

Cumberland University

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

Years Ended May 31, 2011 and 2010

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## Independent Auditors' Report

The Board of Directors of  
Cumberland University

We have audited the accompanying statements of financial position of Cumberland University as of May 31, 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 University's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the University's 2010 financial statements and, in our report dated September 22, 2010, we expressed an unqualified opinion on those financial 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 Cumberland University as of May 31, 2011 and 2010, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Dempsey Vantrease & Follis, PLLC*

Lebanon, Tennessee  
October 5, 2011

Cumberland University

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Combined 2010
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,950,991	\$ 888,606	\$ 495,440	\$ 6,335,037	\$ 6,883,577
Accounts receivable, less allowance for uncollectible accounts of \$169,046 in 2011 and \$227,781 in 2010	1,476,866	-	-	1,476,866	1,207,833
Loans receivable	234,536	-	-	234,536	237,799
Pledges receivable	86,626	523,376	29,881	639,883	735,402
Inventories	404,552	-	-	404,552	367,820
Due from other funds	134,687	-	9,864	144,551	497,441
Investments at market value	1,050,087	4,005,061	4,726,522	9,781,670	8,571,502
Assets held under split-interest agreements	-	-	172,824	172,824	170,797
Deposits with trustees	59,604	-	-	59,604	39,516
Other assets	330,718	-	-	330,718	187,071
Property and equipment, net	15,839,040	-	-	15,839,040	14,024,799
<b>TOTAL ASSETS</b>	<b>\$24,567,707</b>	<b>\$5,417,043</b>	<b>\$ 5,434,531</b>	<b>\$35,419,281</b>	<b>\$32,923,557</b>
<b>LIABILITIES</b>					
Accounts payable, deposits, and accrued expenses	\$ 1,341,678	\$ -	\$ -	\$ 1,341,678	\$ 1,671,549
Deferred revenues	1,881,188	-	-	1,881,188	1,317,399
Due to other funds	12,728	131,821	-	144,549	497,441
Liabilities under split-interest agreements	-	-	143,212	143,212	164,446
Notes payable	64,684	-	-	64,684	29,129
Capital lease obligations	80,336	-	-	80,336	180,183
Bonds payable	3,362,515	-	-	3,362,515	2,398,052
Federal student loan funds	281,871	-	-	281,871	284,296
<b>TOTAL LIABILITIES</b>	<b>7,025,000</b>	<b>131,821</b>	<b>143,212</b>	<b>7,300,033</b>	<b>6,542,495</b>
<b>NET ASSETS</b>					
Unrestricted - operating	5,211,202	-	-	5,211,202	5,114,804
Unrestricted - investment in plant	12,331,505	-	-	12,331,505	11,417,435
Temporarily restricted	-	5,285,222	-	5,285,222	4,871,570
Permanently restricted	-	-	5,291,319	5,291,319	4,977,253
<b>TOTAL NET ASSETS</b>	<b>17,542,707</b>	<b>5,285,222</b>	<b>5,291,319</b>	<b>28,119,248</b>	<b>26,381,062</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$24,567,707</b>	<b>\$5,417,043</b>	<b>\$ 5,434,531</b>	<b>\$35,419,281</b>	<b>\$32,923,557</b>

See accompanying notes to financial statements.

## STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Combined 2010
<b>REVENUES, GAINS, AND RECLASSIFICATIONS</b>					
Tuition and fees	\$23,928,475	\$ -	\$ -	\$23,928,475	\$22,284,887
Less scholarships and discounts	(10,239,129)	-	-	(10,239,129)	(9,513,333)
Net tuition and fees	13,689,346	-	-	13,689,346	12,771,554
Government grants	2,236,361	-	-	2,236,361	2,088,764
Private gifts and grants	529,257	550,624	286,419	1,366,300	1,632,202
Sales and services of auxiliary enterprises	3,604,169	-	-	3,604,169	3,154,421
Investment income	566,220	672,005	-	1,238,225	925,722
Other additions	225,830	-	-	225,830	251,044
<b>TOTAL REVENUES AND GAINS</b>	20,851,183	1,222,629	286,419	22,360,231	20,823,707
Net assets released from restrictions	808,977	(808,977)	-	-	-
<b>TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS</b>	21,660,160	413,652	286,419	22,360,231	20,823,707
<b>EXPENSES:</b>					
Operating:					
Instruction	6,946,337	-	-	6,946,337	5,690,613
Academic support	571,017	-	-	571,017	467,973
Student services	4,316,588	-	-	4,316,588	4,124,435
Institutional support	3,572,216	-	-	3,572,216	3,179,090
Auxiliary enterprises	2,882,089	-	-	2,882,089	2,409,370
Government grants expended	2,236,361	-	-	2,236,361	2,088,764
Total operating	20,524,606	-	-	20,524,606	17,960,246
Non-operating:					
Interest expense	125,086	-	-	125,086	45,971
Total non-operating	125,086	-	-	125,086	45,971
Change in value of split-interest agreements	-	-	(27,647)	(27,647)	(15,699)
<b>TOTAL EXPENSES</b>	20,649,692	-	(27,647)	20,622,045	17,990,518
<b>CHANGE IN NET ASSETS</b>	1,010,468	413,652	314,066	1,738,186	2,833,189
<b>NET ASSETS, beginning of year</b>	16,532,239	4,871,570	4,977,253	26,381,062	23,547,873
<b>NET ASSETS, end of year</b>	<u>\$17,542,707</u>	<u>\$5,285,222</u>	<u>\$5,291,319</u>	<u>\$28,119,248</u>	<u>\$26,381,062</u>

## STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,738,186	\$ 2,833,188
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	956,976	923,232
Provision for bad debt	(58,735)	72,590
Non-cash property and equipment donations	-	(44,318)
Net (gains) losses on investments	(949,259)	(714,424)
Private gifts and grants restricted for long-term investment	(837,043)	(946,664)
Change in value of split-interest agreements	(23,261)	(15,699)
(Increase) decrease in:		
Inventories	(36,732)	(62,965)
Accounts receivable	(210,298)	(369,008)
Other assets	(143,647)	(95,800)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(329,871)	543,275
Federal student loan funds	(2,425)	(767)
Deferred revenues	563,789	279,676
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>667,680</b>	<b>2,402,316</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(778,702)	(779,222)
Purchase of investments	(1,617,897)	(2,296,319)
Proceeds from student loan collections	23,763	16,984
Student loans issued	(20,500)	(46,000)
Proceeds from sale and maturity of investments	1,356,988	2,085,191
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,036,348)</b>	<b>(1,019,366)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Changes in deposits with trustees	(20,090)	20,265
Proceeds on bonds payable	1,367,000	-
Payments on bonds payable	(2,395,052)	(240,000)
Proceeds on notes payable	63,000	-
Payments on notes payable	(27,445)	(16,655)
Payments on capital lease obligations	(99,847)	(118,085)
Proceeds from private gifts and grants restricted for long-term investment	932,562	1,122,448
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(179,872)</b>	<b>767,973</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(548,540)</b>	<b>2,150,923</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>6,883,577</b>	<b>4,732,654</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 6,335,037</b>	<b>\$ 6,883,577</b>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Assets acquired through debt financing	\$ 1,992,515	\$ -
Assets donated	\$ -	\$ 44,318
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 105,599	\$ 49,557

See accompanying notes to financial statements.

Cumberland University  
NOTES TO FINANCIAL STATEMENTS  
May 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Cumberland University are described below to enhance the usefulness of the financial statements to the reader.

Description of University

Cumberland University is a liberal arts university that enrolls approximately 965 full-time undergraduate, 150 part-time undergraduate, and 250 graduate students. The University is located in Lebanon, Tennessee.

Cumberland University was founded in 1842 and is a private, independent, coeducational, liberal arts institution with five undergraduate divisions, graduate degree programs, degree completion programs for working adults, and a non-credit continuing education program. The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools.

Accrual Basis

The financial statements of Cumberland University have been prepared on the accrual basis.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be filled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on the assets for general or specific purposes.

Cash and Cash Equivalents

The University considers cash equivalents to be financial instruments with maturities of three months or less, except those that are included in the endowment fund, which are accounted for as investments

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Uncollectible Accounts

The University provides an allowance for uncollectible accounts receivable based on review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. As of May 31, 2011 and 2010, the allowance for uncollectible accounts was \$169,046 and \$227,781, respectively.

Contributions

The University accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Contributions, including unconditional promises to give, are recognized as revenues in the period received.

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Donor restricted contributions whose restrictions are met in the same reporting period as the contributions are recorded as increases in unrestricted net assets.

