UNIVERSITY SCHOOL OF NASHVILLE

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

UNIVERSITY SCHOOL OF NASHVILLE

Table of Contents

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
University School of Nashville:

Opinion

We have audited the accompanying financial statements of University School of Nashville (the "School"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- **Exercise professional judgment and maintain professional skepticism throughout the audit.**
- **Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.**
- **Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.**
- **Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.**
- **Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.**

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control matters that we identified during the audit.

LBMC, PC

Brentwood, Tennessee
November 17, 2022

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	$ 2,002,048	$ 3,165,982	$ 5,168,030
Investments	14,543,665	28,384,749	42,928,414
Tuition and other receivables, net	126,835	-	126,835
Prepaid expenses	51,144	-	51,144
Inventories	75,543	-	75,543
Property, buildings and equipment, net	21,812,188	-	21,812,188
Other assets	1,301,257	-	1,301,257
Total assets	$ 39,912,680	$ 31,550,731	$ 71,463,411
Liabilities and Net Assets			
Accounts payable	$ 571,972	$ -	$ 571,972
Accrued salaries and related benefits	1,783,328	-	1,783,328
Other accrued liabilities	118,342	-	118,342
Deferred tuition revenue and enrollment deposits	1,130,276	-	1,130,276
Line of credit	1,000,000	-	1,000,000
Capital lease obligations	170,775	-	170,775
Total liabilities	4,774,693	-	4,774,693
Net assets:			
Without donor restrictions:			
Undesignated	3,851,460	-	3,851,460
Board designated:			
Quasi endowment	5,109,801	-	5,109,801
Plant reserve	2,885,342	-	2,885,342
Plant improvement	2,409,386	-	2,409,386
Technology replacement	171,092	-	171,092
Invested plant	20,641,413	-	20,641,413
USN association	69,493	-	69,493
With donor restrictions	-	31,550,731	31,550,731
Total net assets	35,137,987	31,550,731	66,688,718
Total liabilities and net assets	$ 39,912,680	$ 31,550,731	$ 71,463,411

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Financial Position

June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	$ 3,972,668	$ 3,411,634	$ 7,384,302
Investments	15,771,510	30,897,649	46,669,159
Tuition and other receivables, net	117,183	-	117,183
Prepaid expenses	40,975	-	40,975
Inventories	74,701	-	74,701
Property, buildings and equipment, net	20,229,015	-	20,229,015
Other assets	789,358	-	789,358
Total assets	$ 40,995,410	$ 34,309,283	$ 75,304,693
Liabilities and Net Assets			
Accounts payable	$ 454,688	$ -	$ 454,688
Accrued salaries and related benefits	1,877,362	-	1,877,362
Other accrued liabilities	104,932	-	104,932
Deferred tuition revenue and enrollment deposits	1,210,887	-	1,210,887
Long-term debt	586,405	-	586,405
Capital lease obligations	359,908	-	359,908
Total liabilities	4,594,182	-	4,594,182
Net assets:			
Without donor restrictions:			
Undesignated	3,032,980	-	3,032,980
Board designated:			
Quasi endowment	5,533,970	-	5,533,970
Plant reserve	4,080,567	-	4,080,567
Plant improvement	4,216,621	-	4,216,621
Technology replacement	126,092	-	126,092
Invested plant	19,288,904	-	19,288,904
USN association	122,094	-	122,094
With donor restrictions	-	34,309,283	34,309,283
Total net assets	36,401,228	34,309,283	70,710,511
Total liabilities and net assets	$ 40,995,410	$ 34,309,283	$ 75,304,693

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid and scholarships totaling $3,764,923	$ 23,468,543	$ -	$ 23,468,543
Ancillary programs	2,046,005	-	2,046,005
Contributions	1,713,745	3,446,932	5,160,677
USN Association fundraising	340,330	144,759	485,089
Investment return	(1,782,019)	(4,067,083)	(5,849,102)
Other income	152,818	-	152,818
Net assets released from restrictions	2,283,160	(2,283,160)	-
Total support and revenues	28,222,582	(2,758,552)	25,464,030
Operating expenses:			
Program services:			
Instruction and student activities	21,921,209	-	21,921,209
Ancillary programs	2,304,378	-	2,304,378
Total program services	24,225,587	-	24,225,587
Supporting services:			
General and administration	3,369,610	-	3,369,610
USN Association and fundraising	1,890,626	-	1,890,626
Total supporting services	5,260,236	-	5,260,236
Total expenses	29,485,823	-	29,485,823
Change in net assets	(1,263,241)	(2,758,552)	(4,021,793)
Net assets at beginning of year	36,401,228	34,309,283	70,710,511
Net assets at end of year	$ 35,137,987	$ 31,550,731	$ 66,688,718

