UNIVERSITY SCHOOL OF NASHVILLE

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

MAKE A GOOD BUSINESS BETTER

UNIVERSITY SCHOOL OF NASHVILLE

Table of Contents

LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
University School of Nashville:

We have audited the accompanying financial statements of University School of Nashville, which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
November 16, 2018

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash and cash equivalents	$ 3,293,548	$ 3,013,387	$ -	$ 6,306,935
Investments	9,576,978	2,893,627	15,540,170	28,010,775
Tuition receivable, net	100,478	-	-	100,478
Prepaid expenses	41,431	-	-	41,431
Inventories	78,248	-	-	78,248
Property, buildings and equipment, net	22,588,653	-	-	22,588,653
Other assets	584,791	-	-	584,791
Total assets	$ 36,264,127	$ 5,907,014	$ 15,540,170	$ 57,711,311
Liabilities and Net Assets				
Accounts payable	$ 421,117	$ -	$ -	$ 421,117
Accrued salaries and related benefits	1,547,741	-	-	1,547,741
Other accrued liabilities	126,828	-	-	126,828
Deferred tuition revenue and enrollment deposits	1,068,100	-	-	1,068,100
Long-term debt	3,394,055	-	-	3,394,055
Total liabilities	6,557,841	-	-	6,557,841
Net assets:				
Unrestricted:				
Undesignated	1,755,974	-	-	1,755,974
Designated - quasi endowment	3,218,906	-	-	3,218,906
Designated - plant reserve	2,553,519	-	-	2,553,519
Designated - plant improvement	2,842,979	-	-	2,842,979
Designated - technology replacement	20,546	-	-	20,546
Designated - invested plant	19,218,029	-	-	19,218,029
Designated - employee benefits	-	-	-	-
Designated - USN association	96,333	-	-	96,333
Temporarily restricted - other	-	3,013,387	-	3,013,387
Temporarily restricted endowment	-	2,893,627	-	2,893,627
Permanently restricted	-	-	15,540,170	15,540,170
Total net assets	29,706,286	5,907,014	15,540,170	51,153,470
Total liabilities and net assets	$ 36,264,127	$ 5,907,014	$ 15,540,170	$ 57,711,311

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
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	552,320	-	-	552,320
Total assets	$ 35,118,484	$ 4,809,417	$ 14,403,302	$ 54,331,203
Liabilities and Net Assets				
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	1,642	-	-	1,642
Total liabilities	6,686,722	-	-	6,686,722
Net assets:				
Unrestricted:				
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	-	-	14,403,302	14,403,302
Total net assets	28,431,762	4,809,417	14,403,302	47,644,481
Total liabilities and net assets	$ 35,118,484	$ 4,809,417	$ 14,403,302	$ 54,331,203

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:				
Support and revenues:				
Tuition and fees, net of financial aid, scholarships, and tuition remission totaling $3,131,000	$ 20,785,809	$ -	$ -	$ 20,785,809
Ancillary programs	2,103,599	-	-	2,103,599
Contributions	1,470,953	1,258,821	1,014,124	3,743,898
USN Association fundraising	395,651	66,365	119,600	581,616
Investment income	305,123	977,905	3,144	1,286,172
Other income	89,191	-	-	89,191
Net assets released from restrictions	1,205,494	(1,205,494)	-	-
Total support and revenues	26,355,820	1,097,597	1,136,868	28,590,285
Operating expenses:				
Program services:				
Instruction and student activities	13,386,220	-	-	13,386,220
Ancillary programs	2,101,463	-	-	2,101,463
Buildings, grounds and vehicle expense	3,427,344	-	-	3,427,344
Depreciation and amortization	1,866,161	-	-	1,866,161
Interest	125,531	-	-	125,531
Total program services	20,906,719	-	-	20,906,719
Supporting services:				
General administration	2,673,089	-	-	2,673,089
Development, alumni and communications	1,107,094	-	-	1,107,094
USN Association activities and fundraising expense	396,036	-	-	396,036
Total supporting services	4,176,219	-	-	4,176,219
Total expenses	25,082,938	-	-	25,082,938
Non-operating activity				
Gain on hedging activity, net	1,642	-	-	1,642
Change in net assets	1,274,524	1,097,597	1,136,868	3,508,989
Net assets at beginning of year	28,431,762	4,809,417	14,403,302	47,644,481
Net assets at end of year	$ 29,706,286	$ 5,907,014	$ 15,540,170	$ 51,153,470

