

UNIVERSITY SCHOOL OF NASHVILLE
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2005

UNIVERSITY SCHOOL OF NASHVILLE
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AND
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
University School of Nashville
Nashville, Tennessee

We have audited the accompanying statements of financial position of the University School of Nashville (the "School"), a Tennessee not-for-profit corporation, as of June 30, 2005 and 2004, the related statement of activities for the year ended June 30, 2005, and the statements of cash flows for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information in the statement of activities has been derived from the School's June 30, 2004 financial statements and, in our report dated September 24, 2004, we expressed an unqualified opinion on those statements.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University School of Nashville as of June 30, 2005 and 2004, the changes in its net assets for the year ended June 30, 2005, and its cash flows for the years ended June 30, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
October 17, 2005

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 3	\$ 3,873,591	\$ 4,954,881
Investments - Note 4	1,700,519	562,263
Receivables, net - Note 5	2,746,414	4,835,955
Inventories	97,886	104,412
Prepaid expenses	8,167	919
Interest rate swap asset - Note 7	22,432	-
Property, buildings and equipment - at cost, less accumulated depreciation - Note 6	22,083,431	22,040,705
Other assets	178,370	149,570
Permanently restricted cash	12,819	352,449
Permanently restricted investments - Note 4	6,530,473	1,889,988
TOTAL ASSETS	<u>\$ 37,254,102</u>	<u>\$ 34,891,142</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 268,099	\$ 272,946
Accrued salaries and related benefits	892,937	871,031
Other accrued liabilities	222,101	177,779
Enrollment deposits	59,400	408,912
Deferred tuition revenue	413,689	195,596
Interest rate swap liability - Note 7	-	11,214
Note payable - Note 7	7,000,000	8,000,000
TOTAL LIABILITIES	<u>8,856,226</u>	<u>9,937,478</u>
COMMITMENTS - Notes 8 and 11		
NET ASSETS		
Unrestricted:		
Undesignated	300,000	472,810
Designated for quasi-endowment fund	609,340	597,470
Designated for USN Association	73,923	94,211
Designated for endowment	561,163	341,996
Designated for debt repayment	3,789,406	-
Designated for construction	-	1,254,772
Designated for deferred compensation	36,255	17,000
Designated for plant reserve	1,501,374	-
Designated for invested plant	15,317,633	14,980,267
Total Unrestricted	22,189,094	17,758,526
Temporarily restricted	183,212	4,881,701
Permanently restricted	6,025,570	2,313,437
TOTAL NET ASSETS	<u>28,397,876</u>	<u>24,953,664</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,254,102</u>	<u>\$ 34,891,142</u>

See accompanying notes to financial statements.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2005	2004
SUPPORT AND REVENUE					
Gross tuition and fees	\$ 12,554,615	\$ -	\$ -	\$ 12,554,615	\$ 11,713,288
Less: Financial aid, scholarships and tuition remission	(1,049,913)	-	-	(1,049,913)	(977,905)
Net tuition revenue	11,504,702	-	-	11,504,702	10,735,383
Ancillary programs: after-school, bookstore, café and camps	996,307	-	-	996,307	956,113
Contributions	893,888	803,042	2,392,397	4,089,327	2,200,127
USN Association fundraising - Note 10	314,284	-	-	314,284	405,091
Investment earnings - Note 4	408,632	-	-	408,632	362,128
Gain on hedging activity - net	40,801	-	-	40,801	261,094
Other income (expense) - net	(39,690)	-	-	(39,690)	(19,494)
Net assets released in satisfaction of time and purpose restrictions - Note 9	4,181,795	(5,501,531)	1,319,736	-	-
TOTAL SUPPORT AND REVENUE	18,300,719	(4,698,489)	3,712,133	17,314,363	14,900,442
EXPENSES					
Program services:					
Instruction and student activities	7,953,797	-	-	7,953,797	7,701,109
Ancillary: after-school, bookstore, café and camps	879,274	-	-	879,274	865,129
Buildings, grounds and vehicle expense	1,694,739	-	-	1,694,739	1,308,740
Depreciation and amortization	1,210,915	-	-	1,210,915	995,033
Interest, net of amount capitalized	267,466	-	-	267,466	136,328
Other	-	-	-	-	46,327
Total program services	12,006,191	-	-	12,006,191	11,052,666
Supporting services:					
General administration	1,232,131	-	-	1,232,131	1,384,233
Development, alumni and communications	459,615	-	-	459,615	347,780
USN Association activities and fundraising expense - Note 1	172,214	-	-	172,214	301,341
Total supporting services	1,863,960	-	-	1,863,960	2,033,354
TOTAL EXPENSES	13,870,151	-	-	13,870,151	13,086,020
CHANGE IN NET ASSETS	4,430,568	(4,698,489)	3,712,133	3,444,212	1,814,422
NET ASSETS - BEGINNING OF YEAR	17,758,526	4,881,701	2,313,437	24,953,664	23,139,242
NET ASSETS - END OF YEAR	\$ 22,189,094	\$ 183,212	\$ 6,025,570	\$ 28,397,876	\$ 24,953,664