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Activities

Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:			
Support and revenues:			
Tuition and fees, net of financial aid and scholarships totaling $3,642,510	$ 22,746,216	$ -	$ 22,746,216
Ancillary programs	858,979	-	858,979
Contributions	1,798,573	3,977,588	5,776,161
USN Association fundraising	146,361	46,354	192,715
Investment return	2,642,862	5,749,481	8,392,343
Other income	28,319	-	28,319
Net assets released from restrictions	1,319,576	(1,319,576)	-
Total support and revenues	29,540,886	8,453,847	37,994,733
Operating expenses:			
Program services:			
Instruction and student activities	20,807,503	-	20,807,503
Ancillary programs	1,549,820	-	1,549,820
Total program services	22,357,323	-	22,357,323
Supporting services:			
General and administration	3,045,190	-	3,045,190
USN Association and fundraising	1,341,183	-	1,341,183
Total supporting services	4,386,373	-	4,386,373
Total expenses	26,743,696	-	26,743,696
Change in net assets	2,797,190	8,453,847	11,251,037
Net assets at beginning of year	33,604,038	25,855,436	59,459,474
Net assets at end of year	$ 36,401,228	$ 34,309,283	$ 70,710,511

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Cash Flows

Year ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (4,021,793)	$ 11,251,037
Adjustments to reconcile the change in net assets to cash flows provided (used) by operating activities:		
Depreciation and amortization	2,024,502	1,978,982
Bad debt expense	150,549	105,885
(Gain) Loss on disposal of equipment	5,993	(3,023)
Net (gain) loss on investments	5,849,102	(8,392,343)
Contributions permanently restricted for investment in endowment	(2,595,854)	(2,903,340)
Contributions restricted for building campaign	(955,073)	(1,214,007)
(Increase) decrease in operating assets:		
Tuition and other receivables	(160,201)	(138,290)
Prepaid expenses	(10,169)	(21,714)
Inventories	(842)	5,801
Other assets	(511,899)	(160,561)
Increase (decrease) in operating liabilities:		
Accounts payable	117,284	(362,724)
Accrued salaries and related benefits	(94,034)	343,962
Other accrued liabilities	13,410	(13,164)
Deferred tuition revenue	(80,611)	157,964
Total adjustments	3,752,157	(10,616,572)
Net cash provided (used) by operating activities	(269,636)	634,465
Cash flows from investing activities:		
Purchases of buildings and equipment	(3,567,813)	(970,497)
Proceeds from sale of investments	4,896,692	5,385,119
Purchases of investments	(7,005,049)	(6,718,356)
Net cash used by investing activities	(5,676,170)	(2,303,734)
Cash flows from financing activities:		
Proceeds from line of credit	1,000,000	-
Contributions permanently restricted for investment in endowment	2,595,854	2,903,340
Contributions restricted for building campaign	955,073	1,214,007
Payments on capital lease obligations	(234,988)	(192,732)
Payments of long-term debt	(586,405)	(442,496)
Net cash provided by financing activities	3,729,534	3,482,119
Increase (decrease) in cash and cash equivalents	(2,216,272)	1,812,850
Cash and cash equivalents at beginning of year	7,384,302	5,571,452
Cash and cash equivalents at end of year	$ 5,168,030	$ 7,384,302