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:				
Support and revenues:				
Tuition and fees, net of financial aid, scholarships, 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	1,425,397	(1,425,397)	-	-
Total support and revenues	25,521,651	1,353,639	1,526,575	28,401,865
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	152,836	-	-	152,836
Total program services	20,704,346	-	-	20,704,346
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	396,179	-	-	396,179
Total supporting services	4,025,863	-	-	4,025,863
Total expenses	24,730,209	-	-	24,730,209
Non-operating activity				
Gain on hedging activity, net	15,387	-	-	15,387
Change in net assets	806,829	1,353,639	1,526,575	3,687,043
Net assets at beginning of year	27,624,933	3,455,778	12,876,727	43,957,438
Net assets at end of year	$ 28,431,762	$ 4,809,417	$ 14,403,302	$ 47,644,481

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 3,508,989	$ 3,687,043
Adjustments to reconcile the change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,866,161	1,858,760
Bad debt expense	78,833	6,350
Gain on disposal of equipment	-	(47,509)
Net (gain) loss on investments	(790,253)	(1,394,329)
Gain on hedging activity	(1,642)	(15,387)
Contributions permanently restricted for investment in endowment	(1,136,868)	(1,526,575)
Contributions restricted for building campaign	(1,258,821)	(1,312,632)
(Increase) decrease in operating assets:		
Tuition and pledges receivable	(9,417)	(64,572)
Prepaid expenses	315	7,804
Inventories	7,987	6,493
Other assets	(32,471)	(58,559)
Increase (decrease) in operating liabilities:		
Accounts payable	251,202	(100,188)
Accrued salaries and related benefits	27,432	99,009
Other accrued liabilities	12,931	(13,010)
Deferred tuition revenue	183,033	121,424
Total adjustments	(801,578)	(2,432,921)
Net cash provided by operating activities	2,707,411	1,254,122
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	-	87,383
Purchases of buildings and equipment	(610,018)	(842,530)
Proceeds from sale of investments	1,985,070	2,898,225
Purchases of investments	(4,600,588)	(5,164,143)
Net cash used by investing activities	(3,225,536)	(3,021,065)
Cash flows from financing activities:		
Contributions permanently restricted for investment in endowment	1,136,868	1,526,575
Contributions restricted for building campaign	1,258,818	1,312,632
Payments of long-term debt	(601,837)	(964,950)
Net cash provided by financing activities	1,793,849	1,874,257
Increase in cash and cash equivalents	1,275,724	107,314
Cash and cash equivalents at beginning of year	5,031,211	4,923,897
Cash and cash equivalents at end of year	$ 6,306,935	$ 5,031,211

See accompanying notes to the financial statements.

(1) Nature of activities

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

(2) Summary of significant accounting policies

The financial statements of the School are presented on the accrual basis. The significant accounting policies followed are described below.

(a) 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.

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 $78,833 and $6,350 in 2018 and 2017, respectively.

(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, 2018 and 2017.

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 $1,455,052 and $3,171,000 at June 30, 2018 and 2017, 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. At June 30, 2018, deferred tuition of approximately $266,000 related to fiscal periods subsequent to 2019.

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.

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, 2018 and 2017, 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) New accounting standards

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (donor restricted and non-donor restricted), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard is effective for fiscal years beginning after December 15, 2017 and will be adopted by the School for fiscal year 2019. The School expects the impact of adoption to be in the form of additional disclosures.

(q) 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.

(r) Events occurring after reporting date

The School has evaluated events and transactions that occurred between June 30, 2018 and November 16, 2018 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.

(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.

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, 2018 and 2017.

(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.

The following tables set forth, by level within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2018 and 2017:

	Fair Value Measurements as of June 30, 2018 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 4,841,131	$ -	$ -	$ 4,841,131
Mutual funds	10,058,371	-	-	10,058,371
Master LTD Partnerships	1,509,292	-	-	1,509,292
Common trust funds	-	11,469,908	-	11,469,908
Private equity investment fund	-	-	40,536	40,536
Cash value of life insurance	-	91,537	-	91,537
Total investments	16,408,794	11,561,445	40,536	28,010,775
Mutual funds held for deferred compensation plans (Note 8)	561,410	-	-	561,410
Total financial assets	$ 16,970,204	$ 11,561,445	$ 40,536	$ 28,572,185

	Fair Value Measurements as of June 30, 2017 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
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 investment fund	-	-	79,250	79,250
Cash value of life insurance	-	88,393	-	88,393
Total investments	14,546,481	9,979,273	79,250	24,605,004
Mutual funds held for deferred compensation plans (Note 8)	523,213	-	-	523,213
Total financial assets	$ 15,069,694	$ 9,979,273	$ 79,250	$ 25,128,217
Obligation under interest rate swap	$ -	$ (1,642)	$ -	$ (1,642)