See accompanying notes to financial statements.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,444,212	\$ 1,814,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,204,590	1,001,759
Investment gains - net	(304,763)	(213,124)
Loss on disposal of property, buildings and equipment	49,980	16,150
Gain on hedging activity	(33,646)	(261,094)
(Increase) decrease in:		
Receivables	(61,396)	70,216
Inventories	6,526	(21,319)
Prepaid expenses	(7,248)	5,053
Other	8,700	(2,575)
Increase (decrease) in:		
Accounts payable	(18,126)	(255,615)
Accrued salaries and related benefits	21,906	31,742
Accrued liabilities	44,322	58,176
Enrollment deposits	(349,512)	30,200
Deferred tuition revenue	218,093	33,341
Contributions restricted for investment in endowment	(2,392,397)	(65,451)
Contributions restricted for investment in property, buildings and equipment	(749,960)	(1,187,372)
TOTAL ADJUSTMENTS	(2,362,931)	(759,913)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,081,281	1,054,509
INVESTING ACTIVITIES		
Purchases of property, buildings and equipment	(1,284,017)	(4,994,874)
Proceeds from sale of investments	2,590,448	-
Purchase of investments	(8,064,426)	(21,443)
Deposits to deferred compensation accounts	(37,500)	(30,000)
Decrease in permanently restricted cash	339,630	235,430
NET CASH USED IN INVESTING ACTIVITIES	(6,455,865)	(4,810,887)
FINANCING ACTIVITIES		
Proceeds from contributions for:		
Investment in endowment	2,392,397	65,451
Investment in property, buildings and equipment	2,900,897	3,073,613
	5,293,294	3,139,064
Other financing activities:		
Payments on note payable	(1,000,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,293,294	3,139,064
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,081,290)	(617,314)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,954,881	5,572,195
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,873,591	\$ 4,954,881

(Continued on next page)

See accompanying notes to financial statements.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Non-cash investing and financing activities:		
(Decrease) increase in accounts payable for construction costs	\$ 13,279	\$ (19,785)
Interest expense paid for the year	\$ 267,466	\$ 272,657

See accompanying notes to financial statements.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - GENERAL

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The School follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the School is required to report 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:

Quasi-Endowment - unrestricted net assets designated for future purposes. Such assets and related income may be expended only when authorized by the Board of Directors.

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

Endowment - net market gains resulting from investment of Endowment Funds.

Debt repayment - unrestricted net assets in the form of capital campaign receivables and collections to be used to repay outstanding debt.

Construction - unrestricted net assets designated for future construction costs.

Deferred compensation - unrestricted net assets deposited in deferred compensation account, not yet vested by employee.

Plant reserve - unrestricted net assets designated for future facility *improvements* and maintenance.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Unrestricted (Continued):

Board Designations (Continued):

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

- Temporarily restricted:

The Campaign for Arts and Letters - includes gifts from contributions restricted for increasing the endowment and construction of the new Visual Arts Building and Library.

Other - various other gifts restricted for specific purposes.

- Permanently restricted:

Endowment Fund - includes net assets subject to donor-imposed stipulations that they 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.

Prior Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, federal income taxes are not provided.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

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 major additions and improvements are capitalized. Costs of maintenance and repairs are charged to operations as incurred. All depreciation expense and costs of maintenance and repairs are classified under program services, since the amounts applicable to supporting services are considered insignificant.

The School follows the policy of capitalizing applicable interest as a component of the cost of property, buildings and equipment constructed for its own use. For the years ended June 30, 2005 and 2004, total interest incurred was \$267,466 and \$272,657, respectively, of which \$0 and \$136,329, respectively, was capitalized.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts represents the School administration's estimate of the amount necessary to provide for potential uncollectible accounts and pledges. Provision for uncollectible accounts is classified as a general administration expense.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances at several financial institutions and monies invested in the Common Fund, a liquid asset account managed by Corestates Bank. This fund invests principally in U. S. Government and government agency securities, highest rated corporate securities and commercial and bank paper. Cash equivalents do not include permanently restricted cash or investments which place the initial outlay at risk.