<u>Supplemental disclosures of cash flow statement information</u>

	2022	2021
Interest paid	$ 32,321	$ 44,806

<u>Noncash transaction</u>

	2022	2021
Equipment additions financed under capital lease	$ 45,855	$ 259,224

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Functional Expenses

Year ended June 30, 2022

	Programs			Supporting Services		
	Institution and Student Activities	Ancillary	Total Program Services	General and Administration	USN Association and Fundraising	Total
Contracted services	$ 1,067,611	$ 536,574	$ 1,604,185	$ 282,298	$ 202,012	$ 2,088,495
Depreciation	2,024,502	-	2,024,502	-	-	2,024,502
Facility, software, & equipment rental	121,068	-	121,068	-	11,576	132,644
Food	35,249	327,892	363,141	55,818	57,302	476,261
Insurance	-	-	-	270,628	-	270,628
Interest	-	32,321	32,321	-	-	32,321
Maintenance	760,470	5,866	766,336	15,111	26,789	808,236
Memberships & subscriptions	48,088	205	48,293	53,075	3,843	105,211
Merchandise for resale	-	139,907	139,907	-	-	139,907
Payroll taxes and benefits	3,112,624	159,593	3,272,217	397,294	213,014	3,882,525
Printing and postage	163,252	3,974	167,226	5,070	81,005	253,301
Professional development	148,359	7,050	155,409	17,026	23,700	196,135
Restricted gift expense	336,290	-	336,290	-	-	336,290
Special events	180,770	-	180,770	19,259	303,898	503,927
Supplies & program	700,765	149,000	849,765	56,461	13,210	919,436
Utilities	733,890	-	733,890	4,938	-	738,828
Wages	12,349,850	988,920	13,338,770	1,859,699	853,611	16,052,080
Other	138,421	(46,924)	91,497	332,933	100,666	525,096
Total expenses	$ 21,921,209	$ 2,304,378	$ 24,225,587	$ 3,369,610	$ 1,890,626	$ 29,485,823

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statement of Functional Expenses

Year ended June 30, 2021

	Programs			Supporting Services		
	Institution and Student Activities	Ancillary	Total Program Services	General and Administration	USN Association and Fundraising	Total
Contracted services	$ 896,348	$ 230,688	$ 1,127,036	$ 223,659	$ 92,707	$ 1,443,402
Depreciation	1,978,982	-	1,978,982	-	-	1,978,982
Facility, software, & equipment rental	260,076	-	260,076	-	5,874	265,950
Food	17,302	92,203	109,505	12,081	4,525	126,111
Insurance	-	-	-	265,641	-	265,641
Interest	-	44,807	44,807	-	-	44,807
Maintenance	316,056	2,309	318,365	15,983	18,900	353,248
Memberships & subscriptions	31,735	102	31,837	49,402	6,925	88,164
Merchandise for resale	-	146,265	146,265	-	-	146,265
Payroll taxes and benefits	2,875,343	129,651	3,004,994	401,085	201,345	3,607,424
Printing and postage	130,044	3,979	134,023	8,658	39,628	182,309
Professional development	81,166	3,056	84,222	10,323	17,296	111,841
Restricted gift expense	189,592	-	189,592	-	-	189,592
Special events	137,138	393	137,531	5,230	19,705	162,466
Supplies & program	1,007,779	77,168	1,084,947	33,149	11,999	1,130,095
Utilities	574,962	-	574,962	3,980	-	578,942
Wages	12,229,191	819,199	13,048,390	1,786,473	845,640	15,680,503
Other	81,789	-	81,789	229,526	76,639	387,954
Total expenses	$ 20,807,503	$ 1,549,820	$ 22,357,323	$ 3,045,190	$ 1,341,183	$ 26,743,696

See accompanying notes to the financial statements.

(1) Nature of activities

University School of Nashville (the "School" or "USN"), 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, as follows:

Without Donor Restrictions:

Undesignated - net assets that are not subject to donor-imposed stipulations and are available for support of School operations.

Board Designated - includes net assets without donor restrictions designated by the Board of Trustees ("Board") for the following purposes (although such designations may be terminated at the discretion of the Board and do not represent donor restrictions):

Quasi-Endowment - net assets without donor restrictions designated for future purposes. This portion of net assets without donor restrictions may be expended as authorized by the Board of Trustees Investment and Spending Policy or by Board action.

Plant reserve, plant improvement, and technology replacement - net assets without donor restrictions designated for future facility, technology improvements, and maintenance.

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

USN Association - net assets without donor restrictions resulting from USN Association activities.

With Donor Restrictions:

Net assets that are restricted by the donor for a specific purpose or time period. These restrictions include but are not limited to the Horizons program and other program initiatives.

Endowment Fund - includes net assets subject to donor-imposed stipulations which state they must be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes as noted in the donor agreements.

Net market gains resulting from the investment of net assets with donor restrictions are not perpetual in nature. This portion of net assets with donor restrictions may be expended as authorized by the Board of Trustees Investment and Spending Policy for the purpose stipulated by the donor.

(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 return

Investments are reported at fair value as discussed in Note 5. Investment return shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment return is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment return restricted by the donor is reported as an increase in net assets without donor restrictions if the restrictions are met or expire in the year in which the income is recognized. Substantially all other donor-restricted investment return is reported as an increase in net assets with donor 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 administrative expense and amounted to $150,549 and $105,885 in 2022 and 2021, respectively.

