

UNIVERSITY SCHOOL OF NASHVILLE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

UNIVERSITY SCHOOL OF NASHVILLE

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
University School of Nashville:

We have audited the accompanying statements of financial position of the University School of Nashville (the "School") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University School of Nashville as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan & Cain P.C.

Brentwood, Tennessee
November 4, 2011

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Financial Position

June 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,508,399	\$ 2,523,959
Investments	3,724,282	3,387,023
Tuition and pledges receivable, net	1,029,061	195,658
Prepaid expenses	4,198	1,737
Inventories	127,114	118,305
Property, buildings and equipment, net	20,103,910	19,891,484
Permanently restricted investments	8,406,652	6,874,897
Other assets	<u>348,022</u>	<u>311,107</u>
	<u>\$ 37,251,638</u>	<u>\$ 33,304,170</u>

Liabilities and Net Assets

Accounts payable	\$ 354,912	\$ 226,387
Accrued salaries and related benefits	1,028,624	938,490
Other accrued liabilities	497,651	97,931
Enrollment deposits	105,810	82,460
Deferred tuition revenue	568,153	517,456
Long-term debt	2,760,000	2,760,000
Obligation under interest rate swap	<u>190,508</u>	<u>228,047</u>
Total liabilities	<u>5,505,658</u>	<u>4,850,771</u>

Net assets:

Unrestricted:

Undesignated	1,437,953	1,240,970
Designated - quasi-endowment fund	1,221,816	857,034
Designated - campaign resources	113,734	91,418
Designated - debt repayment	279,708	28,908
Designated - plant reserve	1,032,006	1,284,575
Designated - plant improvement	743,321	450,000
Designated - technology replacement	18,692	-
Designated - invested plant	17,216,866	16,972,627
Designated - employee benefits	150,000	150,000
Designated - USN Association	<u>125,020</u>	<u>112,392</u>

Total unrestricted	22,339,116	21,187,924
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Temporarily restricted	2,255,464	390,578
Permanently restricted	<u>7,151,400</u>	<u>6,874,897</u>

