

UNIVERSITY SCHOOL OF NASHVILLE

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2007

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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the 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, 2007 and 2006, the related statement of activities for the year ended June 30, 2007, and the statements of cash flows for the years ended June 30, 2007 and 2006. 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, 2006 financial statements and, in our report dated September 15, 2006, 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, 2007 and 2006, the changes in its net assets for the year ended June 30, 2007, and its cash flows for the years ended June 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
January 14, 2008

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 3	\$ 2,780.813	\$ 2,408.456
Investments - Note 4	4,321,969	3,010.999
Receivables, net - Note 5	427.370	1,181.578
Inventories	105.712	107.888
Prepaid expenses	41.833	16.223
Interest rate swap asset - Note 7	20.616	68.809
Property, buildings and equipment - at cost, less accumulated depreciation - Note 6	21,679,248	22,382,552
Other assets	279.014	225.085
Permanently restricted investments - Note 4	6,370.595	6,110,025
TOTAL ASSETS	<u>\$ 36,027.170</u>	<u>\$ 35,511.615</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 187.503	\$ 137.467
Accrued salaries and related benefits	1,023.516	1,005,881
Other accrued liabilities	161.968	164,562
Enrollment deposits	96.475	67.600
Deferred tuition revenue	476.068	267,603
Note payable - Note 7	3,950.000	4,950.000
TOTAL LIABILITIES	<u>5,895,530</u>	<u>6,593.113</u>
COMMITMENTS - Notes 8 and 11		
NET ASSETS		
Unrestricted:		
Undesignated	500.000	450.228
Designated - quasi-endowment fund	2,570.080	1,579,103
Designated - USN Association	45.954	41,205
Designated - campaign resources	100.000	-
Designated - debt repayment	1,043.562	1,603.508
Designated - deferred compensation	73.396	55.532
Designated - plant reserve	1,352.874	1,243.004
Designated - invested plant	17,836.315	17,594.539
Total Unrestricted	23,522,181	22,567,119
Temporarily restricted	223.182	201,924
Permanently restricted	6,386,277	6,149,459
TOTAL NET ASSETS	<u>30,131.640</u>	<u>28,918,502</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,027.170</u>	<u>\$ 35,511,615</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, 2007, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2007	2006
SUPPORT AND REVENUE					
Gross tuition and fees	\$ 14,142,009	\$ -	\$ -	\$ 14,142,009	\$ 13,177,957
Less: Financial aid, scholarships and tuition remission	<u>(1,394,394)</u>	<u>-</u>	<u>-</u>	<u>(1,394,394)</u>	<u>(1,206,053)</u>
Net tuition revenue	12,747,615	-	-	12,747,615	11,971,904
Ancillary programs: after-school, bookstore, café and camps	1,057,246	-	-	1,057,246	1,013,962
Contributions	968,107	120,427	211,507	1,300,041	1,202,678
USN Association fundraising - Note 10	438,989	10,274	25,311	474,574	434,673
Investment earnings - Note 4	1,570,784	-	-	1,570,784	687,286
Gain (loss) on hedging activity - net - Note 7	(48,193)	-	-	(48,193)	59,402
Other income (expense) - net	(5,916)	-	-	(5,916)	(5,137)
Net assets released in satisfaction of time and purpose restrictions - Note 9	<u>27,217</u>	<u>(27,217)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>16,755,849</u>	<u>103,484</u>	<u>236,818</u>	<u>17,096,151</u>	<u>15,364,768</u>
EXPENSES					
Program services:					
Instruction and student activities	8,747,804	82,226	-	8,830,030	8,113,547
Ancillary programs: after-school, bookstore, café and camps	920,123	-	-	920,123	917,268
Buildings, grounds and vehicle expense	2,242,006	-	-	2,242,006	1,993,049
Depreciation and amortization	1,398,516	-	-	1,398,516	1,343,183
Interest, net of amount capitalized	<u>155,308</u>	<u>-</u>	<u>-</u>	<u>155,308</u>	<u>197,972</u>
Total program services	<u>13,463,757</u>	<u>82,226</u>	<u>-</u>	<u>13,545,983</u>	<u>12,565,019</u>
Supporting services:					
General administration	1,523,226	-	-	1,523,226	1,484,725
Development, alumni and communications	449,564	-	-	449,564	456,010
USN Association activities and fundraising expense - Note 10	<u>364,240</u>	<u>-</u>	<u>-</u>	<u>364,240</u>	<u>338,388</u>
Total supporting services	<u>2,337,030</u>	<u>-</u>	<u>-</u>	<u>2,337,030</u>	<u>2,279,123</u>
TOTAL EXPENSES	<u>15,800,787</u>	<u>82,226</u>	<u>-</u>	<u>15,883,013</u>	<u>14,844,142</u>
CHANGE IN NET ASSETS	955,062	21,258	236,818	1,213,138	520,626
NET ASSETS - BEGINNING OF YEAR	<u>22,567,119</u>	<u>201,924</u>	<u>6,149,459</u>	<u>28,918,502</u>	<u>28,397,876</u>
NET ASSETS - END OF YEAR	<u>\$ 23,522,181</u>	<u>\$ 223,182</u>	<u>\$ 6,386,277</u>	<u>\$ 30,131,640</u>	<u>\$ 28,918,502</u>