(e) Contributions receivable and intentions to give

Unconditional promises to give which are expected to be collected within one year are recorded at their pledged amount which approximates net realizable value. Unconditional promises to give which are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted discount rate. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The School also receives pledges that are considered intentions to give which do not meet the criteria of unconditional promises to give. Such intentions to give are recorded only when the related gifts are actually received. The School had outstanding intentions to give future gifts of approximately $103,000 and $87,000 at June 30, 2022 and 2021, respectively.

(f) Inventories

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

(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 revenue in the statements of activities.

(h) 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.

(i) Revenue from contracts with customers and deferred tuition income

The School identifies a contract for revenue recognition where there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectibility of consideration is probable. The School evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. Performance obligations are determined based on the nature of the services provided by the School.

The School's primary source of revenue from contracts with customers are from tuition and education fees and auxiliary activities revenue. Tuition is recorded net of financial aid and other discounts. Net tuition revenue is recognized pro-rata over the applicable period of instruction. Students enter into contracts for a particular academic period and revenue is recognized at the start of the applicable academic instruction period. The school year generally runs from August to May. The School also charges certain upfront application or other fees which are deferred and recognized over the respective academic instruction period. Auxiliary activities revenues consists primarily of summer camps, after school fees, athletic events, various School sponsored events and food service. Revenues for these auxiliary activities are recognized either at a point in time the activities are provided or over the period the services are provided. The School does not have costs that are capitalized to obtain or fulfill a contract with a customer.

Accounts receivable include student receivables representing unconditional rights to consideration from contracts with students. Students are billed at predetermined periods prior to the commencement of services being provided. Installment billing is offered by the School which may reduce the amount of cash received in advance of performing services. However, the terms of student contracts provide that the student is liable for the total contract price which minimizes any exposure to losses associated with nonpayment. The School has determined that the installment billing does not represent a significant financing component. As a result, the receivables from students are considered unconditional rights to consideration. Student billings include all educational related items, including tuition, food service, educational materials, and other fees. The School has established refund policies that provide for a portion of tuition to be refunded if a student withdraws during established refund periods.

The School's contract liabilities are reported as deferred revenue in the accompanying statements of financial position. Deposits received for tuition or fees for subsequent school years.

(j) 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, 2022 and 2021, 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.

(k) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(l) Functional allocation of expenses

The costs of programs and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs related to the operation and maintenance of the School, including depreciation of School assets, are allocated to operating programs and supporting activities using estimates made by management. Depreciation expense and costs of maintenance and repairs are classified under program services, since the amounts applicable to supporting services are considered insignificant. Salaries and related expenses, professional services, office expenses, information technology and insurance are allocated on the basis of estimated time and effort. Interest expense on external debt is allocated to the activities which have most directly benefited from the proceeds of the external debt.

The School's primary program services are instruction and auxiliary enterprises. Expenses reported as management and general support as well as fundraising are incurred in support of these primary program services.

(m) New accounting standards

The FASB's new lease accounting standard, ASU 2016-02, *Leases*, which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the School beginning for fiscal 2023. Management of the School is currently evaluating the impact adoption of ASU 2016-02 will have on its financial statements and disclosures.

(n) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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.

(o) Events occurring after reporting date

Management of the School has evaluated events and transactions that occurred between June 30, 2022 and November 17, 2022, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Liquidity and availability

The following table reflects the School's financial assets as of June 30, 2022 and 2021 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date.

	2022	2021
Cash and cash equivalents	$ 5,168,030	$ 7,384,302
Investments	42,928,414	46,669,159
Tuition and other receivables, net	126,835	117,183
Financial assets at end of year	48,223,279	54,170,644
Less: assets unavailable for general expenditure within one year:		
Board designated funds	(10,645,114)	(14,079,344)
Donor restricted net assets	(31,550,731)	(34,309,283)
Financial assets available to meet cash needs for general expenditures within one year	$ 6,027,434	$ 5,782,017

Endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees to function as endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure.

Board-designated endowment funds of $5,109,801 and $5,533,970 at June 30, 2022 and 2021, respectively, are subject to the School's spending policy as described in Note 13. The School does not intend to spend from the board-designated endowment funds other than amounts appropriated for expenditure in accordance with the spending policy, and has deducted the funds from financial assets available in the table above. However, these amounts, as well as other board designated net assets, could be made available if necessary. As part of the School's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash is held in interest bearing bank accounts and is invested in short and intermediate term fixed income investments and money market funds.

The School also has a line of credit available with a bank at June 30, 2022 that the School can access to provide additional operating capital (Note 8).

