

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2008 and 2007

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Independent Auditors' Report

To the Board of Directors
Cumberland University

We have audited the accompanying financial statements of Cumberland University as of May 31, 2008 and 2007 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Cumberland University 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 2007 financial statements and, in our report dated September 27, 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008 on our consideration of Cumberland University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, and is not a required part of the basic financial statements of the Cumberland University. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dempsey, Vantrease & Follis, PLLC

Murfreesboro, Tennessee
September 26, 2008

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Combined 2007
ASSETS					
Cash	\$ 2,870,159	\$ 528,955	\$ 18,340	\$ 3,417,454	\$ 3,238,983
Accounts receivable, less provision for uncollectible accounts of \$194,392 in 2008 and \$206,528 in 2007	1,599,763	-	-	1,599,763	716,052
Loans receivable	190,971	-	-	190,971	191,088
Pledges receivable	131,149	758,351	202,465	1,091,965	569,000
Inventories	375,845	-	-	375,845	228,955
Investments at market value	725,178	3,669,795	4,411,275	8,806,248	8,440,803
Assets held under split interest agreements	-	-	267,982	267,982	294,736
Deposits with trustees	67,203	-	-	67,203	66,410
Other assets	123,391	-	-	123,391	97,174
Property and equipment, net	14,263,075	-	-	14,263,075	14,475,605
Due from other funds	-	28,753	197	28,950	92,247
TOTAL ASSETS	\$20,346,734	\$4,985,854	\$ 4,900,259	\$30,232,847	\$28,411,053
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 1,043,536	\$ -	\$ -	\$ 1,043,536	\$ 1,153,060
Deferred revenues	1,771,750	-	-	1,771,750	962,829
Liabilities under split-interest agreements	-	-	203,531	203,531	221,502
Notes payable	61,208	-	-	61,208	42,572
Capital lease obligations	157,924	-	-	157,924	218,471
Bonds payable	2,873,052	-	-	2,873,052	3,093,052
Federal student loan funds	283,898	-	-	283,898	278,744
Due to other funds	28,950	-	-	28,950	92,247
TOTAL LIABILITIES	6,220,318	-	203,531	6,423,849	6,062,477
NET ASSETS					
Unrestricted - operating	2,955,525	-	-	2,955,525	2,166,868
Unrestricted - investment in plant	11,170,891	-	-	11,170,891	11,121,510
Temporarily restricted	-	4,985,854	-	4,985,854	4,649,851
Permanently restricted	-	-	4,696,728	4,696,728	4,410,347
TOTAL NET ASSETS	14,126,416	4,985,854	4,696,728	23,808,998	22,348,576
TOTAL LIABILITIES AND NET ASSETS	\$20,346,734	\$4,985,854	\$ 4,900,259	\$30,232,847	\$28,411,053

