

Cumberland University

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**Years Ended May 31, 2019 and 2018**

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3-4
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	7
Statements of Cash Flows	8
NOTES TO FINANCIAL STATEMENTS	9 – 25
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i>	27
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with Uniform Guidance	28 - 29
Schedule of Findings and Questioned Costs	30 - 31

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Cumberland University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2019, 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 audit. 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 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, 2019, 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.

### **Other Matters**

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2019 on our consideration of Cumberland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland University's internal control over financial reporting and compliance.

*Dempsey Ventresca & Folles PLLC*

Lebanon, Tennessee  
August 28, 2019

Cumberland University

**STATEMENTS OF FINANCIAL POSITION**

May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Combined 2018
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,551,360	\$ (154,351)	\$ 4,397,009	\$ 4,645,193
Accounts receivable, less allowance for uncollectible accounts of \$103,016 in 2019 and \$101,700 in 2018	1,540,285	-	1,540,285	1,814,157
Loans receivable	23,883	-	23,883	111,486
Pledges receivable	106,117	171,616	277,733	48,123
Inventories	94,413	-	94,413	93,497
Due from other funds	-	2,882,900	2,882,900	1,257,143
Investments at market value	1,155,000	11,211,318	12,366,318	12,031,023
Other assets	179,652	-	179,652	208,234
Property and equipment, net	25,779,625	-	25,779,625	21,048,486
<b>TOTAL ASSETS</b>	<b>\$ 33,430,335</b>	<b>\$ 14,111,483</b>	<b>\$ 47,541,818</b>	<b>\$ 41,257,342</b>
<b>LIABILITIES</b>				
Accounts payable, deposits, and accrued expenses	\$ 2,041,104	\$ -	\$ 2,041,104	\$ 2,364,368
Deferred revenues	1,722,081	-	1,722,081	2,355,486
Due to other funds	2,882,900	-	2,882,900	1,257,143
Line of Credit	1,644,098	-	1,644,098	2,395,000
Notes payable	7,037,079	-	7,037,079	3,292,439
Federal student loan funds	52,082	-	52,082	127,046
<b>TOTAL LIABILITIES</b>	<b>15,379,344</b>	<b>-</b>	<b>15,379,344</b>	<b>11,791,482</b>
<b>NET ASSETS</b>				
Without donor restrictions	18,050,990	-	18,050,990	15,437,614
With donor restrictions	-	14,111,483	14,111,483	14,028,246
<b>TOTAL NET ASSETS</b>	<b>18,050,990</b>	<b>14,111,483</b>	<b>32,162,473</b>	<b>29,465,860</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 33,430,334</b>	<b>\$ 14,111,483</b>	<b>\$ 47,541,817</b>	<b>\$ 41,257,342</b>

Cumberland University

**STATEMENTS OF ACTIVITIES**

Years Ended May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Combined 2018
<b>REVENUES, GAINS, AND RECLASSIFICATIONS</b>				
Tuition and fees	\$32,012,471	\$ -	\$32,012,471	\$30,587,549
Less scholarships and discounts	(15,605,217)	-	(15,605,217)	(14,547,800)
Net tuition and fees	16,407,254	-	16,407,254	16,039,749
Government grants	3,571,793	-	3,571,793	3,091,314
Private gifts and grants	1,775,739	2,376,833	4,152,571	3,032,476
Sales and services of auxiliary enterprises	5,253,701	52,454	5,306,154	5,299,046
Investment income (loss)	(45,740)	45,703	(37)	779,227
Other additions	191,591	-	191,591	223,522
<b>TOTAL REVENUES AND GAINS</b>	27,154,337	2,474,989	29,629,326	28,465,334
Net assets released from restrictions	2,391,752	(2,391,752)	-	-
<b>TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS</b>	29,546,089	83,237	29,629,326	28,465,334
<b>EXPENSES:</b>				
Operating:				
Program Services:				
Instruction	7,819,586	-	7,819,586	8,316,014
Student services	5,798,843	-	5,798,843	5,540,038
Auxiliary enterprises	2,741,437	-	2,741,437	2,965,557
Government grants expended	3,571,793	-	3,571,793	3,091,314
Supporting Services:				
Academic support	404,376	-	404,376	469,768
Institutional support	6,247,020	-	6,247,020	4,946,450
Total operating	26,583,054	-	26,583,054	25,329,140
Non-operating:				
Interest expense	349,659	-	349,659	261,545
Total non-operating	349,659	-	349,659	261,545
<b>TOTAL EXPENSES</b>	26,932,713	-	26,932,713	25,590,685
<b>CHANGE IN NET ASSETS</b>	2,613,376	83,237	2,696,613	2,874,649
<b>NET ASSETS, beginning of year</b>	15,437,614	14,028,246	29,465,860	26,591,211
<b>NET ASSETS, end of year</b>	<u>\$18,050,990</u>	<u>\$14,111,483</u>	<u>\$32,162,473</u>	<u>\$29,465,860</u>

