

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2012 and 2011

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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, 2012 and for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements and, in our report dated October 5, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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, 2012, and the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 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 considered 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. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
October 15, 2012

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Combined 2011
ASSETS					
Cash and cash equivalents	\$ 4,055,348	\$ 1,804,809	\$ 650,555	\$ 6,510,712	\$ 6,335,037
Accounts receivable, less allowance for uncollectible accounts of \$130,340 in 2012 and \$169,046 in 2011	2,228,164	-	-	2,228,164	1,476,866
Loans receivable	222,387	-	-	222,387	234,536
Pledges receivable	72,105	418,217	30,463	520,785	639,883
Inventories	389,488	-	-	389,488	404,552
Due from other funds	989,629	-	9,864	999,493	144,551
Investments at market value	977,910	3,647,823	4,726,522	9,352,255	9,781,670
Assets held under split-interest agreements	-	-	133,747	133,747	172,824
Deposits with trustees	35,693	-	-	35,693	59,604
Other assets	310,241	-	-	310,241	330,718
Property and equipment, net	19,877,916	-	-	19,877,916	15,839,040
TOTAL ASSETS	\$29,158,881	\$5,870,849	\$5,551,151	\$40,580,881	\$35,419,281
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 1,567,268	\$ -	\$ -	\$ 1,567,268	\$ 1,341,678
Deferred revenues	2,288,110	-	-	2,288,110	1,881,188
Due to other funds	197,863	801,629	-	999,492	144,549
Liabilities under split-interest agreements	-	-	120,764	120,764	143,212
Notes payable	38,583	-	-	38,583	64,684
Capital lease obligations	16,521	-	-	16,521	80,336
Bonds payable	7,294,920	-	-	7,294,920	3,362,515
Federal student loan funds	290,978	-	-	290,978	281,871
TOTAL LIABILITIES	11,694,243	801,629	120,764	12,616,636	7,300,033
NET ASSETS					
Unrestricted - operating	4,936,746	-	-	4,936,746	5,211,202
Unrestricted - investment in plant	12,527,892	-	-	12,527,892	12,331,505
Temporarily restricted	-	5,069,220	-	5,069,220	5,285,222
Permanently restricted	-	-	5,430,387	5,430,387	5,291,319
TOTAL NET ASSETS	17,464,638	5,069,220	5,430,387	27,964,245	28,119,248
TOTAL LIABILITIES AND NET ASSETS	\$29,158,881	\$5,870,849	\$5,551,151	\$40,580,881	\$35,419,281

See accompanying notes to financial statements.

Cumberland University

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Combined 2011
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$26,105,789	\$ -	\$ -	\$26,105,789	\$23,928,475
Less scholarships and discounts	(10,883,814)	-	-	(10,883,814)	(10,239,129)
Net tuition and fees	15,221,975	-	-	15,221,975	13,689,346
Government grants	2,371,739	-	-	2,371,739	2,236,361
Private gifts and grants	390,815	1,023,454	155,697	1,569,966	1,366,301
Sales and services of auxiliary enterprises	3,864,180	-	-	3,864,180	3,604,169
Investment income (loss)	(29,865)	(357,239)	-	(387,104)	1,238,225
Other additions	211,758	-	-	211,758	225,830
TOTAL REVENUES AND GAINS	22,030,602	666,215	155,697	22,852,514	22,360,232
Net assets released from restrictions	882,217	(882,217)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	22,912,819	(216,002)	155,697	22,852,514	22,360,232
EXPENSES:					
Operating:					
Instruction	8,343,046	-	-	8,343,046	6,946,337
Academic support	593,445	-	-	593,445	571,017
Student services	4,823,956	-	-	4,823,956	4,316,588
Institutional support	3,770,555	-	-	3,770,555	3,572,216
Auxiliary enterprises	2,921,860	-	-	2,921,860	2,882,088
Government grants expended	2,369,099	-	-	2,369,099	2,236,361
Total operating	22,821,961	-	-	22,821,961	20,524,607
Non-operating:					
Interest expense	168,927	-	-	168,927	125,086
Total non-operating	168,927	-	-	168,927	125,086
Change in value of split-interest agreements	-	-	16,629	16,629	(27,647)
TOTAL EXPENSES	22,990,888	-	16,629	23,007,517	20,622,046
CHANGE IN NET ASSETS	(78,069)	(216,002)	139,068	(155,003)	1,738,186
NET ASSETS, beginning of year	17,542,707	5,285,222	5,291,319	28,119,248	26,381,063
NET ASSETS, end of year	<u>\$17,464,638</u>	<u>\$5,069,220</u>	<u>\$5,430,387</u>	<u>\$27,964,245</u>	<u>\$28,119,249</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (155,003)	\$ 1,738,186
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,034,229	956,976
Provision for bad debt	(38,706)	(58,735)
Non-cash property and equipment donations	-	-
Net (gains) losses on investments	701,519	(949,259)
Private gifts and grants restricted for long-term investment	(1,179,151)	(837,043)
Change in value of split-interest agreements	16,629	(23,261)
(Increase) decrease in:		
Inventories	15,064	(36,732)
Accounts receivable	(712,591)	(210,298)
Other assets	20,477	(143,647)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	225,590	(329,871)
Federal student loan funds	9,107	(2,425)
Deferred revenues	406,922	563,789
NET CASH PROVIDED BY OPERATING ACTIVITIES	344,086	667,680
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(695,089)	(778,702)
Purchase of investments	(1,648,811)	(1,617,897)
Proceeds from student loan collections	34,899	23,763
Student loans issued	(22,750)	(20,500)
Proceeds from sale and maturity of investments	1,376,707	1,356,988
NET CASH (USED IN) INVESTING ACTIVITIES	(955,044)	(1,036,348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in deposits with trustees	23,912	(20,090)
Proceeds on bonds payable	337,576	1,367,000
Payments on bonds payable	(783,187)	(2,395,052)
Proceeds on notes payable	-	63,000
Payments on notes payable	(26,101)	(27,445)
Payments on capital lease obligations	(63,815)	(99,847)
Proceeds from private gifts and grants restricted for long-term investment	1,298,249	932,562
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	786,633	(179,872)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	175,675	(548,540)
CASH AND CASH EQUIVALENTS, beginning of year	6,335,037	6,883,577
CASH AND CASH EQUIVALENTS, end of year	\$ 6,510,712	\$ 6,335,037
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ 4,378,016	\$ 1,992,515
Assets donated	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 168,927	\$ 105,599

