</u>      | <u>(15,379)</u>     |
| Total adjustments   | <u>(2,432,921)</u>  | <u>(228,587)</u>    |
| Net cash provided by operating activities   | <u>1,254,122</u>    | <u>1,246,273</u>    |
| Cash flows from investing activities:   |                     |                     |
| Proceeds from disposal of property and equipment  | 87,383              | -                   |
| Purchases of buildings and equipment  | (842,530)           | (551,512)           |
| Proceeds from sale of investments   | 2,898,225           | 2,171,867           |
| Purchases of investments  | <u>(5,164,143)</u>  | <u>(4,263,282)</u>  |
| Net cash used by investing activities   | <u>(3,021,065)</u>  | <u>(2,642,927)</u>  |
| Cash flows from financing activities:   |                     |                     |
| Contributions permanently restricted for investment in endowment                                | 1,526,575           | 1,073,499           |
| Contributions restricted for building campaign  | 1,312,632           | 1,525,331           |
| Payments on capital lease obligations   | -                   | (108,031)           |
| Payments of long-term debt  | <u>(964,950)</u>    | <u>(1,885,000)</u>  |
| Net cash provided by financing activities   | <u>1,874,257</u>    | <u>605,799</u>      |
| Increase (decrease) in cash and cash equivalents  | 107,314             | (790,855)           |
| Cash and cash equivalents at beginning of year  | <u>4,923,897</u>    | <u>5,714,752</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 5,031,211</u> | <u>\$ 4,923,897</u> |

See accompanying notes to the financial statements.



# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### (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) Basis of presentation

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-For-Profit Entities*, the School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, as follows:

##### Unrestricted:

Undesignated - includes unrestricted resources and represents expendable funds available for support of School operations.

Board Designations - includes resources 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 - unrestricted net assets designated for future purposes. This portion of unrestricted net assets 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 - unrestricted net assets designated for future facility, technology improvements, and maintenance.

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

Employee benefits - unrestricted net assets designated for future employee benefit expenses.

USN Association - unrestricted net assets resulting from USN Association activities.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### Temporarily restricted:

These contributions are restricted by the donor for a specific purpose. These restrictions include but are not limited to the Centennial Campaign, the Horizon program and the library fund.

Temporarily restricted endowment - net market gains resulting from the investment of permanently restricted net assets. This portion of temporary restricted net assets may be expended as authorized by the Board of Trustees Investment and Spending Policy for the purpose stipulated by the donor.

### Permanently restricted:

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.

### (b) Cash equivalents

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

### (c) Investments and investment income

Investments are reported at fair value as discussed in Note 4. Investment income 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 unrestricted net assets 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 unrestricted net assets 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 temporarily restricted net assets depending on the nature of the restrictions.

### (d) 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 administration expense and amounted to \$6,350 and \$58,236 in 2017 and 2016, respectively.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

(e) Pledges 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. There were no outstanding pledges receivable at June 30, 2017 and 2016.

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 \$3,171,000 and \$3,368,000 at June 30, 2017 and 2016, respectively.

(f) Inventories

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

(g) 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 unrestricted revenues. Depreciation expense and costs of maintenance and repairs are classified under program services, since the amounts applicable to supporting services are considered insignificant.

(h) 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.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

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.

(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) Accounting for derivatives

The School utilizes a derivative financial instrument to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statements of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities as a non-operating gain or loss on hedging activities.

(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 remission. 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 unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support, thereby increasing those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted 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 unrestricted.

The School reports any gifts of equipment or materials as unrestricted support 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 restricted support. 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, 2017 and 2016, 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) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

(q) Events occurring after reporting date

The School has evaluated events and transactions that occurred between June 30, 2017 and October 10, 2017 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) 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.

The School also utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible for changes in the values of investment securities occurring in the near term and such changes could materially affect the amounts reported in the balance sheets.

(4) 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.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016.