See accompanying notes to financial statements.

## STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended May 31,

	Program Services				Supporting Services		Total	
	Instruction	Student Services	Auxiliary Enterprises	Government Grants	Academic Support	Institutional Support	Total Supporting Services	Total
Salaries	\$ 5,503,638	\$ 2,979,492	\$ 112,136	\$ -	\$ 129,771	\$ 1,684,262	\$ 1,814,033	\$ 10,409,299
Fringe Benefits	789,138	475,958	19,180	-	15,152	259,362	274,514	1,558,790
Supplies	360,863	779,392	131,477	-	140,961	876,595	1,017,556	2,289,288
Utilities	772	12,203	90,176	-	-	883,645	883,645	986,796
Travel & Meals	30,125	790,005	1,631,533	-	498	42,112	42,610	2,494,273
Bad Debt	-	-	-	-	-	31,140	31,140	31,140
Memberships	23,539	30,372	(1,500)	-	100	47,119	47,219	99,630
Repairs & Maintenance	4,455	90,564	7,433	-	-	147,937	147,937	250,389
Insurance	-	85,743	-	-	-	338,435	338,435	424,178
Other Expenses	446,814	286,753	48,313	-	8	504,468	504,476	1,286,356
Government Grants	-	-	-	3,571,793	-	-	-	3,571,793
Depreciation	-	-	-	-	-	1,169,417	1,169,417	1,169,417
	7,159,344	5,530,482	2,038,748	3,571,793	286,490	5,984,492	6,270,982	24,571,349
Allocated Operation & Maintenance	660,242	268,361	702,689	-	117,886	262,528	380,413	2,011,705
Total	\$ 7,819,586	\$ 5,798,843	\$ 2,741,437	\$ 3,571,793	\$ 404,376	\$ 6,247,020	\$ 6,651,395	\$ 26,583,054
Total Expenses Year Ended 2018	\$ 8,316,014	\$ 5,540,038	\$ 2,965,557	\$ 3,091,314	\$ 469,768	\$ 4,946,450	\$ 5,416,218	\$ 25,329,140

Cumberland University

**STATEMENTS OF CASH FLOWS**

Years Ended May 31,

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,696,613	\$ 2,874,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,169,417	969,396
Provision for bad debt	1,315	47,591
Net (gains) losses on investments	446,136	(384,035)
Private gifts and grants restricted for long-term investment	(2,376,833)	(1,708,353)
(Increase) decrease in:		
Inventories	(916)	(29,944)
Accounts receivable	272,557	9,586
Other assets	28,582	36,621
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(323,264)	282,444
Federal student loan funds	(74,964)	(38,513)
Deferred revenues	(633,405)	(105,901)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,205,238</b>	<b>1,953,540</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,175,059)	(2,567,808)
Purchase of investments	(5,487,073)	(3,037,801)
Proceeds from student loan collections	87,603	23,294
Proceeds from sale and maturity of investments	4,705,643	2,991,711
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,868,886)</b>	<b>(2,590,604)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(355,360)	(120,596)
Proceeds on notes payable, net of loan fees	374,503	57,215
Payments on line of credit, net of loan fees amortized	(750,902)	(300,000)
Proceeds from private gifts and grants restricted for long-term investment	2,147,223	1,718,143
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,415,464</b>	<b>1,354,762</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(248,184)</b>	<b>717,699</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>4,645,193</b>	<b>3,927,494</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 4,397,009</b>	<b>\$ 4,645,193</b>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Assets aquired through debt financing	\$ 3,725,497	\$ 202,220
Assets donated	\$ 450,000	\$ 478,500
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 349,659	\$ 261,545

See accompanying notes to financial statements.