See accompanying notes to financial statements.

Cumberland University
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

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, 2012 and 2011, the allowance for uncollectible accounts was \$130,340 and \$169,046, 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 longterm):

- 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

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, 2012 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
International Equities	5%	25%	MCSI EAFE 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, 2012 and 2011

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, 2012, the University's tax returns related to fiscal years ended May 31, 2008 through May 31, 2011 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, 2012 and 2011

NOTE D - INVESTMENTS

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

	2012		2011	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 1,536,188	\$ 1,290,673	\$ 1,552,869	\$ 1,207,147
Mutual funds	4,009,451	4,240,286	4,090,269	4,840,599
Fixed income securities:				
Corporate bonds	380,281	385,593	261,130	259,672
Certificates of deposit	2,289,507	2,367,341	2,489,512	2,587,088
Cash and money market funds	999,053	999,053	818,819	818,819
Real estate	49,700	49,700	49,700	49,700
Accrued interest receivable	19,609	19,609	18,645	18,645
	<u>\$ 9,283,789</u>	<u>\$ 9,352,255</u>	<u>\$ 9,280,945</u>	<u>\$ 9,781,670</u>

Investment income results for the years ended May 31, 2012 and 2011, were as follows:

	2012	2011
Interest, dividends, and capital gain distributions	\$ 314,415	\$ 288,966
Realized (losses)	(269,258)	(158,959)
Unrealized gains (losses)	(432,261)	1,108,218
	<u>\$ (387,104)</u>	<u>\$ 1,238,225</u>

The endowment investments by net asset class as of May 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- Restricted Funds	\$ 977,910	\$ 3,647,823	\$ 4,726,522	\$ 9,352,255

The activity in the endowment investments for the year ended May 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 1, 2011	\$ 1,050,087	\$ 4,005,061	\$ 4,726,522	\$ 9,781,670
Interest, dividends and capital gain distributions	83,290	188,814	-	272,104
Realized losses	(90,681)	(178,577)	-	(269,258)
Unrealized losses	(64,786)	(367,475)	-	(432,261)
Balance May 31, 2011	<u>\$ 977,910</u>	<u>\$ 3,647,823</u>	<u>\$ 4,726,522</u>	<u>\$ 9,352,255</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

NOTE E – PLEDGES RECEIVABLE

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

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	\$ 341,969	\$ 24,110
One to five years	207,998	726,225
Total unconditional promises	549,966	750,335
Less: amortized discount	(29,181)	(110,452)
Less: allowance for uncollectible pledges	-	
Pledges receivable, net	<u>\$ 520,785</u>	<u>\$ 639,883</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:

	2012	2011
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	24,659,672	18,236,165
Equipment	6,751,931	6,266,895
Vans	265,929	265,929
Library books	1,198,781	1,154,349
Construction in process	349,389	2,229,260
	34,232,200	29,159,096
Less accumulated depreciation	14,354,284	13,320,055
	<u>\$ 19,877,916</u>	<u>\$ 15,839,040</u>