- (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.
- (v) ***Interest rate swap:*** The fair value of the interest rate swap is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

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.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

The following tables set forth, by level within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2017 and 2016:

### Fair Value Measurements as of June 30, 2017 using the following inputs

|  | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>   | <u>Total</u>         |
|--|----------------------|---------------------|------------------|----------------------|
| <b>Investments:</b>  |                      |                     |                  |                      |
| Cash and cash equivalents                                  | \$ 3,245,509         | \$ -                | \$ -             | \$ 3,245,509         |
| Mutual funds   | 10,019,815           | -                   | -                | 10,019,815           |
| Master LTD Partnerships                                    | 1,281,157            | -                   | -                | 1,281,157            |
| Common trust funds   | -                    | 9,890,880           | -                | 9,890,880            |
| Private equity funds                                       | -                    | -                   | 79,250           | 79,250               |
| Cash value of life insurance                               | <u>-</u>             | <u>88,393</u>       | <u>-</u>         | <u>88,393</u>        |
| Total investments  | 14,546,481           | 9,979,273           | 79,250           | 24,605,004           |
| Mutual funds held for deferred compensation plans (Note 8) | <u>523,213</u>       | <u>-</u>            | <u>-</u>         | <u>523,213</u>       |
| Total financial assets                                     | <u>\$ 15,069,694</u> | <u>\$ 9,979,273</u> | <u>\$ 79,250</u> | <u>\$ 25,128,217</u> |
| Obligation under interest rate swap                        | <u>\$ -</u>          | <u>\$ (1,642)</u>   | <u>\$ -</u>      | <u>\$ (1,642)</u>    |

### Fair Value Measurements as of June 30, 2016 using the following inputs

|  | <u>Level 1</u>       | <u>Level 2</u>       | <u>Level 3</u>    | <u>Total</u>         |
|--|----------------------|----------------------|-------------------|----------------------|
| <b>Investments:</b>  |                      |                      |                   |                      |
| Cash and cash equivalents                                  | \$ 2,890,772         | \$ -                 | \$ -              | \$ 2,890,772         |
| Mutual funds   | 7,724,630            | -                    | -                 | 7,724,630            |
| Common trust funds   | -                    | 10,133,597           | -                 | 10,133,597           |
| Private equity funds                                       | -                    | -                    | 110,500           | 110,500              |
| Cash value of life insurance                               | <u>-</u>             | <u>85,258</u>        | <u>-</u>          | <u>85,258</u>        |
| Total investments  | 10,615,402           | 10,218,855           | 110,500           | 20,944,757           |
| Mutual funds held for deferred compensation plans (Note 8) | <u>458,928</u>       | <u>-</u>             | <u>-</u>          | <u>458,928</u>       |
| Total financial assets                                     | <u>\$ 11,074,330</u> | <u>\$ 10,218,855</u> | <u>\$ 110,500</u> | <u>\$ 21,403,685</u> |
| Obligation under interest rate swap                        | <u>\$ -</u>          | <u>\$ (17,029)</u>   | <u>\$ -</u>       | <u>\$ (17,029)</u>   |



# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

The following table provides a summary of changes in fair value of the Plan's Level 3 assets for the years ended June 30, 2017 and 2016:

|   | Fair Value Measurements Using Significant<br>Unobservable Inputs (Level 3) |                       |                  |
|---|--|-----------------------|------------------|
|   | Private<br>Equity<br>Investment  | Pledges<br>Receivable | Total            |
| Balance at June 30, 2015  | \$ 136,000   | \$ 90,000             | \$ 226,000       |
| Unrealized gains relating to<br>instruments still held at the<br>reporting date | 24,500   | -                     | 24,500           |
| Distributions   | (50,000)   | -                     | (50,000)         |
| Pledge payments received  | -  | (90,000)              | (90,000)         |
| Balance at June 30, 2016  | 110,500  | -                     | 110,500          |
| Unrealized loss relating to<br>instruments still held at the<br>reporting date  | (10,500)   | -                     | (10,500)         |
| Distributions   | (20,750)   | -                     | (20,750)         |
| Income  | -  | -                     | -                |
| Pledge payments received  | -  | -                     | -                |
| Change in discount  | -  | -                     | -                |
| Balance at June 30, 2017  | \$ <u>79,250</u>   | \$ <u>-</u>           | \$ <u>79,250</u> |

