

Cumberland University

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

Years Ended May 31, 2023 and 2022

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3 - 5
FINANCIAL STATEMENTS	
Statements of Financial Position	6
Statements of Activities	7
Statements of Functional Expenses	8
Statements of Cash Flows	9
NOTES TO FINANCIAL STATEMENTS	10 - 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 - 28
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance Required By Uniform Guidance	29 - 31
Schedule of Findings and Questioned Costs	32 - 33
Summary Schedule of Prior Year Findings	34
Financial Responsibility Supplemental Schedules and Supporting Statements	35 - 38

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Cumberland University

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cumberland University as of May 31, 2023, 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.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cumberland University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cumberland University's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cumberland University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cumberland University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Supplementary 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. The Financial Responsibility Supplemental Schedules and Supporting Statements are presented for purposes of additional analysis and are 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 schedule of expenditures of federal awards and Financial Responsibility Supplemental Schedules and Supporting Statements are 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 **November 9, 2023**, 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 solely 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 effectiveness of Cumberland University's 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.

**Report on Summarized Comparative Information**

We have previously audited Cumberland University's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Dempsey Umbrose + Folles PLLC*

Lebanon, Tennessee  
November 9, 2023

## STATEMENTS OF FINANCIAL POSITION

May 31,

	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,229,142	\$ 6,259,882
Accounts receivable, less allowance for doubtful accounts of \$638,596 in 2023 and \$578,933 in 2022	1,688,335	1,486,226
Pledges receivable, net	2,897,156	2,673,130
Due from other funds	1,246,635	199,510
Investments at market value	20,022,529	15,725,750
Other assets	350,087	226,703
Right of use asset	204,710	-
Property and equipment, net	37,189,011	35,520,839
<b>TOTAL ASSETS</b>	<b>\$ 73,827,605</b>	<b>\$ 62,092,040</b>
<b>LIABILITIES</b>		
Accounts payable, deposits, and accrued expenses	\$ 3,734,354	\$ 3,381,860
Deferred revenues	1,653,107	1,811,732
Due to other funds	1,246,636	199,511
Line of credit	2,406,041	2,395,787
Lease liability	204,710	-
Notes payable	9,661,721	10,088,937
<b>TOTAL LIABILITIES</b>	<b>18,906,569</b>	<b>17,877,827</b>
<b>NET ASSETS</b>		
Without donor restrictions	30,449,151	24,458,109
With donor restrictions	24,471,885	19,756,104
<b>TOTAL NET ASSETS AS RESTATED</b>	<b>54,921,036</b>	<b>44,214,213</b>
<b>TOTAL LIABILITIES AND NET ASSETS AS RESTATED</b>	<b>\$ 73,827,605</b>	<b>\$ 62,092,040</b>