# Cumberland University

## NOTES TO FINANCIAL STATEMENTS

May 31, 2019 and 2018

### 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 1050 full-time undergraduate, 900 part-time undergraduate, and 280 graduate students per semester. 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.

#### Recently Adopted Accounting Standard

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), to improve the financial reporting model for nonprofit organizations. The new guidance reduces the required classes of net assets from three to two, requires all nonprofit organizations to provide information about expenses by both nature and function, and changes presentation and disclosure requirements by simplifying some disclosures and enhancing others. The University adopted the provisions of ASU 2016-14 effective June 1, 2018 which had only presentation effects within the financial statements and did not have a material impact on net assets.

#### 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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations. This includes restrictions that can be filled by actions of the University pursuant to the donor stipulations or that expire by the passage of time, as well as those that are required by the donor to be maintained permanently. 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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measure of Operations

The University's operating revenues in excess of expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets released from donor restrictions to support operating expenditures. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment, according to the University's spending policy, which is detailed in Note A Endowment Investments.

Tuition and Housing Revenue

The University recognizes tuition and fees revenue ratably over the academic period based on time elapsed. The University offers students different tuition rates based on the category of student (i.e. in-state vs out-of-state, etc). Further, the University awards scholarship aid to its students. Some scholarships are funded by donations or endowments, whereas others are funded by the University. Tuition revenue is recognized at the amount the University expects to receive in exchange for providing instruction, net of scholarships awarded.

The University bills the student at the start of each semester, and payment plans are available for students to pay the amount due over time. If a student withdraws within the first 60% of a semester, they will receive a prorated refund of fees, based on the date withdrawn. After 60% of the semester has passed, no refunds will be issued. The University recognizes student accounts receivable and deferred revenues at the start of each semester, and adjusts deferred revenues as the term progresses. At year end, the balance in student accounts receivable is largely for the summer term, and the deferred revenue balance is for the portion of the summer term occurring after May 31, 2019.

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.

Accounts receivable

Accounts Receivable includes student accounts receivable and other receivables and are non-interest bearing. The University extends unsecured credit to students and parents of dependent students in connection with their studies. Student accounts receivable represent amounts due for tuition, fees, room and board. Balances are due by the end of the semester by currently enrolled and former students.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

Accounts receivable, continued

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. Balances that are still outstanding after management has used reasonable collection efforts are written off through a change to the valuation allowance and a credit to accounts receivable. As of May 31, 2019 and 2018, the allowance for uncollectible accounts was \$103,016 and \$101,700, respectively.

Contributions

The University accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Gifts of cash and other assets received are reported as revenues increasing net assets without donor restrictions if donors do not specify purposes for which or period in which the gifts must be used. Gifts received with a donor stipulation that limits their use are reported as revenue increasing net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and is reported in the statement of activities as net assets released from restrictions. 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 property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings and equipment and other long-lived assets are reported as revenues increasing net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case they are reported as revenue increasing net assets with donor restrictions.

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 net assets without donor restrictions.

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

From time to time, the University receives grants from governmental agencies and other sources. Typically these are cost-reimbursement grants for a particular project. The University recognizes revenues on these grants as the funds are spent. Any unused funds are forfeited and if any expenditures are disallowed, the University would be required to refund amounts received. Grant activities and outlays are subject to audit and acceptance by the grantor, and as a result of such audit, adjustments could be required.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Real estate investments are stated primarily at current appraised value. For securities contributed, cost is the fair value at the date of contribution.