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Combined 2007
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$19,411,512	\$ -	\$ -	\$19,411,512	\$18,364,979
Less scholarships and discounts	(8,794,451)	-	-	(8,794,451)	(7,549,250)
Net tuition and fees	10,617,061	-	-	10,617,061	10,815,729
Government grants	1,411,380	-	-	1,411,380	1,239,318
Private gifts and grants	871,326	1,275,789	280,668	2,427,783	1,846,309
Sales and services of auxiliary enterprises	3,164,871	-	-	3,164,871	2,661,471
Investment income	(29,780)	(135,624)	14,495	(150,909)	1,186,593
Other additions	401,384	-	-	401,384	427,588
TOTAL REVENUES AND GAINS	16,436,242	1,140,165	295,163	17,871,570	18,177,008
Net assets released from restrictions	804,162	(804,162)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	17,240,404	336,003	295,163	17,871,570	18,177,008
EXPENSES:					
Operating:					
Instruction	5,313,261	-	-	5,313,261	5,293,271
Academic support	499,475	-	-	499,475	497,019
Student services	3,645,324	-	-	3,645,324	3,434,222
Institutional support	3,105,016	-	-	3,105,016	2,834,260
Auxiliary enterprises	2,281,943	-	-	2,281,943	2,035,544
Government grants expended	1,411,380	-	-	1,411,380	1,239,318
Total operating	16,256,399	-	-	16,256,399	15,333,634
Non-operating:					
Interest expense	141,776	-	-	141,776	169,746
Loan costs	4,190	-	-	4,190	5,471
Total non-operating	145,966	-	-	145,966	175,217
Change in value of split interest agreements	-	-	8,782	8,782	(34,340)
TOTAL EXPENSES	16,402,365	-	8,782	16,411,147	15,474,511
CHANGE IN NET ASSETS	838,039	336,003	286,381	1,460,423	2,702,497
NET ASSETS, beginning of year	13,288,377	4,649,851	4,410,347	22,348,575	19,646,078
NET ASSETS, end of year	<u>\$14,126,416</u>	<u>\$4,985,854</u>	<u>\$4,696,728</u>	<u>\$23,808,998</u>	<u>\$22,348,575</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,460,423	\$ 2,702,497
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	883,549	831,491
Loss on Disposal of assets	890	-
Net (gains) losses on investments	838,816	(641,417)
Private gifts and grants restricted for long-term investment	(1,556,457)	(881,378)
Income restricted for long-term investment	(14,495)	(13,232)
Amortization of loan costs	-	5,339
Change in value of split-interest agreements	8,783	(34,340)
(Increase) decrease in:		
Inventories	(146,890)	(60,409)
Accounts receivable	(883,711)	346,713
Other assets	(26,217)	54,904
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(109,524)	(106,749)
Deferred revenues	808,921	(441,318)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,264,088	1,762,101
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(604,617)	(728,223)
Purchase of investments	(1,755,359)	(1,731,702)
Proceeds from sale and maturity of investments	551,098	981,850
NET CASH USED IN INVESTING ACTIVITIES	(1,808,878)	(1,478,075)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in deposits with trustees	(793)	(4,849)
Payments on bonds payable	(220,000)	(214,948)
Payments on notes payable	(48,657)	(200,504)
Payments on capital lease obligations	(60,547)	(32,731)
Net change in advances from Federal Government for student loans	5,271	27,257
Proceeds from private gifts and grants restricted for long-term investment	1,033,492	812,378
Income restricted for long-term investment	14,495	13,232
NET CASH PROVIDED BY FINANCING ACTIVITIES	723,261	399,835
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,471	683,861
CASH AND CASH EQUIVALENTS, beginning of year	3,238,983	2,555,122
CASH AND CASH EQUIVALENTS, end of year	\$ 3,417,454	\$ 3,238,983
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ 67,293	\$ -

See accompanying notes to financial statements.

Cumberland University

NOTES TO FINANCIAL STATEMENTS

May 31, 2008 and 2007

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 850 full-time undergraduate, 170 part-time undergraduate, and 310 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 (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. 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 of part of the income earned on the assets for general or specific purposes.

Contributions

The University accounts for contributions in accordance with the recommendations of the FASB in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions, including unconditional promises to give, are recognized as revenues in the period received.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

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 SFAS No. 116, and are not reflected in the accompanying financial statements.

Inventories

Inventories are stated at the lower of cost or market.

Investments

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

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. Depreciation on physical plant and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets.

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.

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

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 and a liability on the statement of financial position.

NOTE D - INVESTMENTS

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

	2008		2007	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 1,307,619	\$ 1,062,147	\$ 1,307,619	\$ 1,494,643
Mutual funds	3,308,195	3,316,548	2,167,117	2,433,788
Fixed income securities:				
Corporate bonds	1,350,000	1,083,673	1,350,000	1,296,436
Government bonds	-	-	1,500,000	1,465,698
Certificates of deposit	2,137,995	2,138,075	1,539,000	1,508,678
Cash and money market funds	1,131,873	1,131,873	152,629	152,629
Real estate	49,700	49,700	54,700	54,700
Accrued interest receivable	24,232	24,232	34,231	34,231
	<u>\$ 9,309,614</u>	<u>\$ 8,806,248</u>	<u>\$ 8,105,296</u>	<u>\$ 8,440,803</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE D – INVESTMENTS (CONTINUED)

Investment income results at May 31, were as follows:

	2008	2007
Interest, dividends, and capital gain distributions	687,907	\$ 545,176
Realized gains (losses)	1,456	9,344
Unrealized gains(losses)	(840,272)	632,073
	<u>\$ (150,909)</u>	<u>\$ 1,186,593</u>