See notes to financial statements

Cumberland University

**STATEMENTS OF ACTIVITIES**

Years Ended May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Combined 2022
<b>REVENUES, GAINS, AND RECLASSIFICATIONS</b>				
Tuition and fees	\$ 53,693,278	\$ -	\$ 53,693,278	\$ 49,510,641
Less scholarships and discounts	(33,708,660)	-	(33,708,660)	(31,693,926)
Net tuition and fees	19,984,618	-	19,984,618	17,816,715
Government grants	4,010,262	-	4,010,262	3,786,517
Private gifts and grants	433,556	8,836,567	9,270,123	3,764,915
Donated goods and services	550,076	-	550,076	1,358,593
Sales and services of auxiliary enterprises	5,577,770	4,611	5,582,381	5,106,291
Investment income (loss)	306,029	(87,745)	218,284	(221,481)
Employee Retention Credit	4,737,989	-	4,737,989	-
Other additions	2,547,569	(20,695)	2,526,874	4,582,943
<b>TOTAL REVENUES AND GAINS</b>	<b>38,147,869</b>	<b>8,732,738</b>	<b>46,880,607</b>	<b>36,194,493</b>
Net assets released from restrictions	4,016,957	(4,016,957)	-	-
<b>TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS</b>	<b>42,164,826</b>	<b>4,715,781</b>	<b>46,880,607</b>	<b>36,194,493</b>
<b>EXPENSES:</b>				
Operating:				
Program Services:				
Instruction	8,478,462	-	8,478,462	8,540,466
Student services	8,866,975	-	8,866,975	7,377,764
Auxiliary enterprises	3,343,073	-	3,343,073	3,303,374
Government grants expended	3,976,859	-	3,976,859	3,780,672
Supporting Services:				
Academic support	569,013	-	569,013	493,457
Institutional support	10,510,271	-	10,510,271	9,179,976
Total operating	35,744,652	-	35,744,652	32,675,710
Non-operating:				
Interest expense	429,132	-	429,132	342,116
Loan Fees	-	-	-	8,744
Total non-operating	429,132	-	429,132	350,860
<b>TOTAL EXPENSES</b>	<b>36,173,784</b>	<b>-</b>	<b>36,173,784</b>	<b>33,026,570</b>
<b>CHANGE IN NET ASSETS</b>	<b>5,991,042</b>	<b>4,715,781</b>	<b>10,706,823</b>	<b>3,167,923</b>
<b>NET ASSETS, beginning of year as restated</b>	<b>24,458,109</b>	<b>19,756,104</b>	<b>44,214,213</b>	<b>41,046,290</b>
<b>NET ASSETS, end of year</b>	<b>\$ 30,449,151</b>	<b>\$ 24,471,885</b>	<b>\$ 54,921,036</b>	<b>\$ 44,214,213</b>

See accompanying notes to financial statements.

Cumberland University

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended May 31,

	Program Services					Supporting Services			Total	
	Instruction	Student Services	Auxiliary Enterprises	Government Grants	Total Program	Academic Support	Institutional Support	Total Supporting Services	2023	2022
Salaries	\$ 6,437,245	\$ 4,010,408	\$ 94,291	\$ -	\$ 10,541,944	\$ 159,843	\$ 2,521,793	\$ 2,681,436	\$ 13,223,380	\$ 12,816,932
Fringe Benefits	976,035	668,112	9,671	-	1,653,818	32,166	568,303	600,469	2,254,287	1,917,280
Supplies	37,788	1,509,824	58,418	-	1,605,830	234,420	601,811	836,231	2,442,061	1,981,475
Utilities	3,042	14,023	109,365	-	126,430	-	1,062,762	1,062,762	1,189,192	1,068,665
Travel & Meals	15,851	1,099,337	2,182,056	-	3,297,244	1,250	82,552	83,802	3,381,046	2,892,792
Bad Debt	-	-	-	-	-	-	96,219	96,219	96,219	394,825
Memberships	35,912	67,860	500	-	104,272	733	92,017	92,750	197,022	130,587
Repairs & Maintenance	3,655	74,662	149	-	78,466	-	326,275	326,275	404,741	324,796
Insurance	7,875	179,883	-	-	187,758	-	427,172	427,172	614,930	415,859
Other Expenses	172,522	922,558	49,391	-	1,144,471	8	2,082,222	2,082,230	3,226,701	2,608,218
Government Grants	-	-	-	3,976,859	3,976,859	-	-	-	3,976,859	3,780,672
Depreciation	-	-	-	-	-	-	2,335,604	2,335,604	2,335,604	2,048,964
	7,689,925	8,546,467	2,503,841	3,976,859	22,717,092	428,220	10,196,730	10,624,950	33,342,042	30,381,065
Allocated Operation & Maintenance	788,537	320,508	839,232	-	1,948,276	140,793	313,541	454,334	2,402,610	2,294,645
Total Expenses Year Ended 2023	\$ 8,478,462	\$ 8,866,975	\$ 3,343,073	\$ 3,976,859	\$ 24,665,368	\$ 569,013	\$ 10,510,271	\$ 11,079,284	\$ 35,744,652	
Total Expenses Year Ended 2022	\$ 8,540,466	\$ 7,377,764	\$ 3,303,374	\$ 3,780,672	\$ 23,002,277	\$ 493,457	\$ 9,179,976	\$ 9,673,433	\$ 32,675,710	

