

UNIVERSITY SCHOOL OF NASHVILLE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008

UNIVERSITY SCHOOL OF NASHVILLE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
University School of Nashville
Nashville, Tennessee

We have audited the accompanying statements of financial position of the University School of Nashville (the "School"), a Tennessee not-for-profit corporation, as of June 30, 2008 and 2007, the related statement of activities for the year ended June 30, 2008, and the statements of cash flows for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information in the statement of activities has been derived from the School's June 30, 2007 financial statements and, in our report dated January 14, 2008, we expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University School of Nashville as of June 30, 2008 and 2007, the changes in its net assets for the year ended June 30, 2008, and its cash flows for the years ended June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
November 21, 2008

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 3	\$ 2,809,838	\$ 2,780,813
Investments - Note 4	3,949,595	4,321,969
Receivables, net - Note 5	206,194	427,370
Inventories	112,825	105,712
Prepaid expenses	8,119	41,833
Interest rate swap asset - Note 7	-	20,616
Property, buildings and equipment - at cost, less accumulated depreciation - Note 6	21,279,048	21,679,248
Other assets	324,379	279,014
Permanently restricted investments - Note 4	<u>6,555,547</u>	<u>6,370,595</u>
TOTAL ASSETS	<u>\$ 35,245,545</u>	<u>\$ 36,027,170</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 288,983	\$ 187,503
Accrued salaries and related benefits	1,312,061	1,023,516
Other accrued liabilities	135,488	161,968
Enrollment deposits	73,543	96,475
Deferred tuition revenue	452,921	476,068
Obligation under interest rate swap - Note 7	99,115	-
Note payable - Note 7	<u>3,450,000</u>	<u>3,950,000</u>
TOTAL LIABILITIES	<u>5,812,111</u>	<u>5,895,530</u>
COMMITMENTS - Notes 8 and 11		
NET ASSETS		
Unrestricted:		
Undesignated	677,100	500,000
Designated - quasi-endowment fund	2,010,069	2,570,080
Designated - USN Association	104,089	45,954
Designated - campaign resources	91,418	100,000
Designated - debt repayment	543,561	1,043,562
Designated - deferred compensation	81,602	73,396
Designated - plant reserve	1,411,388	1,352,874
Designated - invested plant	<u>17,810,573</u>	<u>17,836,315</u>
Total Unrestricted	22,729,800	23,522,181
Temporarily restricted	91,189	223,182
Permanently restricted	<u>6,612,445</u>	<u>6,386,277</u>
TOTAL NET ASSETS	<u>29,433,434</u>	<u>30,131,640</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,245,545</u>	<u>\$ 36,027,170</u>

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2008	2007
SUPPORT AND REVENUE					
Gross tuition and fees	\$ 15,050,335	\$ -	\$ -	\$ 15,050,335	\$ 14,142,009
Less: Financial aid, scholarships and tuition remission	(1,549,164)	-	-	(1,549,164)	(1,394,394)
Net tuition revenue	13,501,171	-	-	13,501,171	12,747,615
Ancillary programs: after-school, bookstore, café and camps	1,205,676	-	-	1,205,676	1,057,246
Contributions	1,095,810	213,208	148,615	1,457,633	1,300,041
USN Association fundraising - Note 10	456,205	12,932	35,336	504,473	474,574
Investment earnings (loss) - Note 4	(110,869)	-	-	(110,869)	1,570,784
Loss on hedging activity - net - Note 7	(119,731)	-	-	(119,731)	(48,193)
Other income (expense) - net	(604)	-	-	(604)	(5,916)
Net assets released in satisfaction of purpose restrictions - Note 9	315,916	(358,133)	42,217	-	-
TOTAL SUPPORT AND REVENUE	16,343,574	(131,993)	226,168	16,437,749	17,096,151
EXPENSES					
Program services:					
Instruction and student activities	9,463,246	-	-	9,463,246	8,830,030
Ancillary programs: after-school, bookstore, café and camps	1,121,339	-	-	1,121,339	920,123
Buildings, grounds and vehicle expense	2,407,615	-	-	2,407,615	2,242,006
Depreciation and amortization	1,373,151	-	-	1,373,151	1,398,516
Interest	161,127	-	-	161,127	155,308
Total program services	14,526,478	-	-	14,526,478	13,545,983
Supporting services:					
General administration	1,735,438	-	-	1,735,438	1,523,226
Development, alumni and communications	521,637	-	-	521,637	449,564
USN Association activities and fundraising expense - Note 10	352,402	-	-	352,402	364,240
Total supporting services	2,609,477	-	-	2,609,477	2,337,030
TOTAL EXPENSES	17,135,955	-	-	17,135,955	15,883,013
CHANGE IN NET ASSETS	(792,381)	(131,993)	226,168	(698,206)	1,213,138
NET ASSETS - BEGINNING OF YEAR	23,522,181	223,182	6,386,277	30,131,640	28,918,502
NET ASSETS - END OF YEAR	\$ 22,729,800	\$ 91,189	\$ 6,612,445	\$ 29,433,434	\$ 30,131,640