NOTE E – PLEDGES RECEIVABLE

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	\$ 250,760	\$ 569,000
One to five years	1,003,848	-
Total unconditional promises	1,254,608	569,000
Less: amortized discount; no allowance considered necessary	(162,643)	-
Contributions receivable, net	<u>\$ 1,091,965</u>	<u>\$ 569,000</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:

	2008	2007
Land and improvements	1,006,498	1,006,498
Buildings and improvements	16,870,730	16,734,003
Equipment	5,497,497	5,167,041
Vans	202,929	137,035
Library books	1,049,423	1,007,125
Construction in process	148,105	60,471
	<u>24,775,182</u>	<u>24,112,173</u>
Less accumulated depreciation	<u>10,512,107</u>	<u>9,636,568</u>
	<u>\$ 14,263,075</u>	<u>\$ 14,475,605</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE H - BONDS PAYABLE

Bonds payable to the United States Government at May 31, 2008, in the amounts of \$223,000 are due in annual payments 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.

Pooled Loan Educational Program Revenue Bonds, Series A, at May 31, 2008, in the amounts of \$2,870,000 are due in semi-annual payments of principal plus interest (rate is determined by the Bond Indenture), each year on April 1 and October 1 through October 1, 2019. The bonds are secured by a letter of credit issued by Bank of America and a mortgage on the land and dormitories known as "The Commons".

Annual payments on the bonds are due as follows:

Year ending May 31,	Total Principal Payments
2009	\$ 220,000
2010	225,000
2011	240,000
2012	255,000
2013	260,000
2014-2020	<u>1,673,052</u>
	<u>2,873,052</u>

NOTE I - NOTES PAYABLE

Notes payable at May 31, consist of the following:

	2008	2007
Notes payable to GMAC at 7.7% interest payable payable in monthly installments of interest and principal of \$1,639 through December 2011. The loans are secured by certain vehicles	\$ 61,208	\$ -
Note payable to SunTrust Bank at 5.5% interest payable in monthly payments of interest and principal payments of \$73,644 to be paid on October 15 and March 15 of each year through March 15, 2008. The loan is unsecured.	-	42,572
	<u>\$ 61,208</u>	<u>\$ 42,572</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE I - NOTES PAYABLE (CONTINUED)

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

Year ending <u>May 31,</u>	
2009	\$ 15,424
2010	16,655
2011	17,978
2012	11,151
	<u>\$ 61,208</u>

The SunTrust Bank note requires the University to comply with certain restrictive covenants. Those covenants include maintenance of certain debt service coverage ratios and covenant that total debt will not exceed total cash and endowment. At May 31, 2008 the University has complied with these covenants.

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	\$ 460,145
Less: Allowance for Depreciation	<u>276,756</u>
	<u>\$ 183,389</u>

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>	
2009	\$ 65,955
2010	65,955
2011	<u>40,690</u>
Total minimum lease payments	172,600
Less amount representing interest	<u>14,676</u>
Total obligations under capital lease	157,924
Less current installments of obligations under capital lease	<u>65,955</u>
Long-term obligation under capital lease	<u>\$ 91,969</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE K – EMPLOYEE BENEFITS

Pension 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' contribution, which amounted to \$161,978 and \$140,155 for the years ended May 31, 2008 and 2007, 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.

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 \$175,000 and \$191,000 for May 31, 2008 and 2007, 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 \$174,855 has been recognized for this agreement. Rent expense on 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:

	2008	2007
Operations and support	\$ 300,986	\$ 81,207
Capital expenditures	51,912	132,270
Scholarships	451,264	333,129
	<u>\$ 804,162</u>	<u>\$ 546,606</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2008 and 2007

NOTE M - NET ASSETS (CONTINUED)

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

	2008	2007
Available for scholarships	\$ 3,796,940	\$ 3,961,326
Available for capital improvements/operations	1,188,914	688,525
	<u>\$ 4,985,854</u>	<u>\$ 4,649,851</u>

Permanently restricted net assets at May 31, 2008 and 2007 consist of endowment funds totaling \$4,696,728 and \$4,410,347 respectively.

NOTE N - CONTINGENT LIABILITIES

Federally funded financial aid programs are subject to special audit. 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,

	2008	2007
Cash paid for interest	<u>\$ 148,984</u>	<u>\$ 209,621</u>

NOTE P - DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$670,040 and \$723,468 during 2008 and 2007, 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 statement of activities. According, certain costs have been allocated among the programs and supporting services benefited.