Total net assets	<u>31,745,980</u>	<u>28,453,399</u>
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	<u>\$ 37,251,638</u>	<u>\$ 33,304,170</u>
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See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in net assets:				
Support and revenues:				
Tuition and fees, net of financial aid, scholarships, and tuition remission totaling \$1,847,124	\$ 15,992,878	\$ -	\$ -	\$ 15,992,878
Ancillary programs	1,375,807	-	-	1,375,807
Contributions	1,107,015	1,139,084	199,770	2,445,869
USN Association fundraising	338,628	15,641	40,351	394,620
Investment income	326,549	1,282,733	20,008	1,629,290
Gain on hedging activity, net	37,539	-	-	37,539
Other income	31,608	-	-	31,608
Net assets released from restrictions	<u>556,198</u>	<u>(572,572)</u>	<u>16,374</u>	<u>-</u>
Total public support and revenue	<u>19,766,222</u>	<u>1,864,886</u>	<u>276,503</u>	<u>21,907,611</u>
Operating expenses:				
Program services:				
Instruction and student activities	10,323,740	-	-	10,323,740
Ancillary programs	1,268,144	-	-	1,268,144
Buildings, grounds and vehicle expense	2,537,139	-	-	2,537,139
Depreciation and amortization	1,378,280	-	-	1,378,280
Interest	<u>124,011</u>	<u>-</u>	<u>-</u>	<u>124,011</u>
Total program services	<u>15,631,314</u>	<u>-</u>	<u>-</u>	<u>15,631,314</u>
Supporting services:				
General administration	1,978,199	-	-	1,978,199
Development, alumni and communications	726,515	-	-	726,515
USN Association activities and fundraising expense	<u>279,002</u>	<u>-</u>	<u>-</u>	<u>279,002</u>
Total supporting services	<u>2,983,716</u>	<u>-</u>	<u>-</u>	<u>2,983,716</u>
Total expenses	<u>18,615,030</u>	<u>-</u>	<u>-</u>	<u>18,615,030</u>
Change in net assets	1,151,192	1,864,886	276,503	3,292,581
Net assets at beginning of year	<u>21,187,924</u>	<u>390,578</u>	<u>6,874,897</u>	<u>28,453,399</u>
Net assets at end of year	<u>\$ 22,339,116</u>	<u>\$ 2,255,464</u>	<u>\$ 7,151,400</u>	<u>\$ 31,745,980</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in net assets:				
Support and revenues:				
Tuition and fees, net of financial aid, scholarships, and tuition remission totaling \$1,786,649	\$ 15,262,992	\$ -	\$ -	\$ 15,262,992
Ancillary programs	1,158,255	-	-	1,158,255
Contributions	1,002,027	199,121	123,589	1,324,737
USN Association fundraising	315,737	15,018	53,489	384,244
Investment income	202,459	718,700	-	921,159
Loss on hedging activity, net	(32,515)	-	-	(32,515)
Other income	13,742	-	-	13,742
Net assets released from restrictions	<u>659,566</u>	<u>(659,566)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>18,582,263</u>	<u>273,273</u>	<u>177,078</u>	<u>19,032,614</u>
Operating expenses:				
Program services:				
Instruction and student activities	10,107,073	-	-	10,107,073
Ancillary programs	1,106,585	-	-	1,106,585
Buildings, grounds and vehicle expense	2,407,791	-	-	2,407,791
Depreciation and amortization	1,363,998	-	-	1,363,998
Interest	<u>142,653</u>	<u>-</u>	<u>-</u>	<u>142,653</u>
Total program services	<u>15,128,100</u>	<u>-</u>	<u>-</u>	<u>15,128,100</u>
Supporting services:				
General administration	2,059,346	-	-	2,059,346
Development, alumni and communications	664,984	-	-	664,984
USN Association activities and fundraising expense	<u>263,442</u>	<u>-</u>	<u>-</u>	<u>263,442</u>
Total supporting services	<u>2,987,772</u>	<u>-</u>	<u>-</u>	<u>2,987,772</u>
Total expenses	<u>18,115,872</u>	<u>-</u>	<u>-</u>	<u>18,115,872</u>
Change in net assets	466,391	273,273	177,078	916,742
Net assets at beginning of year	<u>20,721,533</u>	<u>117,305</u>	<u>6,697,819</u>	<u>27,536,657</u>
Net assets at end of year	<u>\$ 21,187,924</u>	<u>\$ 390,578</u>	<u>\$ 6,874,897</u>	<u>\$ 28,453,399</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>3,292,581</u>	\$ <u>916,742</u>
Adjustments to reconcile increase in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,378,280	1,363,998
Bad debt expense	42,975	45,352
Loss on disposal of equipment	1,662	20,513
Change in cash value of life insurance policy	(20,009)	(37,165)
Net gain on investments	(1,398,783)	(690,331)
(Gain) loss on hedging activity	(37,539)	32,514
Contributions permanently restricted for investment in endowment	(276,503)	(177,078)
 (Increase) decrease in operating assets:		
Tuition and pledges receivable	(876,378)	(17,394)
Prepaid expenses	(2,461)	10,318
Inventories	(8,809)	(7,920)
Other assets	(42,641)	(22,134)
 Increase (decrease) in operating liabilities:		
Accounts payable	128,525	14,075
Accrued salaries and related benefits	90,134	78,036
Other accrued liabilities	399,720	(38,426)
Enrollment deposits	23,350	(9,770)
Deferred tuition revenue	<u>50,697</u>	<u>60,489</u>
 Total adjustments	<u>(547,780)</u>	<u>625,077</u>
 Net cash provided by operating activities	<u>2,744,801</u>	<u>1,541,819</u>
 Cash flows from investing activities:		
Purchases of buildings and equipment	(1,586,642)	(543,058)
Proceeds from sale of investments	431,101	422,639
Purchases of investments	<u>(881,323)</u>	<u>(678,313)</u>
 Net cash used by investing activities	<u>(2,036,864)</u>	<u>(798,732)</u>
 Cash flows from financing activities:		
Proceeds from contributions for investment in endowment	276,503	177,078
Payments of long-term debt	<u>-</u>	<u>(350,000)</u>
 Net cash provided (used) by financing activities	<u>276,503</u>	<u>(172,922)</u>
 Increase in cash and cash equivalents	984,440	570,165
 Cash and cash equivalents at beginning of year	<u>2,523,959</u>	<u>1,953,794</u>
 Cash and cash equivalents at end of year	\$ <u>3,508,399</u>	\$ <u>2,523,959</u>