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (698,206)	\$ 1,213,138
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,373,151	1,398,516
Investment (gains) losses - net	322,273	(1,302,471)
Loss on disposal of property, buildings and equipment	-	26,960
Loss on hedging activity - net	119,731	44,973
(Increase) decrease in:		
Receivables	(83,805)	19,756
Inventories	(7,113)	2,176
Prepaid expenses	33,714	(25,610)
Other	(1,175)	(10,655)
Increase (decrease) in:		
Accounts payable	101,480	50,036
Accrued salaries and related benefits	288,545	17,635
Other accrued liabilities	(26,480)	(2,594)
Enrollment deposits	(22,932)	28,875
Deferred tuition revenue	(23,147)	208,465
Contributions permanently restricted for investment in endowment and other	(183,951)	(236,818)
TOTAL ADJUSTMENTS	<u>1,890,291</u>	<u>219,244</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,192,085</u>	<u>1,432,382</u>
INVESTING ACTIVITIES		
Additions to property, buildings and equipment	(967,141)	(715,446)
Purchase of investments	(134,851)	(269,069)
Proceeds from sale of portion of interest rate swap	-	3,220
Deposits to deferred compensation accounts	(50,000)	(50,000)
(Increase) decrease in permanently restricted cash	<u>-</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,151,992)</u>	<u>(1,031,295)</u>
FINANCING ACTIVITIES		
Proceeds from contributions for:		
Investment in endowment and other	183,951	236,818
Investment in property, buildings and equipment	<u>304,981</u>	<u>734,452</u>
	488,932	971,270
Other financing activities:		
Payments on note payable	<u>(500,000)</u>	<u>(1,000,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(11,068)</u>	<u>(28,730)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	29,025	372,357
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,780,813</u>	<u>2,408,456</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,809,838</u>	<u>\$ 2,780,813</u>

(Continued on next page)

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid for the year	\$ 163,570	\$ 159,111

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - GENERAL

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The School follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, as follows:

- Unrestricted:

Undesignated - includes unrestricted resources and represents expendable funds available for support of School operations.

Board Designations:

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Temporarily restricted:

Lower School Faculty Development - includes contributions from the Morgan Foundation restricted for faculty development of lower school teachers.

McMullen Memorial Scholarship - includes contributions restricted for awarding two scholarships annually to rising seniors who demonstrate leadership. Scholarships are used to fund USN tuition or college tuition upon graduation.

Other - small gifts restricted for specific purposes.

- Permanently restricted:

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

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Tax Status

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

Use of Estimates in the Preparation of Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

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

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

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

Property, Buildings and Equipment

Property, buildings and equipment are reported at cost. Depreciation is provided under the straight-line method based on estimated service lives of 3 to 10 years for equipment and 10 to 30 years for buildings and improvements. Expenditures for major additions and improvements are capitalized. Costs of maintenance and repairs are charged to operations as incurred. All depreciation expense and costs of maintenance and repairs are classified under program services, since the amounts applicable to supporting services are considered insignificant.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts represents the School administration's estimate of the amount necessary to provide for potential uncollectible accounts. 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 \$44,116 and \$5,000 in 2008 and 2007, respectively.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances at several financial institutions including SunTrust Bank and Regions Bank. All accounts held by the School earn interest either through bank money market accounts or investment in government securities and highest rated corporate securities and commercial paper.