The following schedule summarizes the investment income (loss) included in the statements of activities and changes in net assets for 2017 and 2016:

|                                | 2017                | 2016             |
|--------------------------------|---------------------|------------------|
| Interest and dividend income   | \$ 525,218          | \$ 580,570       |
| Net gain (loss) on investments | 1,394,329           | (381,248)        |
| Fees paid                      | <u>(113,403)</u>    | <u>(107,488)</u> |
|                                | \$ <u>1,806,144</u> | \$ <u>91,834</u> |

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

The majority of the investment holdings can be liquidated within 30 days or less. At June 30, 2017 and 2016, restrictions for 0.4% and 0.7% 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, 2017, the School has a remaining capital obligation of \$16,500 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, expected to be December 31, 2017 unless otherwise extended or terminated as contemplated in the Partnership Agreement.

### (5) Tuition receivable

A summary of tuition receivable at June 30, 2017 and 2016 is as follows:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Tuition and other                          | \$ 261,728        | \$ 206,407        |
| Other receivables                          | <u>28,392</u>     | <u>24,444</u>     |
|  | 290,120           | 230,851           |
| Less: allowance for uncollectible accounts | <u>(120,226)</u>  | <u>(119,179)</u>  |
| Net tuition and pledges receivable         | <u>\$ 169,894</u> | <u>\$ 111,672</u> |

### (6) Properties, buildings and equipment

Properties, buildings and equipment at June 30, 2017 and 2016, consisted of the following:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Land                                     | \$ 2,814,767         | \$ 2,814,767         |
| Buildings and improvements               | 37,981,069           | 37,915,362           |
| Equipment                                | 5,276,623            | 5,175,671            |
| Construction in progress                 | <u>91,353</u>        | <u>18,632</u>        |
|  | 46,163,812           | 45,924,432           |
| Accumulated depreciation                 | <u>(22,319,019)</u>  | <u>(21,023,535)</u>  |
| Properties, buildings and equipment, net | <u>\$ 23,844,793</u> | <u>\$ 24,900,897</u> |

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### (7) Long term debt

On August 19, 2002, the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County (the "IDB") issued \$8,000,000 of twenty-year Educational Facilities Revenue Refunding and Improvement Bonds (the "Bonds"). Net proceeds of the bond issue were loaned to the School to refinance outstanding debt and to finance the acquisition, construction and equipping of improvements to the campus. The note is secured by an irrevocable direct-pay letter of credit which expires in August 2017. Payments of interest only are due monthly, with the remaining principal payments due in August 2023. The Bonds may be prepaid without penalty. The School repaid \$265,000 and \$485,000 of the bonds during 2017 and 2016, respectively. In July 2017, the School repaid the remaining outstanding obligation under the Bonds.

The refunding bonds are also subject to the provisions of a remarketing agreement. Should the School be unable to renew the letter of credit, comply with the terms of the remarketing agreement, or comply with other provisions of the bond indenture, the principal payments under the refunding bonds could be accelerated or penalties could be assessed to the School.

The School has entered into an interest rate swap agreement with a bank for the purpose of hedging its interest rate risk on its outstanding bond issue and fixing the interest rate at 3.51%. The fair value of the School's swap obligation amounted to \$1,642 and \$17,029 at June 30, 2017 and 2016, respectively. The swap agreement terminates in August 2017, has an original notional amount of \$3,950,000 and a current notional amount of \$403,000 at June 30, 2017.