See accompanying notes to the financial statements.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(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* ("ASC 958"), 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 does 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.

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

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

Plant reserve, plant improvement, and technology replacement - unrestricted net assets designated for future facility, technology improvements, and maintenance.

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

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

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

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Temporarily restricted:

These contributions are restricted by the donor for a specific purpose. These restrictions include but are not limited to the Morgan Foundation Lower School Faculty Development, the library book fund, and pledges restricted for renovation of the cafeteria.

Permanently restricted endowment market gains and losses - 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 that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

(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 in marketable securities and other equity interests with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investments in real estate investment funds, hedge funds and private equity funds are stated at their estimated fair values as reported by Diversified Trust Company.

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 that is 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. All other donor-restricted investment income is reported as an increase in temporarily restricted net assets depending on the nature of the restrictions.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(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 amount that ultimately will be realized. 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 \$42,975 and \$45,352 in 2011 and 2010, respectively.

(e) Pledges receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that 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. Net pledge receivables amounted to \$887,191 and \$49,352 in 2011 and 2010, 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) Loan costs

Loan costs are amortized on a straight-line basis over the scheduled repayment period of the related debt and are included in other assets in the statement of financial position. Unamortized loan costs amounted to \$63,463 and \$69,189 at June 30, 2011 and 2010, respectively. Amortization expense amounted to \$5,726 in 2011 and 2010 and is scheduled to be \$5,726 in each of the next 12 years and \$500 thereafter when the loan costs are fully amortized.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(i) Deferred tuition revenue

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

(j) Enrollment deposits

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.

(k) 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.

(l) Accounting for derivatives

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

(m) Tuition and ancillary program revenue recognition

Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered during the school year which generally runs from August to June. Deposits received for tuition for subsequent school years and enrollment deposits made by new incoming students are recorded as deferred revenue until earned.

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.

(n) Financial aid, scholarships and tuition remission

Tuition and fees that reflect the School's normal tuition charges and additional fees for all students 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.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(o) 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 that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The School reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

(p) Income taxes

The School is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, 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" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is 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, 2011, 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. The School is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2007.

(q) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(r) Use of estimates

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

(s) Events occurring after reporting date

The School has evaluated events and transactions that occurred between June 30, 2011 and November 4, 2011 which is the date that 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

Financial instruments that potentially subject the School to concentrations of credit risk consist of cash balances, certificates of deposit, money market accounts and investments.

Cash balances are maintained at two financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC). The federally insured limits have temporarily been increased from \$100,000 to \$250,000 per depositor through December 31, 2013. The aggregate balances per bank exceeded the FDIC limit by approximately \$3,000,000 and \$2,200,000 at June 30, 2011 and 2010, respectively.

The School also maintains investment balances at various brokerage and investment companies. These investments consist of cash and various stocks, bonds, real estate and hedge funds. Generally, they are not insured by the FDIC or any other government agency and are subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation (SIPC). SIPC covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

The School serves students from Nashville and surrounding communities. Accordingly, substantially all pledges and tuition receivables are due from residents of those communities.

(4) Fair value measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That 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:

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

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 that are 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 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, 2011 and 2010.