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, as revised are as follows (all objectives are long-term):

- Safety or preservation of capital
- Income
- 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, 2019 is as follows:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

Total Global Equities:	<u>Min</u>	Tactical <u>Target</u>	<u>Max</u>	<u>Benchmark</u>
US Large Cap	15	24	35	S&P 500 Index
US Small-Mid Cap	10	21	30	S&P Mid Cap 400
Developed Market ex-US	10	12	20	MSCI World Index ex-USA
Emerging Market	2	5	10	MSCI Emerging Market Index
Total Global Real Assets:				
Global Real Estate	3	5	10	DJ US Select REIT
Commodities	0	2	5	Bloomberg Commodity Index
Total Global Fixed Income:				
Investment Grade US	5	9	50	BBG Barclays US Agg. Index
High Yield	0	3	10	BBG Barclays High Yield Index
Developed ex- US/Emerging	3	5	10	JPM Emerging Mkt Bond Index
Total Alternative Investments:				
Relative Value	0	2	4	DJ CS Hedge Fund Index
Macro	0	4	6	DJ CS Hedge Fund Index
Event Driven	0	2	5	DJ CS Hedge Fund Index
Equity Hedge	0	4	5	DJ CS Hedge Fund Index
Cash Alternatives:	0	2	10	3 Month Treasury Bill

The primary objective of the endowment is to earn a net average annual real total return over the long term in excess of inflation. The investment of endowment assets shall be governed by the "Prudent Man Rule", considering risk versus reward. Safety of preservation of capital shall be number one priority, number two priority shall be income, and number three priority shall be long term growth. The proposed rate of return will be reviewed each year by the Investment Committee and the results of the equities shall be compared to the performance of the S & P 500 for one, three, five and ten year periods.

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. The proposed spending rate is reviewed each year by the Investment Committee to ensure that income levels are adjusted to reflect inflation, subject to a minimum of 2% and a maximum of 5%. The Board approved rate is applied to a trailing three-year average market value as of 28 February, Fiscal quarter end, to determine each endowment's distributable earnings. The rate for the fiscal year ended May 31, 2019 is 3%.

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 restricted until appropriated for disbursement. At that time, net assets with donor restrictions are released to net assets without donor restrictions.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

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 \$5,000 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

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, 2019, the University's tax returns related to fiscal years ended May 31, 2016 through May 31, 2018 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.

At May 31, 2019, the bank balances of cash and cash equivalents exceeding FDIC limits was \$4,042,065.

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable at May 31, 2019 and 2018 consists of the following:

	2019	2018
Student Receivables, net	\$ 1,388,646	\$ 1,389,961
Other Receivables	151,639	424,196
Accounts Receivable, net	<u>\$ 1,540,285</u>	<u>\$ 1,814,157</u>

NOTE D - 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.

The Perkins loan Program was not renewed by Congress after September 30, 2017, consequently no new loans can be made. The University is in the process of liquidating the Perkins loan program and expects to have it completed within the next fiscal year.

NOTE E – INVESTMENTS AND ENDOWMENT

General

Investments are recorded at fair value and realized and unrealized gains and losses are reflected within investment income (loss) on the statement of activities. Investments include amounts restricted by donors for endowment and other purposes as well as amounts without donor restrictions that the board has designated for investment. It also includes certain real estate that the University is holding for investment. Earnings are classified and reported on the statement of activities based on the existence or absence of donor restrictions.

The historical cost and fair value are as follows at May 31:

	2019		2018	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 8,860,264	\$ 9,141,103	\$ 8,692,880	\$ 9,403,603
Fixed income securities:				
Corporate bonds	50,000	49,224	50,000	46,646
Government Bonds	1,663,913	1,647,483	1,838,075	1,782,911
Certificates of deposit	100,000	100,001		
Cash and money market funds	1,362,908	1,362,908	732,263	732,263
Real estate	65,600	65,600	65,600	65,600
	<u>\$ 12,102,687</u>	<u>\$ 12,366,318</u>	<u>\$ 11,378,819</u>	<u>\$ 12,031,024</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE E – INVESTMENTS (CONTINUED)

Investment activity for the year ended May 31, 2019, is as follows:

	With Donor Restrictions		Without Donor	
	Endowment	Other	Restrictions	Total
Balance, beginning of year	\$ 6,588,937	\$ 4,252,514	\$ 1,189,572	\$ 12,031,023
Gifts available for investment:				
Gifts creating perpetual endowment	345,298	-	-	345,298
Other gifts		245,877		245,877
Transfers	(274,580)	232,527	112,980	70,927
Investment return, net	16,834	(5,497)	(86,499)	(75,162)
Appropriated for scholarships		(190,592)	(61,053)	(251,645)
Balance, end of year	<u>\$ 6,676,489</u>	<u>\$ 4,534,829</u>	<u>\$ 1,155,000</u>	<u>\$ 12,366,318</u>

Endowment

The University's endowment consists of approximately 125 funds, managed by the University, established mainly for scholarships. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The funds are pooled, and investment return, consisting of interest, dividends, realized and unrealized gains, is allocated quarterly to the individual funds based on the fair value of the interest of each individual endowment fund to the total fair value of the pooled investments.

