

Cumberland University
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Years Ended May 31, 2007 and 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7-14

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, 2007 and 2006 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 2006 financial statements and, in our report dated July 20, 2006, 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, 2007 and 2006, 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

Murfreesboro, Tennessee
September 27, 2007



STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007	Combined 2006
ASSETS					
Cash	\$ 2,505,214	\$ 564,794	\$ 168,975	\$ 3,238,983	\$ 2,555,122
Certificates of Deposit	-	-	-	-	116,685
Accounts receivable, less provision for uncollectible accounts of \$206,528 in 2007 and \$233,920 in 2006	716,052	-	-	716,052	1,062,765
Loans receivable	191,088	-	-	191,088	221,552
Pledges receivable	-	69,000	500,000	569,000	500,000
Inventories	228,955	-	-	228,955	168,546
Investments at market value	848,855	3,958,935	3,633,013	8,440,803	6,932,849
Assets held under split interest agreements	-	-	294,736	294,736	277,395
Deposits with trustees	66,410	-	-	66,410	61,561
Other assets	97,174	-	-	97,174	157,417
Property and equipment, net	14,475,605	-	-	14,475,605	14,347,225
Due from other funds	-	57,122	35,125	92,247	212,471
TOTAL ASSETS	\$19,129,353	\$4,649,851	\$4,631,849	\$28,411,053	\$26,613,588
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 1,153,061	\$ -	\$ -	\$ 1,153,061	\$ 1,259,810
Deferred revenues	962,829	-	-	962,829	1,404,147
Liabilities under split-interest agreements	-	-	221,502	221,502	238,501
Notes payable	42,572	-	-	42,572	243,076
Capital lease obligations	218,471	-	-	218,471	19,554
Bonds payable	3,093,052	-	-	3,093,052	3,308,000
Federal student loan funds	278,744	-	-	278,744	281,951
Due to other funds	92,247	-	-	92,247	212,471
TOTAL LIABILITIES	5,840,976	-	221,502	6,062,478	6,967,510
NET ASSETS					
Unrestricted - operating	2,166,867	-	-	2,166,867	542,802
Unrestricted - investment in plant	11,121,510	-	-	11,121,510	10,776,595
Temporarily restricted	-	4,649,851	-	4,649,851	4,350,326
Permanently restricted	-	-	4,410,347	4,410,347	3,976,355
TOTAL NET ASSETS	13,288,377	4,649,851	4,410,347	22,348,575	19,646,078
TOTAL LIABILITIES AND NET ASSETS	\$19,129,353	\$4,649,851	\$4,631,849	\$28,411,053	\$26,613,588

See accompanying notes to financial statements.



STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007	Combined 2006
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$18,364,979	\$ -	\$ -	\$18,364,979	\$19,113,663
Less scholarships and discounts	(7,549,250)	-	-	(7,549,250)	(7,919,926)
Net tuition and fees	10,815,729	-	-	10,815,729	11,193,737
Government grants	1,239,318	-	-	1,239,318	1,379,639
Private gifts and grants	964,931	494,958	386,420	1,846,309	1,432,756
Sales and services of auxiliary enterprises	2,661,471	-	-	2,661,471	2,574,726
Investment income	822,188	351,173	13,232	1,186,593	392,712
Other additions	427,588	-	-	427,588	253,345
TOTAL REVENUES AND GAINS	16,931,225	846,131	399,652	18,177,008	17,226,915
Net assets released from restrictions	546,606	(546,606)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	17,477,831	299,525	399,652	18,177,008	17,226,915
EXPENSES:					
Operating:					
Instruction	5,293,271	-	-	5,293,271	5,857,043
Academic support	497,019	-	-	497,019	435,070
Student services	3,434,222	-	-	3,434,222	3,129,208
Institutional support	2,834,260	-	-	2,834,260	2,063,917
Auxiliary enterprises	2,035,544	-	-	2,035,544	1,974,667
Government grants expended	1,239,318	-	-	1,239,318	1,379,639
Total operating	15,333,634	-	-	15,333,634	14,839,544
Non-operating:					
Interest expense	169,746	-	-	169,746	180,408
Loan costs	5,471	-	-	5,471	5,551
Total non-operating	175,217	-	-	175,217	185,959
Change in value of split interest agreements	-	-	(34,340)	(34,340)	(14,584)
TOTAL EXPENSES	15,508,851	-	(34,340)	15,474,511	15,010,919
CHANGE IN NET ASSETS	1,968,980	299,525	433,992	2,702,497	2,215,996
NET ASSETS, beginning of year	11,319,397	4,350,326	3,976,355	19,646,078	17,430,082
NET ASSETS, end of year	<u>\$13,288,377</u>	<u>\$4,649,851</u>	<u>\$4,410,347</u>	<u>\$22,348,575</u>	<u>\$19,646,078</u>

See accompanying notes to financial statements.



STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,702,497	\$ 2,215,996
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	831,491	783,745
Net (gains) losses on investments	(641,417)	8,130
Private gifts and grants restricted for long-term investment	(881,378)	(777,646)
Income restricted for long-term investment	(13,232)	(15,001)
Amortization of loan costs	5,339	5,339
Change in value of split-interest agreements	(34,340)	(14,584)
(Increase) decrease in:		
Inventories	(60,409)	(35,642)
Accounts receivable	346,713	431,932
Other assets	54,904	(42,121)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(106,749)	132,508
Deferred revenues	(441,318)	(362,820)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,762,101	2,329,836
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(728,223)	(532,149)
Purchase of investments	(1,731,702)	(1,910,544)
Proceeds from sale and maturity of investments	981,850	1,094,202
NET CASH USED IN INVESTING ACTIVITIES	(1,478,075)	(1,348,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in deposits with trustees	(4,849)	(4,437)
Payments on bonds payable	(214,948)	(210,000)
Payments on notes payable	(200,504)	(175,788)
Payments on capital lease obligations	(32,731)	(80,646)
Net change in advances from Federal Government for student loans	27,257	19,773
Proceeds from private gifts and grants restricted for long-term investment	812,378	315,948
Income restricted for long-term investment	13,232	15,001
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	399,835	(120,149)
NET INCREASE IN CASH AND CASH EQUIVALENTS	683,861	861,196
CASH AND CASH EQUIVALENTS, beginning of year	2,555,122	1,693,926
CASH AND CASH EQUIVALENTS, end of year	\$ 3,238,983	\$ 2,555,122

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

May 31, 2007 and 2006

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, 2007 and 2006

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain balances in the prior fiscal year have been reclassified to conform to the presentation adopted in the current fiscal year.

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:

	2007		2006	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 1,307,619	\$ 1,494,643	\$ 1,256,455	\$ 1,236,455
Mutual funds	2,167,117	2,433,788	1,782,715	1,825,951
Fixed income securities:				
Corporate bonds	1,350,000	1,296,436	1,350,000	1,099,604
Government bonds	1,500,000	1,465,698	1,465,933	1,421,933
Certificates of deposit	1,539,000	1,508,678	1,139,000	1,112,680
Cash and money market funds	152,629	152,629	147,295	147,295
Real estate	54,700	54,700	54,700	54,700
Accrued interest receivable	34,231	34,231	34,231	34,231
	<u>\$ 8,105,296</u>	<u>\$ 8,440,803</u>	<u>\$ 7,230,329</u>	<u>\$ 6,932,849</u>



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

NOTE D – INVESTMENTS (CONTINUED)

Investment income results at May 31, were as follows:

	2007	2006
Interest, dividends, and capital gain distributions	\$ 545,176	\$ 400,842
Realized gains (losses)	9,344	(149,849)
Unrealized gains	632,073	141,719
	<u>\$ 1,186,593</u>	<u>\$ 392,712</u>

NOTE E – PLEDGES RECEIVABLE

	2007	2006
Unconditional promises expected to be collected in:		
Less than one year	\$ 569,000	\$ 500,000
One to five years	-	-
Total unconditional promises	<u>569,000</u>	<u>500,000</u>
Less: amortized discount; no allowance considered necessary	<u>-</u>	<u>-</u>
Contributions receivable, net	<u>\$ 569,000</u>	<u>\$ 500,000</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:

	2007	2006
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	16,734,003	16,255,001
Equipment	5,167,041	4,695,968
Vans	137,035	137,035
Library books	1,007,125	999,527
Construction in process	60,471	59,634
	<u>24,112,173</u>	<u>23,153,663</u>
Less accumulated depreciation	<u>9,636,568</u>	<u>8,806,438</u>
	<u>\$ 14,475,605</u>	<u>\$ 14,347,225</u>



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

NOTE H - BONDS PAYABLE

Bonds payable to the United States Government at May 31, 2007, 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, 2007, 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 <u>May 31,</u>	Total Principal Payments
2008	\$ 220,000
2009	235,000
2010	245,000
2011	260,000
2012	275,000
2013-2019	1,858,000
	<u>\$ 3,093,000</u>

NOTE I - NOTES PAYABLE

Notes payable at May 31, consist of the following:

	<u>2007</u>	<u>2006</u>
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.	<u>\$ 42,572</u>	<u>\$ 243,076</u>

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

Year ending <u>May 31,</u>	
2008	<u>\$ 42,572</u>



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

NOTE I - NOTES PAYABLE (CONTINUED)

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, 2007 the University has complied with these covenants.

The University also has a \$500,000 line of credit with SunTrust Bank that is used for short-term cash flow requirements. The line matures on December 31, 2007 and carries an interest rate at LIBOR plus 1.5%. There was no outstanding balance on this line at May 31, 2007.

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	\$ 510,509
Less: Allowance for Depreciation	210,836
	<u>\$ 299,673</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>	
2008	\$ 72,703
2009	65,955
2010	65,955
2011	<u>40,689</u>
Total minimum lease payments	245,302
Less amount representing interest	<u>26,831</u>
Total obligations under capital lease	218,471
Less current installments of obligations under capital lease	<u>60,548</u>
Long-term obligation under capital lease	<u>\$ 157,923</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

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 \$140,155 and \$120,591 for the years ended May 31, 2007 and 2006, 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 \$191,000 and \$225,000 for May 31, 2007 and 2006, 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:

	2007	2006
Operations and support	\$ 132,270	\$ 122,771
Capital expenditures	333,129	94,304
Scholarships	81,207	303,694
	<u>\$ 546,606</u>	<u>\$ 520,769</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2007 and 2006

NOTE M - NET ASSETS (CONTINUED)

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

	2007	2006
Available for scholarships	\$ 3,961,326	\$ 3,704,892
Available for capital improvements/operations	688,525	645,434
	<u>\$ 4,649,851</u>	<u>\$ 4,350,326</u>

Permanently restricted net assets at May 31, 2007 and 2006 consist of endowment funds totaling \$4,410,347 and \$3,976,355 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,

	2007	2006
Cash paid for interest	<u>\$ 209,621</u>	<u>\$ 138,368</u>

NOTE P – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$723,468 and \$219,676 during 2007 and 2006, 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.