Numerous alumni provide significant hours of volunteer services to the University throughout the year. Volunteers also provide hours of services during fund-raising campaigns. The services do not meet the criteria for recognition as contribution under Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities* and are not reflected in the accompanying financial statements.

Inventories

Inventories are stated at the lower of cost or market on the first in, first out basis.

Investments

Investments in marketable securities are stated at fair market value. Real estate investments are stated primarily at current appraised value.

Endowment Investments

It is the University's policy to diversify its endowment investments to obtain the desired return objectives within its risk parameters.

The return objectives per the 2007 Investment Policy are as follows (all objectives are long-term):

- Preservation of capital
- Minimize risk and attain such growth in the principal that the purchasing power of the fund is maintained with respect to the prevailing rate of inflation



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

- Minimum annual total rate of return equal to the higher of the five year average of the 91-day treasury bill rate plus 3% or the 5 year average of the Consumer Price Index-All Urban Workers (CPI-U) plus 3%
- If possible, relative investment return over 3-5 years to exceed rate of return that would have been achieved by a statistically allocated and passively managed portfolio at the same risk in accordance with the asset allocation policy described below

The University is willing to forgo potential return in strong markets in return for protection against a severe decline during bear markets.

The investment allocation policy at May 31, 2011 is as follows:

<u>Type of Investment</u>	<u>Minimum %</u>	<u>Maximum %</u>	<u>Performance Benchmark</u>
Large Cap Equities	15%	40%	S&P 500
Small/Mid Cap Equities	5%	25%	Russell Midcap Index
Real Assets	2%	15%	Wilshire REIT Index
Fixed Income	25%	60%	Lehman Aggregate Bond Index
Cash	0%	10%	Salomon 3 Month Treasury Bill
Managed Futures	0%	5%	CPI + 3%

The long-term objective of the spending guidelines is to maintain the purchasing power of each endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income each year to support operations. The board-approved rate is applied to a 3 year average market to determine each endowment's distributable earnings. The current rate is 4%. The distributable earnings on the funds are used to award scholarships to students meeting the requirements specified by the donor.

It is the University's understanding that the principal endowed by the donor remains permanently restricted. Certain endowments have a percentage of earnings added to corpus, and these earnings are also permanently restricted. Other earnings on endowments, including the unrealized gains or losses are considered temporarily restricted until appropriated for disbursement. At that time, net assets are released from temporarily restricted to unrestricted net assets.

Plant Assets and Depreciation

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes items with a cost or fair value of \$1,000 or more. Depreciation on physical plant and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Buildings and Improvements	5 – 40 years
Equipment	3 – 15 years
Books	5 – 8 years
Leased Equipment	5 – 40 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Income Tax Status

The University is recognized as an organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. At May 31, 2011, the University's tax returns related to fiscal years ended May 31, 2007 through May 31, 2010 remain open to examination by tax authorities.

NOTE B - CREDIT CONCENTRATION RISK

The University maintains interest-bearing cash accounts at several banks. At times, account balances may exceed federally insured limits. The University has not experienced any losses on these accounts, and management believes the University is not exposed to any significant risk on cash accounts.

The University offers degrees in a variety of disciplines. Its accounts receivable represents concentrations with students and third parties. Its loans to students are made through the Perkins Loan federal program. Students attending the University are typically from the Middle Tennessee area; however, there are many from out-of-state.

NOTE C - LOANS RECEIVABLE

Advances from the Federal government under the Perkins loan program are distributable to the Federal government upon liquidation of the fund and thus is reflected as an asset (under "Loans Receivable") and a liability (under "Federal Student Loan Funds") on the statements of financial position.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE D - INVESTMENTS

Investments are recorded at fair value. The historical cost and fair value were as follows at May 31:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 1,552,869	\$ 1,207,147	\$ 1,307,619	\$ 814,081
Mutual funds	4,090,269	4,840,599	3,839,667	3,684,368
Fixed income securities:				
Corporate bonds	261,130	259,672	200,000	159,374
Certificates of deposit	2,489,512	2,587,088	2,668,923	2,750,895
Cash and money market funds	818,819	818,819	1,093,071	1,093,071
Real estate	49,700	49,700	49,700	49,700
Accrued interest receivable	18,645	18,645	20,013	20,013
	<u>\$ 9,280,945</u>	<u>\$ 9,781,670</u>	<u>\$ 9,178,992</u>	<u>\$ 8,571,502</u>

Investment income results for the years ended May 31, 2011 and 2010, were as follows:

	2011	2010
Interest, dividends, and capital gain distributions	\$ 288,966	\$ 211,866
Realized (losses)	(158,959)	(536,289)
Unrealized gains	1,108,218	1,250,145
	<u>\$ 1,238,225</u>	<u>\$ 925,722</u>

The endowment investments by net asset class as of May 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- Restricted Funds	\$ 1,050,087	\$ 4,005,061	\$ 4,726,522	\$ 9,781,670

The activity in the endowment investments for the year ended May 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 1, 2010	\$ 536,442	\$ 3,333,278	\$ 4,701,782	\$ 8,571,502
Stock contributions	-	-	24,740	24,740
Interest, dividends and capital gain distributions	83,136	153,033	-	236,169
Realized losses	(58,029)	(100,930)	-	(158,959)
Unrealized gains	488,538	619,680	-	1,108,218
Balance May 31, 2011	<u>\$ 1,050,087</u>	<u>\$ 4,005,061</u>	<u>\$ 4,726,522</u>	<u>\$ 9,781,670</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE E – PLEDGES RECEIVABLE

Pledges receivable are without collateral and consist of the following at May 31:

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	\$ 24,110	\$ 114,610
One to five years	726,225	784,914
Total unconditional promises	750,335	899,524
Less: amortized discount	(110,452)	(83,519)
Less: allowance for uncollectible pledges	-	(80,603)
Pledges receivable, net	<u>\$ 639,883</u>	<u>\$ 735,402</u>

NOTE F - SPLIT-INTEREST AGREEMENTS

The University is the charitable beneficiary under a split-interest trust agreement. The trust provides for income to certain beneficiaries during their lifetime. Agreements which provide for third-party trustees are recorded as contributions receivable and gift revenue (see Note E). The trust agreement has been discounted over estimated life expectancies of the beneficiaries of trust.

NOTE G - PROPERTY AND EQUIPMENT, NET

Property and equipment, net is summarized as follows at May 31:

	2011	2010
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	18,236,165	17,472,903
Equipment	6,266,895	5,762,525
Vans	265,929	202,929
Library books	1,154,349	1,112,464
Construction in process	2,229,259	830,559
	29,159,095	26,387,878
Less accumulated depreciation	13,320,055	12,363,079
	<u>\$ 15,839,040</u>	<u>\$ 14,024,799</u>

NOTE H - BONDS PAYABLE

Bonds payable to the United States Government at May 31, 2011, in the amounts of \$148,000 are due in annual payments of principal plus interest at 3% on August 1 of each year through 2017. The bonds are secured by a mortgage on a 3.89 acre parcel containing two dormitories.

Educational Facilities Revenue Refunding and Improvement Bonds, at May 31, 2011, in the amount of \$10,500,000 are due in monthly payments of interest at 3% and semi-annual principal payments each year on April 1 and October 1 through April 1, 2031. The bonds are secured by a negative pledge agreement in favor of the lender. At May 31, 2011, the University had drawn \$3,359,515 of bond proceeds. Net of repayments, the outstanding balance at May 31, 2011 is \$3,214,515. The University has \$7,140,485 available to drawdown for future project expenses.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE H – BONDS PAYABLE (CONTINUED)

Annual payments on the bonds are due as follows:

Year ending <u>May 31,</u>	Total Principal Payments
2012	\$ 725,000
2013	680,000
2014	690,000
2015	700,000
2016	715,000
2017-2021	2,673,000
2022-2026	2,120,000
2027-2031	<u>2,200,000</u>
Subtotal	10,503,000
Less: Amounts not borrowed	<u>(7,140,485)</u>
	<u>\$ 3,362,515</u>

NOTE I - NOTES PAYABLE

Notes payable at May 31, consist of the following:

	<u>2011</u>	<u>2010</u>
Notes payable to GMAC at 6.1% and 7.7% interest payable in monthly installments of interest and principal through August 2014. The loans are secured by certain vehicles.	<u>\$ 64,684</u>	<u>\$ 29,129</u>

Aggregate maturities of notes payable as of each May 31 are as follows:

Year ending <u>May 31,</u>	
2012	\$ 27,372
2013	15,955
2014	16,958
2015	<u>4,399</u>
	<u>\$ 64,684</u>

NOTE J – CAPITAL LEASE OBLIGATIONS

The University has capital leases for certain computer equipment and furniture and terms of three years and an effective interest rate of 5% per annum. These leases meet the criteria of capital leases and accordingly have been recorded as such.

