

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Cumberland University

We have audited the accompanying financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Cumberland University's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dempsey Vantrease & Follis PLLC
Lebanon, Tennessee
October 29, 2014

Cumberland University

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Combined 2013
ASSETS					
Cash and cash equivalents	\$ 3,063,964	\$ (4,372)	\$ 943,845	\$ 4,003,437	\$ 4,213,822
Accounts receivable, less allowance for uncollectible accounts of \$72,087 in 2014 and \$83,353 in 2013	1,704,293	-	-	1,704,293	1,508,387
Loans receivable	216,793	-	-	216,793	219,219
Pledges receivable	66,057	252,285	32,014	350,356	531,535
Inventories	282,739	-	-	282,739	286,104
Due from other funds	-	789,989	9,864	799,853	736,786
Investments at market value	1,873,776	4,927,102	4,726,522	11,527,400	10,287,673
Assets held under split-interest agreements	-	-	96,140	96,140	118,902
Deposits with trustees	-	-	-	-	35,693
Other assets	282,748	-	-	282,748	231,328
Property and equipment, net	21,171,939	-	-	21,171,939	22,082,299
TOTAL ASSETS	\$ 28,662,309	\$ 5,965,004	\$ 5,808,385	\$ 40,435,698	\$ 40,251,748
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 1,552,083	\$ -	\$ -	\$ 1,552,083	\$ 1,683,972
Deferred revenues	2,212,566	-	-	2,212,566	2,092,763
Due to other funds	799,854	-	-	799,854	736,786
Liabilities under split-interest agreements	-	-	71,942	71,942	97,032
Notes payable	5,868	-	-	5,868	22,729
Bonds payable	8,325,000	-	-	8,325,000	8,995,000
Federal student loan funds	276,394	-	-	276,394	287,192
TOTAL LIABILITIES	13,171,765	-	71,942	13,243,707	13,915,474
NET ASSETS					
Unrestricted - operating	2,649,472	-	-	2,649,472	2,332,436
Unrestricted - investment in plant	12,841,072	-	-	12,841,072	13,064,570
Temporarily restricted	-	5,965,004	-	5,965,004	5,357,066
Permanently restricted	-	-	5,736,443	5,736,443	5,582,202
TOTAL NET ASSETS	15,490,544	5,965,004	5,736,443	27,191,991	26,336,274
TOTAL LIABILITIES AND NET ASSETS	\$ 28,662,309	\$ 5,965,004	\$ 5,808,385	\$ 40,435,698	\$ 40,251,748

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Combined 2013
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$26,387,998	\$ -	\$ -	\$26,387,998	\$27,040,081
Less scholarships and discounts	(11,987,597)	-	-	(11,987,597)	(12,826,365)
Net tuition and fees	14,400,401	-	-	14,400,401	14,213,716
Government grants	2,282,940	-	-	2,282,940	2,325,206
Private gifts and grants	811,151	613,319	110,634	1,535,104	1,701,896
Sales and services of auxiliary enterprises	4,750,956	-	-	4,750,956	4,519,171
Investment income	533,925	796,925	41,305	1,372,155	1,003,896
Other additions	163,734	-	-	163,734	206,207
TOTAL REVENUES AND GAINS	22,943,107	1,410,244	151,939	24,505,290	23,970,092
Net assets released from restrictions	802,306	(802,306)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	23,745,413	607,938	151,939	24,505,290	23,970,092
EXPENSES:					
Operating:					
Instruction	8,472,883	-	-	8,472,883	9,342,885
Academic support	475,517	-	-	475,517	556,018
Student services	4,757,541	-	-	4,757,541	4,987,528
Institutional support	4,391,872	-	-	4,391,872	5,107,508
Auxiliary enterprises	2,998,301	-	-	2,998,301	3,043,456
Government grants expended	2,282,919	-	-	2,282,919	2,325,226
Total operating	23,379,033	-	-	23,379,033	25,362,621
Non-operating:					
Interest expense	266,797	-	-	266,797	244,303
Amortization of loan costs	6,045	-	-	6,045	-
Total non-operating	272,842	-	-	272,842	244,303
Change in value of split-interest agreements	-	-	(2,302)	(2,302)	(8,861)
TOTAL EXPENSES	23,651,875	-	(2,302)	23,649,573	25,598,063
CHANGE IN NET ASSETS	93,538	607,938	154,241	855,717	(1,627,971)
NET ASSETS, beginning of year	15,397,006	5,357,066	5,582,202	26,336,274	27,964,245
NET ASSETS, end of year	<u>\$15,490,544</u>	<u>\$5,965,004</u>	<u>\$5,736,443</u>	<u>\$27,191,991</u>	<u>\$26,336,274</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 855,717	\$(1,627,971)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,126,543	1,157,658
Provision for bad debt	(11,266)	(46,987)
Net (gains) losses on investments	(820,224)	(610,564)
Private gifts and grants restricted for long-term investment	(723,953)	(861,535)
Change in value of split-interest agreements	(2,328)	(8,887)
(Increase) decrease in:		
Inventories	3,365	103,384
Accounts receivable	(184,640)	766,764
Other assets	(51,420)	78,913
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(131,889)	116,704
Federal student loan funds	(10,798)	(3,786)
Deferred revenues	119,803	(195,347)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	168,909	(1,131,654)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(216,182)	(937,148)
Purchase of investments	(7,013,773)	(1,759,109)
Proceeds from student loan collections	42,551	29,168
Student loans issued	(40,125)	(26,000)
Proceeds from sale and maturity of investments	6,594,271	1,434,255
NET CASH (USED IN) INVESTING ACTIVITIES	(633,258)	(1,258,834)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in deposits with trustees	35,693	-
Payments on bonds payable	(670,000)	(724,812)
Payments on notes payable	(16,861)	(15,854)
Payments on capital lease obligations	-	(16,521)
Proceeds from private gifts and grants restricted for long-term investment	905,132	850,785
NET CASH PROVIDED BY FINANCING ACTIVITIES	253,964	93,598
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(210,385)	(2,296,890)
CASH AND CASH EQUIVALENTS, beginning of year	4,213,822	6,510,712
CASH AND CASH EQUIVALENTS, end of year	\$ 4,003,437	\$ 4,213,822
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ -	\$ 2,424,891
Assets donated	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 267,779	\$ 239,456