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 (2.30% at June 30, 2017) and a \$4,000,000 promissory note bearing interest at a fixed rate of 3.95% per annum (together, the "Construction Notes Payable"). The loan agreement was amended on June 1, 2016 which extended the maturity date to December 31, 2026 and postponed any principal payments until January 2018. Concurrent with the amendment, the School repaid \$1,200,000 of the outstanding balance. Interest on the Construction Notes Payable is payable monthly. Effective January 1, 2018, the School is required to make monthly payments of \$43,000, including interest, until maturity. The agreement requires the School to meet certain financial and non-financial covenants. As of June 30, 2017 and 2016, 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 \$3,590,892 and \$4,290,842 at June 30, 2017 and 2016, respectively.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### **(8) 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 \$620,411 and \$595,919 for the years ended June 30, 2017 and 2016, respectively.

Effective June 30, 2004, the School entered into 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 employees remain full-time employees 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, 2017 and 2016, assets of \$523,213 and \$458,928, 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 \$36,000 to the deferred compensation plan for the years ended June 30, 2017 and 2016.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

**(9) 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, 2017 and 2016:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| USN Association revenue                        | \$ <u>577,126</u> | \$ <u>623,515</u> |
| USN Association expenses:                      |                   |                   |
| Fundraising expenses                           | 369,549           | 376,058           |
| Association activities                         | <u>26,630</u>     | <u>21,090</u>     |
| Total USN Association expenses                 | <u>396,179</u>    | <u>397,148</u>    |
| Transfers to the school:                       |                   |                   |
| USNA payment on Centennial Campaign            | -                 | (25,000)          |
| Proceeds from used book sale                   | (18,897)          | (24,882)          |
| Proceeds from Artclectic - to endowment        | (55,716)          | (73,173)          |
| Music night transfer                           | (21,475)          | (31,267)          |
| Equipment for River Campus                     | (7,800)           | -                 |
| Bonus bucks                                    | (7,512)           | (13,940)          |
| Tiger Club                                     | (7,188)           | (10,421)          |
| TAP - Tiger Arts Patrons                       | (11,740)          | (9,623)           |
| Proceeds from evening classes - to endowment   | <u>(48,386)</u>   | <u>(47,780)</u>   |
| Total transfers to the school                  | <u>(178,714)</u>  | <u>(236,086)</u>  |
| Change in USN Association assets               | 2,233             | (9,719)           |
| Designated USN Association - beginning of year | <u>94,485</u>     | <u>104,204</u>    |
| Designated USN Association - end of year       | \$ <u>96,718</u>  | \$ <u>94,485</u>  |

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### (10) Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Centennial Campaign Pending Designation | \$ 921,333          | \$ 450,860          |
| Horizons                                | 335,180             | 322,165             |
| Curricular Design                       | 320,990             | 392,858             |
| Program Initiatives                     | 128,105             | 77,786              |
| Scholarship/ Financial Aid              | 244,522             | 222,086             |
| USNA Funded                             | 106,748             | 144,746             |
| Student Summer Opportunity              | 75,177              | 164,446             |
| Director's Discretionary Fund           | 102,857             | -                   |
| Other                                   | 34,004              | 47,515              |
| Endowment                               | <u>2,540,501</u>    | <u>1,633,316</u>    |
|   | <u>\$ 4,809,417</u> | <u>\$ 3,455,778</u> |

Temporarily restricted net assets were released from donor restrictions as follows for the years ended June 30:

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Purpose restriction accomplished:                             |                     |                     |
| Property, plant and equipment purchases                       | \$ 474,576          | \$ 1,701,960        |
| Curricular Design   | 71,868              | 107,142             |
| Library   | 2,549               | 13,414              |
| Horizons  | 154,811             | 109,080             |
| Other   | 14,729              | 8,007               |
| Scholarship award   | 34,064              | 21,327              |
| Faculty professional development award                        | 24,302              | 32,892              |
| Financial aid   | 3,500               | 25,875              |
| Endowment spending rate (portion from temporarily restricted) | 492,410             | 460,992             |
| Student summer opportunity                                    | 89,268              | 90,799              |
| Program Initiatives   | 63,320              | 93,934              |
| Archives Project  | <u>-</u>            | <u>1,025</u>        |
|   | <u>\$ 1,425,397</u> | <u>\$ 2,666,447</u> |

### (11) Endowment funds

Permanently restricted net assets includes the School's endowment funds established for the purpose of financial aid and scholarships. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

As prescribed by the Tennessee Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"), the School intends to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (a) The duration and preservation of the fund
- (b) The purposes of the School and the donor-restricted endowment fund
- (c) General economic conditions
- (d) The possible effect of inflation and deflation
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the School
- (g) The investment policies of the School

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 permanently restricted 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, 2017 or 2016.