- (i) *Marketable equity securities, corporate bonds and government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.
- (ii) *Mutual and fixed income 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.
- (iii) *Hedge funds:* The School invests in a fund that uses derivative financial instruments to hedge against adverse changes in interest rates and foreign exchange rates. The underlying investments of the derivative fund are valued by the trustee/custodian based on the last prior sales price on the principal board of trade or other contracts market or by quotations from the contra party bank.
- (iv) *Private equity investment funds:* 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.
- (v) *Life insurance policies:* Valued at the cash value of the underlying insurance policies.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

- (vi) *Interest rate swaps:* The fair values of interest rate swaps are 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, 2011 and 2010:

Fair Value Measurements as of June 30, 2011 using the following inputs				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities:				
Growth	\$ 3,608,518	\$ -	\$ -	\$ 3,608,518
International	<u>2,986,545</u>	<u>-</u>	<u>-</u>	<u>2,986,545</u>
Total equity securities	6,595,063	-	-	6,595,063
Bonds and fixed income funds:				
Cash	75,987	-	-	75,987
Asset-backed	519,058	-	-	519,058
Corporate-backed	1,433,878	-	-	1,433,878
Mortgage-backed	895,103	-	-	895,103
International government	317,506	-	-	317,506
U.S. government	<u>388,967</u>	<u>-</u>	<u>-</u>	<u>388,967</u>
Total fixed income funds	3,630,499	-	-	3,630,499
Money market funds	1,630,850	-	-	1,630,850
Private equity investment funds	-	-	184,620	184,620
Hedge fund residual	-	-	16,354	16,354
Cash value of life insurance	<u>-</u>	<u>73,548</u>	<u>-</u>	<u>73,548</u>
Total investments	<u>\$ 11,856,412</u>	<u>\$ 73,548</u>	<u>\$ 200,974</u>	<u>\$ 12,130,934</u>
Obligation under interest rate swap				
	<u>\$ -</u>	<u>\$ (190,508)</u>	<u>\$ -</u>	<u>\$ (190,508)</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Fair Value Measurements as of June 30, 2010 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities:				
Growth	\$ 2,799,173	\$ -	\$ -	\$ 2,799,173
International	<u>1,745,337</u>	<u>-</u>	<u>-</u>	<u>1,745,337</u>
Total equity securities	4,544,510	-	-	4,544,510
Bonds and fixed income funds:				
Cash	92,531	-	-	92,531
Asset-backed	789,533	-	-	789,533
Corporate-backed	1,407,764	-	-	1,407,764
Mortgage-backed	183,273	-	-	183,273
International government	793,160	-	-	793,160
U.S. government	<u>400,621</u>	<u>-</u>	<u>-</u>	<u>400,621</u>
Total fixed income funds	3,666,882	-	-	3,666,882
Money market funds	1,564,335	-	-	1,564,335
Real estate investment funds	267,324	-	-	267,324
Private equity funds	-	-	148,995	148,995
Hedge fund residual	-	-	16,335	16,335
Cash value of life insurance	<u>-</u>	<u>53,539</u>	<u>-</u>	<u>53,539</u>
Total investments	\$ <u>10,043,051</u>	\$ <u>53,539</u>	\$ <u>165,330</u>	\$ <u>10,261,920</u>
Obligation under interest rate swap	\$ <u>-</u>	\$ <u>(228,047)</u>	\$ <u>-</u>	\$ <u>(228,047)</u>

Investments above are included in the statement of financial position at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Investments	\$ 3,724,282	\$ 3,387,023
Permanently restricted investments	<u>8,406,652</u>	<u>6,874,897</u>
Total investments	\$ <u>12,130,934</u>	\$ <u>10,261,920</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