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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,213,138	\$ 520,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,398,516	1,343,183
Investment gains - net	(1,302,471)	(488,161)
Loss on disposal of property, buildings and equipment	26,960	-
(Gain) loss on hedging activity - net	44,973	(59,402)
(Increase) decrease in:		
Receivables	19,756	50,275
Inventories	2,176	(10,002)
Prepaid expenses	(25,610)	(8,056)
Other	(10,655)	(11,841)
Increase (decrease) in:		
Accounts payable	50,036	(130,632)
Accrued salaries and related benefits	17,635	78,030
Other accrued liabilities	(2,594)	(22,625)
Enrollment deposits	28,875	8,200
Deferred tuition revenue	208,465	(146,086)
Contributions permanently restricted for investment in endowment and other	(236,818)	(100,551)
TOTAL ADJUSTMENTS	219,244	502,332
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,432,382	1,022,958
INVESTING ACTIVITIES		
Additions to property, buildings and equipment	(715,446)	(1,635,578)
Purchase of investments	(269,069)	(401,871)
Proceeds from sale of portion of interest rate swap	3,220	13,025
Deposits to deferred compensation accounts	(50,000)	(41,600)
(Increase) decrease in permanently restricted cash	-	12,819
NET CASH USED IN INVESTING ACTIVITIES	(1,031,295)	(2,053,205)
FINANCING ACTIVITIES		
Proceeds from contributions for:		
Investment in endowment and other	236,818	100,551
Investment in property, buildings and equipment	734,452	1,514,561
	971,270	1,615,112
Other financing activities:		
Payments on note payable	(1,000,000)	(2,050,000)
NET CASH USED IN FINANCING ACTIVITIES	(28,730)	(434,888)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	372,357	(1,465,135)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,408,456	3,873,591
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,780,813	\$ 2,408,456

(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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest expense paid for the year	\$ 159,111	\$ 197,972

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 and net market gains resulting from investment of permanently restricted net assets. This portion of unrestricted net assets may be expended as authorized by the Board of Trustees Investment and Spending Policy or by Board action.

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

Campaign resources - unrestricted net assets designated for future capital and endowment campaign expenses.

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

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.

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

UNIVERSITY SCHOOL OF NASHVILLE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- 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, 2006, 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, 2007

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, 2007 and 2006, total interest incurred was \$155,308 and \$197,972, respectively, of which none 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 and amounted to \$5,000 and \$32,133 in 2007 and 2006, respectively.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances at several financial institutions including SunTrust Bank and Regions Bank. All accounts held by the School earn interest either through bank money market accounts or investment in government securities and highest rated corporate securities and commercial paper. Cash and cash equivalents do not include unrestricted or permanently restricted cash or investments which place the initial outlay at risk.

Investments and Investment Income

Investments in marketable securities and other equity interests 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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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. Unamortized loan costs amounted to \$86,451 and \$93,177 at June 30, 2007 and 2006, respectively. Amortization expense amounted to \$6,726 in 2007 and 2006.

Enrollment Deposits

New incoming students are required to make an enrollment deposit which will be applied to the student's last bill of their first year of enrollment.

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 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, 2007, one outstanding pledge amounts to approximately 37% of the total pledge receivable balance (one pledge totaled approximately 31% of the balance at June 30, 2006).

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, 2007

NOTE 4 - INVESTMENTS

Investments consist of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Diversified Trust Company:		
Equity funds	\$ 5,723,953	\$ 4,057,453
Bonds and fixed income funds	3,263,069	3,887,703
Real estate funds	372,008	246,476
Hedge funds	788,358	583,666
Cash and equivalents	<u>545,176</u>	<u>345,726</u>
	<u>\$10,692,564</u>	<u>\$ 9,121,024</u>

Investments are classified as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Unrestricted:		
Designated for quasi-endowment	\$ 2,570,080	\$ 1,579,103
Other	<u>1,751,889</u>	<u>1,431,896</u>
Total unrestricted	4,321,969	3,010,999
Permanently restricted	<u>6,370,595</u>	<u>6,110,025</u>
	<u>\$10,692,564</u>	<u>\$ 9,121,024</u>

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

	<u>2007</u>	<u>2006</u>
Interest on operating funds	\$ 268,313	\$ 199,125
Realized and unrealized gains on investments	<u>1,302,471</u>	<u>488,161</u>
Total investment earnings	<u>\$ 1,570,784</u>	<u>\$ 687,286</u>