### Spending policy

The School has a policy of appropriating for distribution each year 4.0% (3.5% as of and prior to June 30, 2016) 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.

# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

### 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 publicly traded equity exposure not to exceed 65%.
- Up to 40% investment in fixed income securities with a portion in cash equivalents as determined appropriate by the investment subcommittee and/or finance committee.
- Up to 35% investment in real estate, private equity and hedge funds.

A summary of endowment asset composition by type of fund as of June 30, 2017 is as follows:

|                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Board-designated | \$ 2,284,070        | \$ -                              | \$ -                              | \$ 2,284,070         |
| Donor-restricted | <u>-</u>            | <u>2,540,501</u>                  | <u>14,403,302</u>                 | <u>16,943,803</u>    |
| Total            | <u>\$ 2,284,070</u> | <u>\$ 2,540,501</u>               | <u>\$ 14,403,302</u>              | <u>\$ 19,227,873</u> |

A summary of endowment asset composition by type of fund as of June 30, 2016 is as follows:

|                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Board-designated | \$ 2,020,941        | \$ -                              | \$ -                              | \$ 2,020,941         |
| Donor-restricted | <u>-</u>            | <u>1,633,316</u>                  | <u>12,876,727</u>                 | <u>14,510,043</u>    |
| Total            | <u>\$ 2,020,941</u> | <u>\$ 1,633,316</u>               | <u>\$ 12,876,727</u>              | <u>\$ 16,530,984</u> |



# UNIVERSITY SCHOOL OF NASHVILLE

## Notes to the Financial Statements

June 30, 2017 and 2016

Changes in endowment net assets for the fiscal years ended June 30, 2017 and 2016 are as follows:

|                                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, June 30, 2015   | \$ 1,928,916        | \$ 2,048,267                      | \$ 11,803,228                     | \$ 15,780,411        |
| Contributions                         | 92,025              | -                                 | 1,070,310                         | 1,162,335            |
| Realized and unrealized gain          | -                   | 46,041                            | 3,189                             | 49,230               |
| Amounts appropriated for expenditures | <u>-</u>            | <u>(460,992)</u>                  | <u>-</u>                          | <u>(460,992)</u>     |
| Endowment net assets, June 30, 2016   | 2,020,941           | 1,633,316                         | 12,876,727                        | 16,530,984           |
| Contributions                         | 263,129             | -                                 | 1,523,438                         | 1,786,567            |
| Realized and unrealized gain          | -                   | 1,399,593                         | 3,137                             | 1,402,730            |
| Amounts appropriated for expenditures | <u>-</u>            | <u>(492,408)</u>                  | <u>-</u>                          | <u>(492,408)</u>     |
| Endowment net assets, June 30, 2017   | \$ <u>2,284,070</u> | \$ <u>2,540,501</u>               | \$ <u>14,403,302</u>              | \$ <u>19,227,873</u> |

### (12) Lease commitments

The School leases student computers, office computers and maintenance equipment under operating leases. Rent expense under these leases amounted to approximately \$377,000 and \$225,000 in 2017 and 2016, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2017 is as follows:

| <u>Year ending June 30</u> | <u>Amount</u>     |
|----------------------------|-------------------|
| 2018                       | \$ 228,900        |
| 2019                       | 218,500           |
| 2020                       | <u>67,200</u>     |
|                            | \$ <u>514,600</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 2017.

### (13) 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, 2017 and 2016

(14) Supplemental disclosures of cash flow statement information

|               | <u>2017</u>       | <u>2016</u>       |
|---------------|-------------------|-------------------|
| Interest paid | \$ <u>147,110</u> | \$ <u>183,921</u> |