(4) Credit risk and other concentrations

The School generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The School has not experienced any losses in such accounts and management believes the School is not exposed to any significant credit risk related to cash and cash equivalents.

(5) Fair value measurements, investments and investment return

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, 2022 and 2021.

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

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level within the fair value hierarchy, the School's financial instruments at fair value as of June 30, 2022 and 2021:

	Fair Value Measurements as of June 30, 2022 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 4,691,604	$ -	$ -	$ 4,691,604
Mutual funds	38,132,752	-	-	38,132,752
Cash value of life insurance	-	104,058	-	104,058
Total investments	42,824,356	104,058	-	42,928,414
Mutual funds held for deferred compensation plans (Note 10)	609,371	-	-	609,371
Total financial assets	$ 43,433,727	$ 104,058	$ -	$ 43,537,785

	Fair Value Measurements as of June 30, 2021 using the following inputs			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 4,378,141	$ -	$ -	$ 4,378,141
Mutual funds	42,190,004	-	-	42,190,004
Cash value of life insurance	-	101,014	-	101,014
Total investments	46,568,145	101,014	-	46,669,159
Mutual funds held for deferred compensation plans (Note 10)	783,155	-	-	783,155
Total financial assets	$ 47,351,300	$ 101,014	$ -	$ 47,452,314

(6) Tuition and other receivables

A summary of tuition and other receivables at June 30, 2022 and 2021 is as follows:

	2022	2021
Tuition	$ 169,239	$ 64,404
Other receivables	42,216	84,981
	211,455	149,385
Less: allowance for uncollectible accounts	(84,620)	(32,202)
Net tuition and other receivables	$ 126,835	$ 117,183

(7) Property, buildings and equipment

Property, buildings and equipment at June 30, 2022 and 2021, consisted of the following:

	2022	2021
Land	$ 2,814,767	$ 2,814,767
Buildings and improvements	42,359,362	39,281,694
Equipment	6,836,097	6,517,061
Construction in progress	41,786	292,779
	52,052,012	48,906,301
Accumulated depreciation	(30,239,824)	(28,677,286)
Property, buildings and equipment, net	$ 21,812,188	$ 20,229,015

Construction in process at June 30, 2022 relates to expenditures made for planned campus improvements to be placed in service during fiscal year 2023. As of June 30, 2022, there were no outstanding commitments under construction contracts.

(8) Line of credit

During 2022, the School entered into a line of credit agreement with a bank for borrowings not to exceed $5,000,000. Borrowings bear interest at a an adjusted SOFR rate, as defined in the related agreement, plus 1.25% (2.69% on June 30, 2022). The outstanding balance was $1,000,000 at June 30, 2022. The loan is secured by a double negative pledge on real estate and matures on October 1, 2026.

(9) Long term debt

The School had an $8,000,000 construction loan agreement with a bank. This arrangement was comprised of two $4,000,000 promissory notes. The first promissory note bore interest at the annual LIBOR plus 1.25% with a maximum rate of 10% per year and was repaid during 2020. The second promissory note bore interest at a fixed rate of 3.95% per annum and was repaid during 2022.

(10) Capital lease obligations

The School entered into capital lease agreements to finance the acquisition of computer equipment. The School's obligation under these capital leases as of June 30, 2022 and 2021 was as follows:

	2022	2021
Minimum lease payments payable	$ 175,079	$ 369,951
Less: portion representing interest	(4,304)	(10,043)
Capital lease obligations	170,775	359,908
Less: current portion	(110,099)	(234,988)
Long-term portion	$ 60,676	$ 124,920

Future minimum annual lease payments payable under the capital leases as of June 30, 2022 are as follows:

Year	Amount
2023	$ 113,774
2024	61,305
	$ 175,079

Property and equipment utilized under capital leases at June 30, 2022 and 2021 are as follows:

	2022	2021
Capital leases of equipment	$ 305,079	$ 691,117
Less: accumulated amortization	(145,924)	(357,568)
	$ 159,155	$ 333,549

(11) 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 6% of each participant's salary. Total expense recognized by the School under the plan amounted to $869,853 and $833,011 for the years ended June 30, 2022 and 2021, respectively.

The School has a deferred compensation arrangement with its former Director and another employee. 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, 2022 and 2021, assets of $609,371 and $783,155, 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 $20,500 and $39,000 to the deferred compensation plan for the years ended June 30, 2022 and 2021, respectively.