See accompanying notes to financial statements.

Cumberland University
NOTES TO FINANCIAL STATEMENTS
May 31, 2014 and 2013

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 1,033 full-time undergraduate, 88 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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

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, 2014 and 2013, the allowance for uncollectible accounts was \$72,087 and \$83,353, 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 2013 Investment Policy are as follows (all objectives are long-term):

- Safety or preservation of capital
- Income

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

- Long-term growth
- Earn a net average annual real total return over the long term in excess of inflation
- Investment of endowments asset shall be governed by the "Prudent Man Rule"

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, 2014 is as follows:

<u>Type of Investment</u>	<u>Minimum %</u>	<u>Maximum %</u>	<u>Performance Benchmark</u>
Long Term Equity	50%	90%	S&P 500
Short Term Equity	0%	20%	S&P 500
Fixed Income	10%	30%	
Alternative Investments	0%	10%	
REIT	0%	10%	
Cash	0%	10%	

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, 2014 and 2013

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, 2014, the University's tax returns related to fiscal years ended May 31, 2010 through May 31, 2013 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE D - INVESTMENTS

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

	2014		2013	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 6,986,833	\$ 7,644,311	\$ 1,800,668	\$ 2,001,139
Mutual funds	1,793,182	2,620,216	3,651,508	4,360,455
Fixed income securities:				
Corporate bonds	50,000	47,309	465,814	461,109
Municipal Bonds	-	-	215,568	228,335
Certificates of deposit	741,407	744,088	2,406,530	2,442,996
Cash and money market funds	425,103	425,103	733,457	733,457
Real estate	39,700	39,700	39,700	39,700
Accrued interest receivable	6,674	6,674	20,482	20,482
	<u>\$ 10,042,900</u>	<u>\$ 11,527,400</u>	<u>\$ 9,333,729</u>	<u>\$ 10,287,673</u>

Investment income results for the years ended May 31, 2014 and 2013, were as follows:

	2014	2013
Interest, dividends, and capital gain distributions	\$ 442,480	\$ 393,332
Realized gains (losses)	399,119	(274,914)
Unrealized gains	530,556	885,478
	<u>\$ 1,372,155</u>	<u>\$ 1,003,896</u>

The endowment investments by net asset class as of May 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- Restricted Funds	<u>\$ 1,873,776</u>	<u>\$ 4,927,102</u>	<u>\$ 4,726,522</u>	<u>\$ 11,527,400</u>