The following table provides a summary of changes in fair value of the Plan's Level 3 assets for the years ended June 30, 2011 and 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Hedge Fund Residual	Private Equity Investment	Total
Balance at June 30, 2009	\$ 85,551	\$ 97,500	\$ 183,051
Realized gains (losses)	-	-	-
Unrealized gains (losses) relating to instruments still held at the reporting date	-	23,995	23,995
Purchases, sales, issuances and settlements, net	<u>(69,216)</u>	<u>27,500</u>	<u>(41,716)</u>
Balance at June 30, 2010	16,335	148,995	165,330
Realized gains (losses)	-	-	-
Unrealized gains (losses) relating to instruments still held at the reporting date	19	35,625	35,644
Purchases, sales, issuances and settlements, net	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2011	\$ <u>16,354</u>	\$ <u>184,620</u>	\$ <u>200,974</u>

(5) Investments and investment income

A summary of investments as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
US and international equities	\$ 6,595,063	\$ 4,544,510
Bonds and fixed income funds	3,630,499	3,666,882
Money market funds	1,630,850	1,564,335
Real estate funds	-	267,324
Private equity funds	184,620	148,995
Hedge funds	16,354	16,335
Cash value of life insurance	<u>73,548</u>	<u>53,539</u>
	\$ <u>12,130,934</u>	\$ <u>10,261,920</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Investments are components of the following net asset groups at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unrestricted:		
Designated for quasi-endowment	\$ 1,221,816	\$ 857,034
Other	<u>2,502,467</u>	<u>2,262,156</u>
Total unrestricted	3,724,283	3,119,190
Temporarily restricted	1,255,251	267,833
Permanently restricted	<u>7,151,400</u>	<u>6,874,897</u>
	<u>\$ 12,130,934</u>	<u>\$ 10,261,920</u>

The following schedule summarizes the investment income included in the statements of activities and changes in net assets for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 230,507	\$ 230,828
Net gain on investments	<u>1,398,783</u>	<u>690,331</u>
	<u>\$ 1,629,290</u>	<u>\$ 921,159</u>

The majority of the investment holdings can be liquidated within 30 days or less. At June 30, 2011 and 2010, liquidity restrictions for 0.1% and 0.2% of the total investment holdings, respectively, permit exit on the last day of each quarter with advance notification of at least 60 days prior to the beginning of the quarter, based on the market value of the School's interest at the date redeemed. In addition, 1.5% of the investment holdings as of June 30, 2011 and 2010, represent capital committed to a private equity fund and cannot be liquidated at the School's discretion. The School invests in a private equity fund that requires capital contributions. At June 30, 2011, the School has commitments to contribute \$80,000 during the next five years to this fund when such calls are made for capital by the fund manager.

(6) Tuition and pledges receivable

A summary of tuition and pledges receivable at June 30, 2011 and 2010 is as follows:

Tuition and other	\$ 253,070	\$ 243,744
Pledges receivable	927,747	49,465
Other receivables	<u>36,430</u>	<u>23,072</u>
	1,217,247	316,281
Less:		
Allowance for uncollectible accounts	(147,630)	(120,623)
Discount on pledge receivables	<u>(40,556)</u>	<u>-</u>
Net tuition and pledges receivable	<u>\$ 1,029,061</u>	<u>\$ 195,658</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

The discount rate used to determine the present value of pledge contributions made for 2011 is 3.51% and totaled \$40,556 at June 30, 2011.

Gross pledge contributions scheduled to be received as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 274,667	\$ 49,465
Receivable in one to five years	<u>653,080</u>	<u>-</u>
	<u>\$ 927,747</u>	<u>\$ 49,465</u>

(7) Buildings and equipment

Buildings and equipment at June 30, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,814,767	\$ 2,814,767
Buildings and improvements	27,397,002	26,636,511
Equipment	4,802,543	4,379,000
Construction in progress	<u>504,295</u>	<u>219,276</u>
	35,518,607	34,049,554
Accumulated depreciation	<u>(15,414,697)</u>	<u>(14,158,070)</u>
Property and equipment, net	<u>\$ 20,103,910</u>	<u>\$ 19,891,484</u>

At June 30, 2011, the School had construction contracts related to the facilities mentioned above. These contracts, totaling approximately \$1,363,000, are to be paid at various stages of completion through fiscal year 2011.

The School has retainage related to construction projects of approximately \$10,000 at June 30, 2011 which is included in accounts payable.