The following table provides a summary of changes in fair value of the Plan's Level 3 assets for the years ended June 30, 2018 and 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Private Equity Investment
Balance at June 30, 2016	$ 110,500
Unrealized gains relating to instruments still held at the reporting date	(10,500)
Distributions	(20,750)
Pledge payments received	-
Balance at June 30, 2017	79,250
Unrealized loss relating to instruments still held at the reporting date	(17,464)
Distributions	(21,250)
Income	-
Pledge payments received	-
Change in discount	-
Balance at June 30, 2018	$ 40,536

The following schedule summarizes the investment income (loss) included in the statements of activities and changes in net assets for 2018 and 2017:

	2018	2017
Interest and dividend income	$ 618,757	$ 525,218
Net gain (loss) on investments	790,253	1,394,329
Fees paid	(122,838)	(113,403)
	$ 1,286,172	$ 1,806,144

The majority of the investment holdings can be liquidated within 30 days or less. At June 30, 2018 and 2017, restrictions for 0.2% and 0.4% 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, 2018, the School has a remaining capital obligation of $15,000 related to this commitment. Currently the fund manager expects no additional capital calls will be made, but the School's obligation will remain until termination of the fund which is expected in 2019 unless otherwise extended or terminated as contemplated in the Partnership Agreement.

(5) Tuition receivable

A summary of tuition receivable at June 30, 2018 and 2017 is as follows:

	2018	2017
Tuition and other	$ 161,414	$ 261,728
Other receivables	19,840	28,392
	181,254	290,120
Less: allowance for uncollectible accounts	(80,776)	(120,226)
Net tuition and pledges receivable	$ 100,478	$ 169,894

(6) Properties, buildings and equipment

Properties, buildings and equipment at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Land	$ 2,814,767	$ 2,814,767
Buildings and improvements	38,187,911	37,981,069
Equipment	5,509,939	5,276,623
Construction in progress	183,248	91,353
	46,695,865	46,163,812
Accumulated depreciation	(24,107,212)	(22,319,019)
Properties, buildings and equipment, net	$ 22,588,653	$ 23,844,793

(7) Long term debt

The School has an $8,000,000 unsecured line of credit and construction loan agreement with a bank, which is comprised of a $4,000,000 promissory note bearing interest at the annual LIBOR, plus 1.25% with a maximum rate of 10% per year (3.20% at June 30, 2018) and a $4,000,000 promissory note bearing interest at a fixed rate of 3.95% per annum (together, the "Construction Notes Payable"). Interest on the Construction Notes Payable is payable monthly. The School is required to make monthly payments of $43,000, including interest, until maturity on December 31, 2026. The agreement requires the School to meet certain financial and non-financial covenants. As of June 30, 2018 and 2017, 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 $3,394,055 and $3,590,842 at June 30, 2018 and 2017, respectively.

As of June 30, 2017, the School owed bonds payable of $405,000. Bond proceeds were used by the School to refinance outstanding debt and to finance the acquisition, construction and equipping of improvements to the campus. In July 2017, the School repaid the remaining outstanding obligation under the Bonds. Additionally, the School had an interest rate swap agreement with a bank for the purpose of hedging its interest rate risk on the outstanding bond issue to fix the interest rate. The fair value of the School's swap obligation amounted to $1,642 at June 30, 2017. The swap expired in August 2017 upon repayment of the bonds.

(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 $622,832 and $620,411 for the years ended June 30, 2018 and 2017, respectively.

The School entered has a deferred compensation arrangement with its Director. The arrangement consists of an eligible plan under Section 457(b) of the Code, and an ineligible plan under Section 457(f) of the Code. Eligible plan contributions vest when made; ineligible plan contributions and related earnings vest only if the director's employment term continues through age 62. The School has also entered into a similar arrangement with another key employee. This plan qualifies as an eligible plan under Section 457(b) of the Code. Contributions to this plan vest when funded, provided the employee remains a full-time employee of the School.

The assets in these deferred compensation plans are held by the School, subject to the claims of its general creditors. As of June 30, 2018 and 2017, assets of $561,410 and $523,213, 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 $36,500 and $36,000 to the deferred compensation plan for the years ended June 30, 2018 and 2017, respectively.