The activity in the endowment investments for the year ended May 31, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 1, 2013	\$ 1,472,278	\$ 4,088,873	\$ 4,726,522	\$ 10,287,673
Net transfers in (out)	(132,734)			(132,734)
Interest, dividends and capital gain distributions	150,468	292,318	-	442,786
Realized gains/(losses)	181,750	217,369	-	399,119
Unrealized gains	202,014	328,542	-	530,556
Balance May 31, 2014	<u>\$ 1,873,776</u>	<u>\$ 4,927,102</u>	<u>\$ 4,726,522</u>	<u>\$ 11,527,400</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE E – PLEDGES RECEIVABLE

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

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	\$ 102,673	\$ 323,493
One to five years	267,441	231,997
Total unconditional promises	370,114	555,490
Less: amortized discount	(19,758)	(23,954)
Less: allowance for uncollectible pledges	-	
Pledges receivable, net	<u>\$ 350,356</u>	<u>\$ 531,535</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:

	2014	2013
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	27,789,180	27,725,388
Equipment	7,141,598	7,023,031
Vans	279,222	262,129
Library books	1,243,917	1,227,187
Construction in process	349,389	349,389
	37,809,804	37,593,622
Less accumulated depreciation	16,637,865	15,511,323
	<u>\$ 21,171,939</u>	<u>\$ 22,082,299</u>

NOTE H - BONDS PAYABLE

Educational Facilities Revenue Refunding and Improvement Bonds, at May 31, 2014, 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, 2014, the University had drawn \$10,500,000 of bond proceeds. Net of repayments, the outstanding balance at May 31, 2014 is \$8,325,000.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE H – BONDS PAYABLE (CONTINUED)

Annual payments on the bonds are due as follows:

Year ending May 31,	Total Principal Payments
2015	\$ 680,000
2016	690,000
2017	670,000
2018	575,000
2019	590,000
2020-2024	2,040,000
2025-2029	2,200,000
2030-2031	880,000
	<u>\$ 8,325,000</u>

NOTE I - NOTES PAYABLE

Notes payable at May 31, consist of the following:

	2014	2013
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>\$ 5,868</u>	<u>\$ 22,729</u>

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

Year ending May 31,	
2015	<u>\$ 5,868</u>

NOTE J – 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 \$105,233 and \$266,368 for the years ended May 31, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE K - 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 \$236,000 and \$219,000 for the years ended May 31, 2014 and 2013 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 \$187,500 has been recognized for this agreement.

NOTE L - NET ASSETS

Net assets released from restrictions were comprised of the following:

	2014	2013
Operations and support	\$ 65,917	\$ 36,123
Capital expenditures	64,251	41,298
Scholarships	672,138	794,364
	<u>\$ 802,306</u>	<u>\$ 871,785</u>

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

	2014	2013
Available for scholarships	\$ 4,232,928	\$ 3,599,904
Available for capital improvements/operations	1,732,076	1,757,162
	<u>\$ 5,965,004</u>	<u>\$ 5,357,066</u>

Permanently restricted net assets at May 31, 2014 and 2013 primarily consist of endowment funds.

NOTE M - 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 N - SUPPLEMENTAL CASH FLOW INFORMATION

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

	2014	2013
Cash paid for interest	<u>\$ 267,779</u>	<u>\$ 239,456</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE O – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$673,034 and \$707,846 during 2014 and 2013, respectively related to development and fund-raising. Such amounts are included in institutional support expenses in the accompanying statements of activities.

NOTE P – 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 Q – 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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2014 and 2013

NOTE Q – FAIR VALUE MEASUREMENTS, CONTINUED

The following table summarizes the classification of fair value assets as of May 31, 2014:

	Fair value at May 31, 2014	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 7,644,311	\$ 7,644,311	\$ -	\$ -
Mutual funds	2,620,216	2,620,216	-	-
Fixed income securities:				
Corporate bonds	47,309	47,309	-	-
Municipal Bonds	-	-	-	-
Certificates of deposit	744,088	744,088	-	-
Cash and money market funds	425,103	425,103	-	-
Real estate	39,700		39,700	-
Accrued interest receivable	6,674	6,674	-	-
	<u>\$ 11,527,400</u>	<u>\$ 11,487,700</u>	<u>\$ 39,700</u>	<u>\$ -</u>

NOTE R – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 29, 2014, the date the financial statements were available to be issued.

NOTE S – RELATED PARTIES

The vice president of online learning is also employed by the legal firm that represents Cumberland University. Fees paid to the firm in the year ended 2014 amounted to \$68,802.

One of the board members is also a partner in an advertising/marketing firm that provided services to the University. The amount billed in the year ended 2014 amounted to \$ 209,851.

The online provider for the IT platform is owned by the father of an employee of the University. Fees billed in the year ended 2014 amounted to \$1,169,765. The employee terminated his employment prior to the fiscal year end.