The University is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the University has interpreted SPMIFA as not requiring the maintenance of the purchasing power of the original gift contributed to an endowment fund, unless the donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the University considers a fund to be underwater if the fair value of the fund is less than the sum of: (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable gift instrument. The University does not spend from underwater funds; instead it reinvests the income of the fund until the fund is no longer underwater. Additionally, in accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE E – INVESTMENTS (CONTINUED)

Endowment, continued

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment funds
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

The endowment net asset composition by fund type as of May 31, 2019 is as follows:

	<u>With Donor Restrictions</u>
Board-designated endowment funds	\$ -
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	6,533,397
Accumulated Investment gains	143,092
	<u>\$ 6,676,489</u>

The activity in the endowment investments for the year ended May 31, 2019 is included in the investment table above.

NOTE F – PLEDGES RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,023	\$ 15,023
One to five years	279,639	40,000
Total unconditional promises	284,662	55,023
Less: amortized discount	(6,929)	(6,900)
Less: allowance for uncollectible pledges	-	
Pledges receivable, net	<u>\$ 277,733</u>	<u>\$ 48,123</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2019	2018
Land and improvements	\$ 2,113,144	\$ 1,006,498
Buildings and improvements	34,571,400	29,875,605
Equipment	8,738,010	8,144,167
Vans	344,738	344,738
Library books	1,285,019	1,276,754
Construction in process	188,349	692,342
	<u>47,240,660</u>	<u>41,340,104</u>
Less accumulated depreciation	<u>21,461,035</u>	<u>20,291,618</u>
	<u>\$ 25,779,625</u>	<u>\$ 21,048,486</u>

NOTE H – NOTES PAYABLE

The University had the following notes payable outstanding at May 31, 2019:

	2019	2018
Cedarstone Bank, \$3,008,744 loan dated 5/10/2017; payable in 59 installments of \$18,732 per month, including interest at 4.25% and a balloon payment of \$2,498,184 due 5/10/2022, secured by certain real estate	\$ 2,802,011	\$ 2,911,734
Ally Bank notes, payable in monthly installments of \$1,424 including interest at 4.99%, maturing October 2021, secured by certain vehicles	37,753	51,884
Ally Bank notes, payable in monthly installments of \$552 including interest at 4.99%, maturing December 2023, secured by certain vehicles	27,379	32,492
Liberty State Bank, \$144,000 loan dated 5/30/2017; payable in 59 installments of \$835, including interest at 3.5% and a balloon payment of principal and interest due 5/31/2022; secured by certain real estate	133,691	139,377

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE H – NOTES PAYABLE (CONTINUED)

Liberty State Bank, \$168,000 loan dated 2/29/2017; payable in 59 installments of \$1,017, including interest at 3.99% and a balloon payment of principal and interest due 12/29/2022; secured by certain real estate

159,994 165,696

Seller financing, \$1,500,000 loan dated 06/1/2018; payable in 360 installments of \$7,600, including interest at 4.5%, maturing 6/1/2048, secured by certain real estate

1,477,860 -

Wilson Bank & Trust, \$2,000,000 loan dated 4/5/2018; payable as interest only for the first 6 months at 4.95%, then 120 monthly payments of \$13,144, including interest at 4.95%, then 119 monthly payments of \$13,326 including interest at prime plus .5%, with a final payment due 10/5/2038

1,957,135 -

Vendor financing, \$1,200,000 loan dated 4/10/18; initial disbursement of \$600,000 paid in monthly installments of \$12,500, at no interest, maturing 05/31/2022. Second installment to be paid on or after 06/01/2022 if loan is not in default.