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 and hedge funds are reported at their estimated fair values as reported by Diversified Trust Company. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

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

Promises to Give

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

Inventories

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

Accounting for Derivatives

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Costs

Loan costs are capitalized and amortized by the straight-line method over the life of the loan. Unamortized loan costs amounted to \$80,641 and \$86,451 at June 30, 2008 and 2007, respectively. Amortization expense amounted to \$5,810 and \$6,726 in 2008 and 2007, respectively.

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.

Deferred Tuition Revenue

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

Financial Aid, Scholarships and Tuition Remission

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

NOTE 3 - CONCENTRATION OF CREDIT RISK

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) up to \$100,000 for each account. The aggregate balances per bank exceeded the FDIC limit by approximately \$2,750,000 at June 30, 2008.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 4 - INVESTMENTS

Investments consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Diversified Trust Company:		
Equity funds	\$ 5,049.757	\$ 5,723,953
Bonds and fixed income funds	3,444.892	3,263,069
Real estate funds	297,404	372,008
Hedge funds	852.139	788,358
Cash and equivalents	<u>860.950</u>	<u>545,176</u>
	<u>\$10,505.142</u>	<u>\$10,692,564</u>

Investments are classified as follows as of June 30:

	<u>2008</u>	<u>2007</u>
Unrestricted:		
Designated for quasi-endowment	\$ 2,010,069	\$ 2,570,080
Other	<u>1,939,526</u>	<u>1,751,889</u>
Total unrestricted	3,949,595	4,321,969
Permanently restricted	<u>6,555,547</u>	<u>6,370,595</u>
	<u>\$10,505,142</u>	<u>\$10,692,564</u>

UNIVERSITY SCHOOL OF NASHVILLE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 4 - INVESTMENTS (CONTINUED)

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

	<u>2008</u>	<u>2007</u>
Interest on operating funds	\$ 211,404	\$ 268,313
Realized and unrealized gains (losses) on investments	<u>(322,273)</u>	<u>1,302,471</u>
Total investment earnings (loss)	<u>\$ (110,869)</u>	<u>\$ 1,570,784</u>

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the School's investments have likely incurred a significant decline in fair value since June 30, 2008.

The majority of the investment holdings can be liquidated within 30 days or less notice. At June 30, 2008 and 2007, liquidity restrictions for 8.1% and 7.4% 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, .9% and .4% of the investment holdings as of June 30, 2008 and 2007, respectively, represent capital committed to a private equity fund and cannot be liquidated at the School's discretion.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 5 - RECEIVABLES

Receivables consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Unrestricted:		
Tuition and other	\$ 287,574	\$ 165,864
Pledges - Capital Campaign		
Due in less than one year	22,640	554,275
Due in one to five years, net of unamortized discount of \$0 in 2008 and 2007	-	9,346
Less allowance for uncollectible accounts	<u>(104,020)</u>	<u>(306,115)</u>
	206,194	423,370
Temporarily and permanently restricted:		
Pledges - Capital Campaign		
Due in less than one year	<u>-</u>	<u>4,000</u>
Net receivables	<u>\$ 206,194</u>	<u>\$ 427,370</u>

NOTE 6 - PROPERTY, BUILDINGS AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land	\$ 2,814,767	\$ 2,814,767
Buildings and improvements	25,944,498	25,372,488
Equipment	3,871,144	4,163,999
Construction in progress	<u>181,018</u>	<u>132,207</u>
	32,811,427	32,483,461
Less accumulated depreciation	<u>11,532,379</u>	<u>10,804,213</u>
	<u>\$ 21,279,048</u>	<u>\$ 21,679,248</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 7 - NOTE PAYABLE

On August 19, 2002, the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County (the "IDB") issued \$8,000,000 of twenty-year Educational Facilities Revenue Refunding and Improvement Bonds (the "Bonds"). Net proceeds of the bond issue were loaned to the School to refinance outstanding debt and to finance the acquisition, construction and equipping of improvements to the campus, including a visual arts center, a library and all related facilities. The note is secured by an irrevocable direct-pay Letter of Credit. Payments of interest only are due monthly, with scheduled principal payments due through August 2022. The Bonds may be prepaid without penalty. During 2008, the School prepaid \$500,000 on the outstanding balance of the Bonds which, in accordance with the applicable loan agreement, eliminated the scheduled principal maturities through 2019. The next required principal payment of approximately \$780,000 is due during the June 2019 fiscal year.