(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, 2018 and 2017:

	2018	2017
USN Association revenue	$ 581,616	$ 577,126
USN Association expenses:		
Fundraising expenses	365,022	369,549
Association activities	31,014	26,630
Total USN Association expenses	396,036	396,179
Transfers to the school:		
Proceeds from used book sale	(19,886)	(18,897)
Proceeds from Artclectic - to endowment	(62,543)	(55,716)
Music night transfer	(18,922)	(21,475)
Equipment for River Campus	-	(7,800)
Bonus bucks	(7,144)	(7,512)
Tiger Club	(6,211)	(7,188)
TAP - Tiger Arts Patrons	(7,720)	(11,740)
Transfer of savings	(6,482)	-
Proceeds from evening classes - to endowment	(57,057)	(48,386)
Total transfers to the school	(185,965)	(178,714)
Change in USN Association assets	(385)	2,233
Designated USN Association - beginning of year	96,718	94,485
Designated USN Association - end of year	$ 96,333	$ 96,718

(10) Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Centennial Campaign Pending Designation	$ 1,409,309	$ 921,333
Horizons	632,895	335,180
Curricular Design	266,172	320,990
Program Initiatives	206,790	128,105
Scholarship/ Financial Aid	236,496	244,522
USNA Funded	121,046	106,748
Student Summer Opportunity	1,868	75,177
Director's Discretionary Fund	99,807	102,857
Other	39,004	34,004
Endowment	2,893,627	2,540,501
	$ 5,907,014	$ 4,809,417

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

	2018	2017
Purpose restriction accomplished:		
Property, plant and equipment purchases	$ 97,362	$ 474,576
Curricular Design	54,818	71,868
Library	6,230	2,549
Horizons	201,391	154,811
Other	19,277	14,729
Scholarship award	11,000	34,064
Faculty professional development award	13,446	24,302
Financial aid	28,027	3,500
Endowment spending rate (portion from temporarily restricted)	624,779	492,408
Student summer opportunity	93,810	89,270
Program Initiatives	55,354	63,320
	$ 1,205,494	$ 1,425,397

(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.

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, 2018 or 2017.

Spending policy

The School has a policy of appropriating for distribution each year 4.0% of the most recent September 30 balance of the endowment as of the time of the annual budget approval, except as otherwise stipulated by donors for specific restricted funds. This amount should not exceed 5% nor be less than 2% of the trailing three-year average of the fiscal year end market value for the three fiscal years immediately preceding the respective budget approval.

The Malone Foundation scholarship fund stipulates an annual spending of 5% of the fair market value of the fund.

Investment return objective, risk parameters and strategies

The School's primary objectives for the investment of its endowments are to:

- Preserve the real purchasing power of the principal, and
- Provide a reasonably stable source of perpetual financial support.

To arrive at a specific asset allocation, the Board endorses the following principles:

- Diversification is critical at both the asset and security level;
- As a perpetual fund, cash reserves should be minimal;
- The timing of initial investments will be made over an appropriate period as determined by the finance committee;
- Liquidity is important to consider for investment in securities; and
- An allocation to real estate, private equity, and other non-marketable investments may be appropriate given the possibility of both added diversification and enhanced return.

Endowments should have as their objective an asset allocation sufficient to meet the spending policy herein. This allocation should include:

- Total 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, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated	$ 3,218,906	$ -	$ -	$ 3,218,906
Donor-restricted	-	2,893,627	15,540,170	18,433,797
Total	$ 3,218,906	$ 2,893,627	$ 15,540,170	$ 21,652,703

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated	$ 2,284,070	$ -	$ -	$ 2,284,070
Donor-restricted	-	2,540,501	14,403,302	16,943,803
Total	$ 2,284,070	$ 2,540,501	$ 14,403,302	$ 19,227,873

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	-	(492,408)	-	(492,408)
Endowment net assets, June 30, 2017	2,284,070	2,540,501	14,403,302	19,227,873
Contributions	934,836	-	1,133,724	2,068,560
Realized and unrealized gain	-	977,905	3,144	981,049
Amounts appropriated for expenditures	-	(624,779)	-	(624,779)
Endowment net assets, June 30, 2018	$ 3,218,906	$ 2,893,627	$ 15,540,170	$ 21,652,703

(12) Lease commitments

The School leases student computers, office computers and maintenance equipment under operating leases. Rent expense under these leases amounted to approximately $341,000 and $377,000 in 2018 and 2017, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2018 is as follows:

Year ending June 30	Amount
2019	$ 220,600
2020	67,200
2021	16,100
2022	1,300
	$ 305,200

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 2018.

(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.

(14) Supplemental disclosures of cash flow statement information

	2018	2017
Interest paid	$ 119,805	$ 147,110