Investments and Investment Income

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets and ordinary income from investments, receivables, and the like are accounted for in the unrestricted or temporarily restricted funds unless the donor specifically permanently restricts such gains or losses or ordinary income.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are reported at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Inventories

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

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 statement of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities as a gain or loss on hedging activities.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Costs

Loan costs are capitalized and amortized by the straight-line method over the life of the loan.

Enrollment Deposits

During 2005, the School modified its policy with respect to enrollment deposits, whereby only new incoming students carry an enrollment deposit balance at June 30th. This deposit will be applied to the student's last bill of their first year of enrollment. Prior to 2005, all students paid an enrollment deposit which was applied to tuition in the year the student graduated or withdrew.

Deferred Tuition Revenue

Deferred tuition revenue represents advance tuition payments for the upcoming academic year. Such amounts are recognized as revenues in the year to which the payments relate.

Financial Aid, Scholarships and Tuition Remission

Gross tuition and fees reflects the School's normal tuition charges and additional fees for all students. Scholarships given on the basis of financial need and/or academic performance are netted against gross tuition and fees to the extent they exceed incremental cost incurred. Employees with continuous service prior to the 1994-1995 school year receive a tuition remission benefit for dependents. This dependent tuition reduction amount is included in gross tuition and fees and is netted out in financial aid, scholarships and remission expenses in the statement of activities.

Reclassifications

Certain prior year balances have been reclassified in order to be comparative with the current year's presentation.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the School to concentrations of credit risk consist of cash and cash equivalents, capital campaign pledges receivable and investments. Capital campaign pledges receivable consist primarily of promises to give from individuals. These pledges generally are widely dispersed to mitigate credit risk. At June 30, 2005, one outstanding pledge amounts to approximately 21% of the total pledge receivable balance (two pledges totaling approximately 30% of the balance at June 30, 2004).

The School maintains cash balances, certificates of deposit, money market accounts and investments in accounts at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 4 - INVESTMENTS

Investments consist of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Diversified Trust Company:		
Equity funds	\$ 3,806,148	\$ -
Bonds and fixed income funds	3,550,608	-
Real estate funds	204,548	-
Hedge funds	534,272	-
Cash and equivalents	135,416	-
First Union Bank, Common Fund:		
Intermediate Cash Fund	-	562,263
High Quality Bond Fund	-	751,540
International Equity Fund	-	459,071
Small Cap Fund	-	416,227
Core Equity	-	263,150
	<u>\$ 8,230,992</u>	<u>\$ 2,452,251</u>

Investments are classified as follows as of June 30:

	<u>2005</u>	<u>2004</u>
Unrestricted	\$ 1,700,519	\$ 562,263
Permanently restricted	<u>6,530,473</u>	<u>1,889,988</u>
	<u>\$ 8,230,992</u>	<u>\$ 2,452,251</u>

The following schedule details investment income for the years ended June 30:

	<u>2005</u>	<u>2004</u>
Interest on operating funds	\$ 103,869	\$ 149,004
Unrealized gains (losses)	70,771	224,170
Interest, dividends and realized gains (losses) on investments	<u>233,992</u>	<u>(11,046)</u>
Total investment earnings	<u>408,632</u>	<u>362,128</u>

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables consist of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Unrestricted:		
Tuition and other	\$ 344,780	\$ 357,590
Pledges - Capital Campaign		
Due in less than one year	2,110,247	-
Due in one to five years, net of unamortized discount of \$34,962 in 2005; \$0 in 2004	669,387	-
Less allowance for uncollectible accounts	<u>(415,000)</u>	<u>(244,206)</u>
	<u>2,709,414</u>	<u>113,384</u>
Temporarily and permanently restricted:		
Pledges - Capital Campaign		
Due in less than one year	16,500	3,051,586
Due in one to five years, net of unamortized discount of \$0 in 2005; \$106,166 in 2004	20,500	1,895,985
Less: allowance for uncollectible accounts	<u>-</u>	<u>(225,000)</u>
	<u>37,000</u>	<u>4,722,571</u>
Net receivables	<u>\$ 2,746,414</u>	<u>\$ 4,835,955</u>

NOTE 6 - PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment consist of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Land	\$ 2,814,767	\$ 2,814,767
Buildings and improvements	23,683,738	18,637,782
Equipment	3,470,593	3,158,247
Construction in progress	<u>337,504</u>	<u>4,871,081</u>
	30,306,602	29,481,877
Less accumulated depreciation	<u>8,223,171</u>	<u>7,441,172</u>
	<u>\$ 22,083,431</u>	<u>\$ 22,040,705</u>

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 7 - NOTE PAYABLE

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 its outstanding note payable to SunTrust Bank and to finance the acquisition, construction and equipping of improvements to its campus, including a visual arts center, a library and all related facilities. The note is secured by an irrevocable direct-pay Letter of Credit. Payments of interest only are due monthly, with scheduled principal payments due through August 2022. The bonds may be prepaid without penalty. During 2005, the School prepaid \$1,000,000 on the outstanding balance of the bonds, which, in accordance with the applicable loan agreement, eliminated the scheduled principal maturities through 2010. The next required principal payment, in the approximate amount of \$35,000, is due during the June 2011 fiscal year.