(8) Long term debt

On August 19, 2002, the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County (the "IDB") issued \$8,000,000 of twenty-year Educational Facilities Revenue Refunding and Improvement Bonds (the "Bonds"). Net proceeds of the bond issue were loaned to the School to refinance outstanding debt and to finance the acquisition, construction and equipping of improvements to the campus. The note is secured by an irrevocable direct-pay Letter of Credit. Payments of interest only are due monthly, with scheduled principal payments due through August 2022. The Bonds may be prepaid without penalty. During 2010, the School prepaid \$350,000 of the Bonds which, in accordance with the applicable loan agreement, eliminated the scheduled principal maturities through 2019. No payments were made during 2011.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

A summary of future maturities of long-term debt as of June 30, 2011 is as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 90,000
2020	845,000
2021	890,000
2022	<u>935,000</u>
	<u>\$ 2,760,000</u>

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

The School has entered into an interest rate swap agreement with a bank for the purpose of hedging its interest rate risk on its outstanding bond issue and fixing the interest rate at 3.51%. The fair value of the School's swap obligation amounted to \$190,508 and \$228,047 at June 30, 2011 and 2010, respectively. The swap agreement terminates in August 2017, has an original notional amount of \$3,950,000 and a current notional amount of \$2,409,000 at June 30, 2011.

(9) Retirement and deferred compensation plans

The School sponsors a defined contribution retirement plan covering all full-time employees. The School makes matching contributions to the plan based on the employees' participation election, up to 5% of each participant's salary. The School's policy is to fund retirement costs accrued. Total expense recognized by the School under the plan amounted to \$424,527 and \$414,478 for the years ended June 30, 2011 and 2010, respectively.

Effective June 30, 2004, the School entered into a deferred compensation arrangement with its Director. The arrangement consists of an eligible plan under Section 457(b) of the Code, and an ineligible plan under Section 457(f) of the Code. Eligible plan contributions vest when made; ineligible plan contributions and related earnings vest only if the director's employment term continues through age 62.

The School has also entered into a similar arrangement with another key employee. This plan qualifies as an eligible plan under Section 457(b) of the Code. Contributions to this plan vest when made, provided the employee remains a full-time employee of the School.

The assets in these plans are held by the School, subject to the claims of its general creditors. As of June 30, 2011 and 2010, assets of \$284,559 and \$241,917, respectively, are included in other assets on the statement of financial position and are reported based on the current fair value of the underlying investments. Related liabilities, adjusted each year to the amount of the vested and unvested balance, of \$284,559 and \$241,917 are included in accrued salaries and related benefits with the corresponding expense recognized in general administration for the years ended June 30, 2011 and 2010, respectively.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Total deferred compensation charged to expense amounted to \$33,000 and \$81,048 for the years ended June 30, 2011 and 2010, respectively.

(10) USN Association

The USN Association is a service organization whose accounts and operations are included in the financial statements of the School. The Association's sole mission is to enhance the educational experience of the School's students by supporting the School with needed resources. A summary of the activity of the USN Association follows for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
USN Association revenue	\$ <u>394,620</u>	\$ <u>384,244</u>
USN Association expenses:		
Fundraising expenses	258,889	238,485
Association activities	<u>20,113</u>	<u>24,957</u>
Total USN Association expenses	<u>279,002</u>	<u>263,442</u>
Transfers to the school		
Purchase of fixed assets	(12,000)	-
Purchase of athletic equipment- flood	(15,000)	-
Operating contribution	(20,000)	(20,000)
Proceeds from used book sale	(15,640)	(15,020)
Proceeds from Artclectic - to endowment	(27,161)	(28,641)
Proceeds from evening classes - to endowment	<u>(13,189)</u>	<u>(24,845)</u>
Total transfers to the school	(102,990)	(88,506)
Change in USN Association assets	12,628	32,296
Designated USN Association - beginning of year	<u>112,392</u>	<u>80,096</u>
Designated USN Association - end of year	\$ <u>125,020</u>	\$ <u>112,392</u>

(11) Net assets

Temporarily restricted net assets as of June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Endowment	\$ 1,255,251	\$ 267,833
Other	<u>1,000,213</u>	<u>122,745</u>
	\$ <u>2,255,464</u>	\$ <u>390,578</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Permanently restricted net assets are held in perpetuity with the income from assets expendable to provide financial aid and scholarships.