450,000 -

Less: loan fees, net of amortization

	(8,744)	(8,744)
\$	<u>7,037,079</u>	<u>\$ 3,292,439</u>

Future maturities of notes are as follows:

Fiscal year ended:

	Principal	Interest	Total
2020	\$ 375,202	\$ 292,710	\$ 667,912
2021	385,658	282,254	667,912
2022	2,976,036	271,480	3,247,516
2023	246,546	151,980	398,526
2024	107,861	143,474	251,335
Thereafter	2,945,776	1,558,464	4,504,240
	<u>\$ 7,037,079</u>	<u>\$ 2,700,363</u>	<u>\$ 9,737,442</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE I— LINE OF CREDIT

During the fiscal year ended May 31, 2016, the University obtained a line of credit secured by certain investments. The amount that can be borrowed on the line of credit is determined based on a percentage of the fair market value of the various classes of investments in the account. If the percentage of the fair market value of the investments falls below the outstanding principal balance, the lender has the right to require repayment of the outstanding principal down to the computed loanable amount and/or sell securities in the account. The line of credit has no maturity date or scheduled principal payments. Interest is variable and at May 31, 2019, the interest rate is 3.5%. Interest payments are not required, but are being paid monthly. At May 31, 2019, the principal outstanding is \$1,644,098 and interest paid for the year ended May 31, 2019 was \$91,536.

The University also has a \$500,000 line of credit with Cedarstone Bank, with variable interest at no less than 4% and no more than 18%. The maturity date is March 3, 2020. At May 31, 2019, the University had a \$0 balance outstanding on this line of credit.

NOTE J – EMPLOYEE BENEFITS

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 \$266,033 and \$259,127 for the years ended May 31, 2019 and 2018, respectively.

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 \$25,000 and \$266,000 for the years ended May 31, 2019 and 2018 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 \$225,000 has been recognized for this agreement.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE L - NET ASSETS

Net assets with donor restrictions are restricted for the following purposes:

	2019	2018
Subject to expenditure for specified purpose:		
Scholarships	\$ 4,894,780	\$ 4,838,857
Capital Improvements and Other	<u>2,194,917</u>	<u>2,529,735</u>
	7,089,697	7,368,592
Subject to University spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount), which, once appropriated is available to support:		
Scholarships	6,992,860	6,630,805
Subject to appropriation and expenditure when a specified event occurs:		
Endowment requiring income to be added until fund's value is \$1.0 million	<u>28,926</u>	<u>28,850</u>
Total net assets with donor restrictions	<u><u>\$ 14,111,483</u></u>	<u><u>\$ 14,028,247</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows:

Purpose restrictions accomplished:

	2019	2018
Operations and support	\$ 906,273	\$ 311,630
Capital expenditures	719,004	207,952
Scholarships	<u>766,475</u>	<u>710,544</u>
	<u><u>\$ 2,391,752</u></u>	<u><u>\$ 1,230,126</u></u>

NOTE M- COMMITMENTS AND 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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE N - SUPPLEMENTAL CASH FLOW INFORMATION

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

	2019	2018
Cash paid for interest	<u>\$ 349,659</u>	<u>\$ 261,545</u>

NOTE O – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$627,393 and \$605,986 during 2019 and 2018, 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. Certain categories of expenses are attributable to more than one program or supporting activity. These expenses include security services, campus repairs, and depreciation. Amounts are allocated to the other programs and supporting services by the relationship of the program or supporting service expenses to the total program and supporting services expenses prior to the allocation.

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE Q – FAIR VALUE MEASUREMENTS(CONTINUED)

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, 2019:

	Fair value at May 31, 2019	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 9,141,103	\$ 9,141,103	\$ -	\$ -
Fixed income securities:				
Corporate bonds	49,224	49,224	-	-
Government Bonds	1,647,483	1,647,483	-	-
Cash and money market funds	1,462,909	1,462,909	-	-
Real estate	65,600		65,600	-
	<u>\$ 12,366,318</u>	<u>\$ 12,300,718</u>	<u>\$ 65,600</u>	<u>\$ -</u>

The fair values of the publicly traded stocks and fixed income securities are measured at the quoted prices in active markets as of May 31, 2019. The real estate is valued at cost, which is not representative of fair value, but is a conservative estimate of the property's value.

NOTE R – FINANCIAL ASSETS AND LIQUIDITY

The University is supported by both restricted and unrestricted contributions. Because a donor's restriction requires resources to be used in a particular manner or a future period, the University must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial resources may not be available for general expenditure within one year. As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the University could also draw on its available lines of credit (see Note I).