On September 13, 2002, the School entered into an interest rate swap agreement that limited the interest rate risk on the note to 2.43% until August 1, 2007. On March 8, 2007, the School entered into a similar interest rate swap agreement that limits the interest rate risk on the note to 3.51% until August 1, 2017. An asset or liability equal to the fair value of the swap is reported on the statement of financial position, and the related gain or loss on hedging activity is reflected in the Statement of Activities.

The March 2007 swap's notional value was reduced from \$3,890,000 to \$3,284,000 as of June 30, 2008, at zero net consideration. During 2007, the School sold portions of the swap's notional value back to the bank on several occasions, for redemption proceeds totaling \$3,220. In September 2008, the School entered into an agreement to reduce \$234,000 of the swap's notional value.

NOTE 8 - RETIREMENT AND DEFERRED COMPENSATION PLANS

The School sponsors a defined contribution retirement plan covering all full-time employees. The School makes matching contributions to the plan based on the employees' participation election, up to 5% of each participant's salary. The School's policy is to fund retirement costs accrued. Total expense recognized by the School under the plan amounted to \$404,583 in 2008 (\$333,092 in 2007).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 8 - RETIREMENT AND DEFERRED COMPENSATION PLANS (CONTINUED)

Effective June 30, 2004, the School entered into a deferred compensation arrangement with its Director. The arrangement consists of an eligible plan under Section 457(b) of the 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 the five-year period following the contribution.

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

The assets in these plans are held by the School, subject to the claims of its general creditors. Assets are reported based on the current fair value of the underlying investments, and are included in other assets on the Statements of Financial Position (2008 - \$229,057; 2007 - \$180,882). The related liability is adjusted each year to the amount of the vested balance and included in accrued salaries and related benefits (2008 - \$147,455; 2007 - \$107,485), with the corresponding expense recognized in general administration.

Total deferred compensation charged to expense amounted to \$41,794 and \$32,136 for the years ended June 30, 2008 and 2007, respectively.

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2008</u>	<u>2007</u>
Purpose restriction accomplished:		
Property, plant and equipment purchases	\$ 213,952	\$ 10,000
Established Interlandi - Interlochen permanently restricted endowment	42,217	-
Library books	36,303	-
Other	<u>65,661</u>	<u>17,217</u>
Total	<u>\$ 358,133</u>	<u>\$ 27,217</u>

During 2008, the School received a request from a donor to change the original intent of a prior donation in order to create the Interlandi - Interlochen endowment fund. The School agreed to comply with the request, and the related temporarily restricted net assets, in the amount of \$42,217, were reclassified to permanently restricted.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 10 - USN ASSOCIATION ACTIVITY

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

	<u>2008</u>	<u>2007</u>
USN ASSOCIATION REVENUE	\$ 504,473	\$ 474,574
USN ASSOCIATION EXPENSES		
Fundraising expenses	327,519	329,447
Association activities	<u>24,883</u>	<u>34,793</u>
TOTAL USN ASSOCIATION EXPENSES	<u>352,402</u>	<u>364,240</u>
TRANSFERS TO THE SCHOOL		
Purchase of fixed assets	(25,668)	-
Payment of capital campaign pledge	-	(50,000)
Operating contribution	(20,000)	(20,000)
Proceeds from used book sale	(12,932)	(10,274)
Proceeds from music night - to EE Ford Lending Library	-	(6,379)
Proceeds from evening classes - to endowment	<u>(35,336)</u>	<u>(18,932)</u>
TOTAL TRANSFERS TO THE SCHOOL	<u>(93,936)</u>	<u>(105,585)</u>
CHANGE IN USN ASSOCIATION ASSETS	58,135	4,749
Designated USN Association - beginning of year	<u>45,954</u>	<u>41,205</u>
Designated USN Association - end of year	<u>\$ 104,089</u>	<u>\$ 45,954</u>

NOTE 11 - COMMITMENTS

At June 30, 2008, the School was obligated under a contract for renovation of the Payne Library for approximately \$400,000.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE 12 - PENDING ADOPTION OF ACCOUNTING STANDARD

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation FIN No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2007. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the School for fiscal years beginning after November 15, 2007.

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A reporting entity will report unrealized gains and losses on items for which the fair value option has been elected in the Statement of Activities at each subsequent reporting date. SFAS No. 159 is effective for the School for fiscal years beginning after November 15, 2007.

The School is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.