On September 13, 2002, the School entered into an interest rate swap agreement that limits the interest rate risk on the note to 2.43% until August 1, 2007. An asset or liability equal to the fair value of the swap is reported on the statement of financial position, and the related gain or loss on hedging activity is reflected in the statement of activities.

During 2005, the School sold a portion of the swap's notional value back to the bank, which reduced the notional amount from \$8,000,000 to \$6,000,000 beginning May 1, 2005. The School received \$7,155 on this redemption.

NOTE 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. The School's policy is to fund retirement costs accrued. Total expense recognized by the School under the plan amounted to \$249,385 in 2005 (\$247,245 in 2004).

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 8 - RETIREMENT AND DEFERRED COMPENSATION PLANS (CONTINUED)

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 Internal Revenue Code, and an ineligible plan under Section 457(f) of the Internal Revenue Code. Eligible contributions vest when made; ineligible contributions and related earnings vest only if the director's employment term continues through the five-year period following the contribution. The assets in the plan are held by the School, subject to the claims of its general creditors. Assets are reported based on the current fair value of the underlying investments, and are included in other assets on the statement of financial position. The related liability is adjusted each year to the amount of the vested balance and included in other accrued liabilities, with the corresponding expense recognized in general administration.

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 Internal Revenue Code. Eligible contributions vest over a three-year period, starting December 31 of the year in which the contribution was made, provided the employee remains a full-time employee of the School.

Total deferred compensation charged to expense amounted to \$19,900 for the year ended June 30, 2005.

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2005</u>	<u>2004</u>
Purpose restriction accomplished:		
Completion of visual arts center and library	\$ 4,081,795	\$ 3,056,138
Capital campaign allocations to permanently restricted endowment	1,319,736	-
Other	<u>100,000</u>	<u>55,455</u>
Total	<u>\$ 5,501,531</u>	<u>\$ 3,111,593</u>

The School's capital campaign raised money for various purposes, including construction of a visual arts center and library, the purchase of furnishings for the new buildings, and an addition to the School's permanently restricted endowment. During the year ended June 30, 2005, the School released remaining capital campaign assets to unrestricted net assets and permanently restricted net assets, respectively, as purpose restrictions imposed by the campaign were fulfilled.

As a result of the capital campaign, the permanently restricted endowment was increased by a cumulative total of \$4,405,956, consisting of gifts designated specifically by donors for endowment in the amount of \$3,086,220, and releases of temporarily restricted capital campaign net assets in the amount of \$1,319,736.

UNIVERSITY SCHOOL OF NASHVILLE
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 10 - USN ASSOCIATION ACTIVITY

The USN Association is a service organization whose accounts and operations are included in the financial statements of the School. The 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:

	<u>2005</u>	<u>2004</u>
USN ASSOCIATION REVENUE	<u>\$ 314,284</u>	<u>\$ 405,091</u>
USN ASSOCIATION EXPENSES		
Fundraising expenses	137,988	265,048
Association activities	<u>34,226</u>	<u>36,293</u>
TOTAL USN ASSOCIATION EXPENSES	<u>172,214</u>	<u>301,341</u>
TRANSFERS TO THE SCHOOL		
Purchase of bus	(68,337)	-
Payment of capital campaign pledge	(50,000)	(50,000)
Operating contribution	(25,000)	(25,000)
Proceeds from evening classes - to endowment	<u>(19,021)</u>	<u>(23,670)</u>
TOTAL TRANSFERS TO THE SCHOOL	<u>(162,358)</u>	<u>(98,670)</u>
CHANGE IN USN ASSOCIATION ASSETS	(20,288)	5,080
USN Association assets - beginning of year	<u>94,211</u>	<u>89,131</u>
USN Association assets - end of year	<u>\$ 73,923</u>	<u>\$ 94,211</u>

NOTE 11 - COMMITMENTS

At June 30, 2005, the School was obligated under a contract to complete construction of its new fitness center and auditorium renovations in the amount of approximately \$624,000, which was increased through change orders subsequent to year end, resulting in a total contract amount of approximately \$1,045,000. Payments made subsequent to year end under this contract have amounted to \$621,630 (through October 17, 2005).