Property and equipment include the following amounts for these capitalized leases:

Equipment cost	\$ 566,615
Less: allowance for depreciation	<u>511,569</u>
	<u>\$ 55,046</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE J – CAPITAL LEASE OBLIGATIONS (CONTINUED)

Future minimum lease payments under this capital lease, including the present value of minimum lease payments are as follows at each May 31:

Year ending	
<u>May 31,</u>	
2012	\$ 67,020
2013	<u>27,925</u>
Total minimum lease payments	94,945
Less amount representing interest	<u>14,609</u>
Total obligations under capital lease	80,336
Less current installments of obligations under capital lease	<u>67,020</u>
Long-term obligation under capital lease	<u>\$ 13,316</u>

NOTE K – EMPLOYEE BENEFITS

Retirement Plan

The University participates in a retirement plan for the benefit of its employees which is administered by the Teacher's Insurance Annuities Association and College Retirement Equities Fund. The plan is a defined contribution plan in which the University's participation is limited to contributing an amount equal to the employees' contributions, which amounted to \$208,984 and \$179,078 for the years ended May 31, 2011 and 2010, respectively.

Health Coverage

Effective May 1, 2006, the University selected Blue Cross/Blue Shield as their health insurance carrier for participating employees. Prior to this point, the University provided group health benefits coverage through its membership in the Tennessee Independent Colleges & Universities Association (TICUA) Benefit Consortium. The Consortium was a partially self-insured health benefit plan that consisted of sixteen private colleges and universities in Tennessee, and was exempt under Section 501(c) (9) of the Internal Revenue Code. Funding for the plan was based upon actuarial calculations using historical experience of claims paid and estimates of claims outstanding. The University has a liability recorded in the accompanying balance sheet in the amount of \$10,000 to cover any related costs or claims for benefits associated with the termination of its membership in the consortium.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE L - OPERATING LEASES

The University has various non-cancelable operating lease agreements in effect for information systems communications and office equipment. These operating leases do not have a remaining term in excess of one year. Rent expense was approximately \$141,000 and \$95,000 for the years ended May 31, 2011 and 2010 respectively.

The University also has use of 11,657 square feet of space at the McFarland Campus of the local hospital. The space is used for instruction in the nursing program. An in-kind contribution of \$161,539 has been recognized for this agreement. Rent expense for this agreement is included in the expense reported in the previous paragraph.

NOTE M - NET ASSETS

Net assets released from restrictions were comprised of the following:

	2011	2010
Operations and support	\$ 43,728	\$ 39,635
Capital expenditures	157,423	-
Scholarships	607,826	557,741
	<u>\$ 808,977</u>	<u>\$ 597,376</u>

Temporarily restricted net assets at May 31, are available for the following purposes:

	2011	2010
Available for scholarships	\$ 3,835,091	\$ 3,286,169
Available for capital improvements/operations	1,450,131	1,585,401
	<u>\$ 5,285,222</u>	<u>\$ 4,871,570</u>

Permanently restricted net assets at May 31, 2011 and 2010 primarily consist of endowment funds.

NOTE N - CONTINGENT LIABILITIES

Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NOTE O - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows for each of the years ended May 31,

	2011	2010
Cash paid for interest	<u>\$ 105,599</u>	<u>\$ 49,557</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE P – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$526,920 and \$426,030 during 2011 and 2010, respectively related to development and fund-raising. Such amounts are included in institutional support expenses in the accompanying statements of activities.

NOTE Q – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the University's various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE R – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Codification ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. FAS 157 describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach, and the cost approach. Each approach includes multiple valuation techniques. The standard does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used when applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given highest priority in the hierarchy while level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the inputs to the valuation technique used:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in a sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liabilities.

The following table summarizes the classification of fair value assets as of May 31, 2011:

	Fair value at May 31, 2011	Level 1	Level 2	Level 3
Investments	<u>\$ 9,781,670</u>	<u>\$ 9,731,970</u>	<u>\$ 49,700</u>	<u>\$ -</u>



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2011 and 2010

NOTE S – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 5, 2011, the date the financial statements were available to be issued.

NOTE T – RECLASSIFICATIONS

Certain information in the summarized May 31, 2010 figures presented were reclassified in order to conform to the current year presentation. There was no effect on the total net assets due to these reclassifications.