The majority of the investment holdings can be liquidated within 30 days or less notice. At June 30, 2007 and 2006, liquidity restrictions for 9.0% and 7.7% of the total investment holdings, respectively, permit exit on the last day of each quarter with advance notification of at least 60 days prior to the beginning of the quarter, based on the market value of the School's interest at the date redeemed. In addition, 0.5% and 0.1% of the investment holdings as of June 30, 2007 and 2006, respectively, represent capital committed to a private equity fund and cannot be liquidated at the School's discretion.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 5 - RECEIVABLES

Receivables consist of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Unrestricted:		
Tuition and other	\$ 165,864	\$ 191,636
Pledges - Capital Campaign		
Due in less than one year	554,275	1,208,027
Due in one to five years, net of unamortized discount of \$0 in 2007; \$3.139 in 2006	9,346	63,546
Less allowance for uncollectible accounts	<u>(306,115)</u>	<u>(312,131)</u>
	<u>423,370</u>	<u>1,151,078</u>
Temporarily and permanently restricted:		
Pledges - Capital Campaign		
Due in less than one year	4,000	26,500
Due in one to five years, net of unamortized discount of \$0 in 2007 and 2006	<u>-</u>	<u>4,000</u>
	<u>4,000</u>	<u>30,500</u>
Net receivables	<u>\$ 427,370</u>	<u>\$ 1,181,578</u>

NOTE 6 - PROPERTY, BUILDINGS AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Land	\$ 2,814,767	\$ 2,814,767
Buildings and improvements	25,372,488	25,270,663
Equipment	4,163,999	3,855,888
Construction in progress	<u>132,207</u>	<u>-</u>
	32,483,461	31,941,318
Less accumulated depreciation	<u>10,804,213</u>	<u>9,558,766</u>
	<u>\$ 21,679,248</u>	<u>\$ 22,382,552</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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 outstanding debt and to finance the acquisition, construction and equipping of improvements to the 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 2007, 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 2018. The next required principal payment, in the approximate amount of \$475,000, is due during the June 2018 fiscal year.

On September 13, 2002, the School entered into an interest rate swap agreement that limited the interest rate risk on the note to 2.43% until August 1, 2007. On March 8, 2007, the School entered into a similar interest rate swap agreement that limits the interest rate risk on the note to 3.51% until August 1, 2017. 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 2007, the School sold portions of the swap's notional value back to the bank on multiple occasions, which reduced the notional amount from \$4,850,000 to \$3,950,000 as of June 30, 2007. The School received \$3,220 on these redemptions. Proceeds from similar redemptions totaled \$13,025 during 2006. Subsequent to year end, the School entered into an agreement to sell \$500,000 of the swap's notional value back to the bank in December 2007.

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 \$333,092 in 2007 (\$287,703 in 2006).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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 (2007 - \$180,882; 2006 - \$118,118). The related liability is adjusted each year to the amount of the vested balance and included in accrued salaries and related benefits (2007 - \$107,485; 2006 - \$62,586), 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 \$36,653 and \$24,600 for the years ended June 30, 2007 and 2006, respectively.

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>2007</u>	<u>2006</u>
Purpose restriction accomplished:		
Property, plant and equipment purchases	\$ 10,000	\$ -
Other	<u>17,217</u>	<u>57,877</u>
Total	<u>\$ 27,217</u>	<u>\$ 57,877</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

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>2007</u>	<u>2006</u>
USN ASSOCIATION REVENUE	\$ 474,574	\$ 434,673
USN ASSOCIATION EXPENSES		
Fundraising expenses	329,447	302,897
Association activities	<u>34,793</u>	<u>35,491</u>
TOTAL USN ASSOCIATION EXPENSES	<u>364,240</u>	<u>338,388</u>
TRANSFERS TO THE SCHOOL		
Purchase of fixed assets	-	(23,617)
Payment of capital campaign pledge	(50,000)	(50,000)
Operating contribution	(20,000)	(25,000)
Proceeds from used book sale	(10,274)	(7,048)
Proceeds from music night - to EE Ford Lending Library	(6,379)	-
Proceeds from evening classes - to endowment	<u>(18,932)</u>	<u>(23,338)</u>
TOTAL TRANSFERS TO THE SCHOOL	<u>(105,585)</u>	<u>(129,003)</u>
CHANGE IN USN ASSOCIATION ASSETS	4,749	(32,718)
Designated USN Association - beginning of year	<u>41,205</u>	<u>73,923</u>
Designated USN Association - end of year	<u>\$ 45,954</u>	<u>\$ 41,205</u>

NOTE 11 - COMMITMENTS

At June 30, 2007, the School was obligated under a contract for construction of the tennis court project. Commitments under this project totaled approximately \$291,000.