(12) Net assets released from restrictions

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

	<u>2011</u>	<u>2010</u>
Purpose restriction accomplished:		
Property, plant and equipment purchases	\$ 198,439	\$ 137,243
Purchased life insurance policy	18,537	18,537
Library books	94	27,046
Other	8,475	9,269
Scholarship award	43,236	16,665
Faculty professional development award	8,417	-
Restore endowment deficiency	-	199,366
Endowment spending rate (portion from temporarily restricted)	<u>279,000</u>	<u>251,440</u>
	<u>\$ 556,198</u>	<u>\$ 659,566</u>

During 2010, the School corrected the classification of the cash value of life insurance policies restricted to the endowment by the donor from temporarily restricted to permanently restricted. Net assets reclassified as of June 30, 2010 amounted to \$37,165 and is included in contributions on the statement of activities.

(13) Endowment funds

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

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

As prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), 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 UPMIFA. In accordance with UPMIFA, 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 that the donor or UPMIFA 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, 2011 or 2010.

Spending policy

The School has a policy of appropriating for distribution each year 3.5% 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.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

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, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated	\$ 1,221,816	\$ 1,255,251	\$ -	\$ 2,477,067
Donor-restricted	<u>-</u>	<u>-</u>	<u>7,151,400</u>	<u>7,151,400</u>
Total	<u>\$ 1,221,816</u>	<u>\$ 1,255,251</u>	<u>\$ 7,151,400</u>	<u>\$ 9,628,467</u>

A summary of endowment asset composition by type of fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated	\$ 857,034	\$ 267,893	\$ -	\$ 1,124,927
Donor-restricted	<u>-</u>	<u>-</u>	<u>6,874,897</u>	<u>6,874,897</u>
Total	<u>\$ 857,034</u>	<u>\$ 267,893</u>	<u>\$ 6,874,897</u>	<u>\$ 7,999,824</u>

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ 476,604	\$ -	\$ 6,697,819	\$ 7,174,423
Contributions	125,000	-	177,078	302,078
Realized and unrealized loss	79,624	718,699	-	798,323
Reimburse endowment deficiency	199,366	(199,366)	-	-
Amounts appropriated for expenditures	<u>(23,560)</u>	<u>(251,440)</u>	<u>-</u>	<u>(275,000)</u>
Endowment net assets, June 30, 2010	857,034	267,893	6,874,897	7,999,824
Contributions	250,000	-	276,503	526,503
Realized and unrealized gain	141,782	1,282,732	-	1,424,514
Amounts appropriated for expenditures	<u>(27,000)</u>	<u>(295,374)</u>	<u>-</u>	<u>(322,374)</u>
Endowment net assets, June 30, 2011	\$ <u>1,221,816</u>	\$ <u>1,255,251</u>	\$ <u>7,151,400</u>	\$ <u>9,628,467</u>

(14) Lease commitments

The School leases various office equipment under operating leases. Rent expense under these leases amounted to approximately \$40,000 in 2011 and 2010.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2011 is as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2012	\$ 35,000
2013	24,000
2014	<u>12,000</u>
	\$ <u>71,000</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2011.

(15) Related party transactions

The School may receive pledges and, on occasion, purchase goods or services from individuals, companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees.

UNIVERSITY SCHOOL OF NASHVILLE

Notes to the Financial Statements

June 30, 2011 and 2010

(16) Supplemental disclosures of cash flow statement information

	<u>2011</u>	<u>2010</u>
Interest paid	\$ <u>124,011</u>	\$ <u>142,653</u>