NOTE H - BONDS PAYABLE

Bonds payable to the United States Government at May 31, 2012, in the amounts of \$64,812 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, 2012, 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, 2012, the University had drawn \$8,075,108 of bond proceeds. Net of repayments, the outstanding balance at May 31, 2012 is \$7,230,108. The University has \$2,424,892 available to drawdown for future project expenses.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

NOTE H – BONDS PAYABLE (CONTINUED)

Annual payments on the bonds are due as follows:

Year ending May 31,	Total Principal Payments
2013	\$ 680,000
2014	690,000
2015	700,000
2016	694,812
2017	670,000
2018-2022	2,365,000
2023-2027	2,160,000
2028-2031	1,760,000
Subtotal	9,719,812
Less: Amounts not borrowed	(2,424,892)
	<u>\$ 7,294,920</u>

NOTE I - NOTES PAYABLE

Notes payable at May 31, consist of the following:

	2012	2011
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>\$ 38,583</u>	<u>\$ 64,684</u>

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

Year ending May 31,	
2013	15,955
2014	16,958
2015	5,670
	<u>\$ 38,583</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>555,968</u>
	<u>\$ 10,648</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

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> 2013	
Total minimum lease payments	<u>19,526</u>
Less amount representing interest	<u>(3,005)</u>
Total obligations under capital lease	16,521
Less current installments of obligations under capital lease	<u>16,521</u>
Long-term obligation under capital lease	<u>\$ -</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 \$249,332 and \$208,984 for the years ended May 31, 2012 and 2011, 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 \$0 and \$10,000 at May 31, 2012 and 2011, respectively, to cover any related costs or claims for benefits associated with the termination of its membership in the consortium.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

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 \$136,000 and \$141,000 for the years ended May 31, 2012 and 2011 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:

	2012	2011
Operations and support	\$ 292,381	\$ 43,728
Capital expenditures	13,833	157,423
Scholarships	576,003	607,826
	<u>\$ 882,217</u>	<u>\$ 808,977</u>

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

	2012	2011
Available for scholarships	\$ 3,395,964	\$ 3,835,091
Available for capital improvements/operations	1,673,256	1,450,131
	<u>\$ 5,069,220</u>	<u>\$ 5,285,222</u>

Permanently restricted net assets at May 31, 2012 and 2011 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,

	2012	2011
Cash paid for interest	<u>\$ 168,927</u>	<u>\$ 105,599</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

NOTE P – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$665,599 and \$526,920 during 2012 and 2011, 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, 2012:

	May 31, 2012	Level 1	Level 2	Level 3
Investments	<u>\$ 9,352,255</u>	<u>\$ 9,302,555</u>	<u>\$ 49,700</u>	<u>\$ -</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2012 and 2011

NOTE S – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 30, 2012, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Cumberland University
Schedule of Expenditures of Federal Awards
For the year ended May 31, 2012

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education (Direct Programs)</u>		
Pell Grant	84.063	2,200,238
Supplemental Educational Opportunity Grant (SEOG)	84.007	69,000
Federal Work Study Program (FWS)	84.033	57,953
Federal Perkins Loan Program	84.038	22,750

NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Cumberland University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

NOTE B - LOANS

During the year ending May 31, 2012, the University processed the following amount of new loans under the Stafford Loan Program (CFDA #84.032):

	<u>Amount Authorized</u>
Total Loans	\$ 9,283,177

At May 31, 2012, the University had \$222,387 of loans outstanding under the Federal Perkins Loan Program (CFDA #84.038).

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Cumberland University

We have audited the financial statements of Cumberland University as of and for the year ended May 31, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Cumberland University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cumberland University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cumberland University's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cumberland University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors, management the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee

October 15, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Cumberland University

Compliance

We have audited the compliance of Cumberland University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2012. Cumberland University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cumberland University's management. Our responsibility is to express an opinion on Cumberland University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cumberland University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cumberland University's compliance with those requirements.

In our opinion, Cumberland University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2012.

Internal Control Over Compliance

Management of Cumberland University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cumberland University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cumberland University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the board of directors, management and applicable federal, state and local authorities and is not intended to be and should not be used by anyone other than these specified parties.

Dempsey Vantrouse & Frolles PLLC

Murfreesboro, Tennessee
October 15, 2012

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2012

Section I - Summary of Auditor's Reports

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? ____yes X none reported

Noncompliance material to financial statements noted?

____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____yes X no
- Significant deficiencies identified that are not considered to be material weakness(es)? ____yes X none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007; 84.032;	Student Financial Aid Cluster
84.033; 84.038; 84.063	

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X Yes ____no

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2012

Section II-Financial Statement Findings

No matters were reported.

Section III-Federal Award Findings and Questioned Costs

No matters were reported.