The following reflects the University's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2019 and 2018

NOTE R – FINANCIAL ASSETS AND LIQUIDITY (CONTINUED)

Financial Assets:	2019	2018
Cash	\$ 4,397,009	\$ 4,645,193
Accounts Receivable, net	1,540,285	1,814,157
Loans Receivable	23,883	111,486
Pledges Receivable, net	277,733	48,123
Investments, excluding land	12,300,718	11,965,423
Total Financial Assets	18,539,628	18,584,382
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(11,216,341)	(10,856,474)
Pledges receivable in more than one year	(272,710)	(33,100)
Loans that must be used to repay government loans	(52,082)	(127,046)
Financial assets available to meet cash needs for general expenditure within 1 year	\$ 6,998,495	\$ 7,567,762

NOTE S – LAWSUIT

During the prior fiscal year, 3 former employees filed a class action lawsuit against the University due to suspension of the Cumberland University 403(b) DC Plan match in November of 2013. The suit claims breach of duty for failure to notify and anti-cutback provision for suspending the match. The case was dismissed in June 2016 for failure to exhaust administrative rights before filing the lawsuit. The plaintiffs appealed and the judge reversed the dismissal ruling and sent the case back to the lower court. The case was later expanded to include all plan participants as per the 2014 Form 5500 filing. In the year ended May 31, 2018, a settlement agreement was reached. The amounts paid to the participant accounts and legal fees for the plaintiff's attorneys was accrued in a prior year. The total paid did not exceed the amount accrued.

NOTE T – RELATED PARTY TRANSACTIONS

The University conducts business with several local banks and companies that are chaired by members of the University's board. In addition, one board member is also adjunct faculty. Board members also regularly contribute to the University, and at times, the amounts contributed by Board members are significant.



Cumberland University  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
May 31, 2019 and 2018

**NOTE U – COMPENSATED ABSENCES**

Twelve month faculty and full time core staff are eligible to accrue vacation time beginning in the first full calendar month following the orientation period. Accrual rates vary based on length of employment, but in no case can the amount accrued exceed 30 days. Accrued, unused vacation days are only paid out at termination of employment.

At May 31, 2019 and 2018, the University had accrued \$410,937 and \$403,111, respectively for compensated absences.

**NOTE V – SUBSEQUENT EVENTS**

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through August 28, 2019, 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, 2019

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Historic Preservation Fund Grants-In-Aid	15.904	\$ 25,000
<u>Department of Education (Direct Programs)</u>		
Pell Grant	84.063	3,358,849
Supplemental Educational Opportunity Grant (SEOG)	84.007	70,650
Federal Work Study Program (FWS)	84.033	89,058
Federal Perkins Loan Program	84.038	-

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 the Uniform Guidance

NOTE B - LOANS

During the year ending May 31, 2019, the University processed the following amount of new loans under the Stafford Loan Program (CFDA #84.032):

	<u>Amount Authorized</u>
Total Loans	\$ 6,840,376

At May 31, 2019 the University had \$23,883 of loans outstanding under the Federal Perkins Loan Program (CFDA #84.038).

**INDEPENDENT AUDITOR'S 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 Trustees of Cumberland University

We have audited, in accordance with the 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, the financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cumberland University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cumberland University's internal control. Accordingly, we do not express an opinion on the effectiveness of Cumberland University.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dempsey Vantrease & Follis PLLC*

Lebanon, Tennessee

August 28, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of  
Cumberland University

**Report on Compliance for Each Major Federal Program**

We have audited Cumberland University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cumberland University's major federal programs for the year ended May 31, 2019. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Cumberland University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Cumberland University's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Cumberland University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

**Report on Internal Control Over Compliance**

Management of Cumberland University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cumberland University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dennis Vance + Folio PLLC*

Lebanon, Tennessee  
August 28, 2019

**Cumberland University**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year ended May 31, 2019

---

**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 2 CFR 200.516(a)? \_\_\_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: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_X Yes \_\_\_no

**Cumberland University**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year ended May 31, 2019**

---

**Section II-Financial Statement Findings**

---

No matters were reported.

---

**Section III-Federal Award Findings and Questioned Costs**

---

No matters were reported.