The School has also entered into certain compensation arrangements with a key employee in 2022. Under the terms of the compensation arrangements, the School advanced funds to the employee representing compensation for service to be performed over future periods. Amounts due from the employee are recorded as a receivable and included in other assets on the statement of financial position. The receivable amounts are reduced annually and recorded as compensation expense as the advances are earned over the terms of the arrangements which range from five to ten years.

(12) 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, 2022 and 2021:

	2022	2021
USN Association revenue	$ 485,089	$ 192,714
USN Association expenses:		
Fundraising expenses	353,181	103,700
Association activities	39,750	36,469
Total USN Association expenses	392,931	140,169
Transfers to the school:		
Proceeds from used book sale	(7,472)	(287)
Proceeds from Artclectic - to endowment	(50,964)	(24,191)
Music night transfer	(26,016)	(7,398)
Bonus bucks	(6,119)	(7,719)
Tiger Club	(2,660)	-
TAP - Tiger Arts Patrons	(1,528)	-
Transfer to Vince Durnan Endowment	(50,000)	-
Proceeds from evening classes - to endowment	-	(6,758)
Total transfers to the school	(144,759)	(46,353)
Change in USN Association assets	(52,601)	6,192
Designated USN Association - beginning of year	122,094	115,902
Designated USN Association - end of year	$ 69,493	$ 122,094

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

Donor restricted net assets are available for the following purposes at June 30, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose:		
Centennial Campaign Pending Designation	$ 112,341	$ 240,841
Horizons	2,121,768	1,874,890
Curricular Design	169,260	220,007
Program Initiatives	312,070	240,113
Scholarship/ Financial Aid	222,431	272,291
USNA Funded	167,330	164,237
Director's Discretionary Fund	52,156	85,257
Edgehill 2020 Projects	-	309,639
Other	8,626	4,359
Endowment	2,868,088	7,976,842
	6,034,070	11,388,476
Endowment subject to spending policy and appropriation:		
Financial aid and scholarships	25,516,661	22,920,807
	$ 31,550,731	$ 34,309,283

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

	2022	2021
Purpose restrictions accomplished:		
Property, plant and equipment purchases	$ 550,574	$ 5,000
Curricular design	50,746	3,013
Horizons	353,163	272,466
Other	11,367	14,993
Scholarship award	164,879	28,808
Financial aid	45,081	134,187
Endowment spending draw used for financial aid and scholarships	1,038,640	852,518
Program initiatives	68,710	8,591
	$ 2,283,160	$ 1,319,576

(14) Endowment funds

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the School to retain as a fund of perpetual duration. These deficiencies generally result from unfavorable market fluctuations that occur shortly after the investment of new endowment fund contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2022 or 2021.

Spending policy

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

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

Investment return objective, risk parameters and strategies

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

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

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

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

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

- **Total cash funds to not exceed 10%.**
- **Between 30-50% investment in fixed income securities with a portion in cash equivalents as determined appropriate by the investment subcommittee and/or finance committee.**
- **Between 50-70% investment in real estate, private equity and hedge funds.**

A summary of endowment asset composition by type of fund as of June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 5,109,801	$ -	$ 5,109,801
Donor-restricted	-	28,384,749	28,384,749
Total	$ 5,109,801	$ 28,384,749	$ 33,494,550

A summary of endowment asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 5,533,970	$ -	$ 5,533,970
Donor-restricted	-	30,897,649	30,897,649
Total	$ 5,533,970	$ 30,897,649	$ 36,431,619

Changes in endowment net assets for the fiscal years ended June 30, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	$ 4,147,682	$ 23,100,523	$ 27,248,205
Contributions	-	2,900,163	2,900,163
Investment return	1,551,975	5,749,481	7,301,456
Amounts appropriated for expenditures	(165,687)	(852,518)	(1,018,205)
Endowment net assets, June 30, 2021	5,533,970	30,897,649	36,431,619
Contributions	-	2,592,823	2,592,823
Investment return	(249,810)	(4,067,083)	(4,316,893)
Amounts appropriated for expenditures	(174,359)	(1,038,640)	(1,212,999)
Endowment net assets, June 30, 2022	$ 5,109,801	$ 28,384,749	$ 33,494,550

(15) Lease commitments

The School leases student computers, office computers and maintenance equipment under operating leases. Rent expense under these leases amounted to approximately $51,000 and $80,000 in 2022 and 2021, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2022 is as follows:

Year ending June 30	Amount
2023	$ 61,200
2024	31,100
2025	2,200
2026	1,900
	$ 96,400

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 2022.

(16) 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.