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 10,706,823	\$ 3,167,923
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,335,604	2,048,964
Provision for bad debt	59,663	359,593
Net losses (gains) on investments	(1,124,625)	491,369
Private gifts and grants restricted for long-term investment	(8,836,567)	(3,237,329)
(Increase) decrease in:		
Accounts receivable	(261,772)	(412,309)
Other assets	(149,284)	167,265
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	352,496	250,939
Deferred revenues	(158,625)	209,383
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,923,713</b>	<b>3,045,798</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,003,776)	(7,093,166)
Purchase of investments	(6,938,777)	(2,934,903)
Proceeds from sale and maturity of investments	3,792,523	2,712,329
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(7,150,030)</b>	<b>(7,315,740)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(427,216)	(3,008,554)
Proceeds on line of credit, net	10,254	1,689
Proceeds from private gifts and grants restricted for long-term investment	8,612,539	3,105,780
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>8,195,577</b>	<b>98,915</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,969,260</b>	<b>(4,171,027)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>6,259,882</b>	<b>10,430,909</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 10,229,142</b>	<b>\$ 6,259,882</b>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Noncash exchange of operating lease liabilities for right-of-use assets	\$ 204,710	\$ -
Donated goods	\$ 550,076	\$ 172,751
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 429,132	\$ 342,116

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

### 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 1,870 full-time undergraduate, 441 part-time undergraduate, and 277 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 Standards

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, Leases ("ASU 2016-02"), which along with subsequent amendments, superseded prior lease accounting requirements. The updated standard requires balance sheet recognition for all leases with lease terms greater than one year including a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Organization adopted the provisions of ASU 2016-02 and all of the related amendments effective June 1, 2022 using a modified retrospective approach.

In July 2021, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The adoption of this guidance did not have a material impact on the Organization's financial statements.

#### 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.

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Continued)

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.

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, 2023.

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

May 31, 2023 and 2022

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

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, 2023 and 2022, the allowance for uncollectible accounts was \$638,596 and \$578,933, 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.

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**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 on May 20, 2021, 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.

## NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The investment allocation policy at May 31, 2023 is as follows:

Total Global Equities:	<u>Min</u>	<u>Tactical 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, 2023 is 3%.

## NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Endowment Investments (Continued)

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.

#### 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, 2023, the University's tax returns related to fiscal years ended May 31, 2020 through May 31, 2022 remain open to examination by tax authorities.

#### Employee Retention Credit

During 2023, the University received \$4,737,989 under the terms of the Consolidated Appropriations Act ("the Act") and the American Rescue Plan ("the Plan") for employee retention credits. Under the terms of the Act and the Plan, the University had to meet certain eligibility requirements to participate. As of May 31, 2023, Management believes it has fully complied with the requirements.

Cumberland University

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**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, 2023, the bank balances of cash and cash equivalents exceeding FDIC limits was \$2,863,958.

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 – ACCOUNTS RECEIVABLE**

Accounts receivable at May 31, 2023 and 2022 consists of the following:

	2023	2022
Student Receivables, net	\$ 1,613,882	\$ 1,455,390
Other Receivables	74,453	30,836
Accounts Receivable, net	<u>\$ 1,688,335</u>	<u>\$ 1,486,226</u>

**NOTE D – 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:

	2023		2022	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 11,309,468	\$ 12,548,952	\$ 9,791,713	\$ 11,768,909
Fixed income securities:				
Government bonds	3,276,553	3,288,354	1,187,240	1,186,958
Corporate bonds	100,000	98,637		
Certificates of deposit	681,000	665,478	225,000	223,981
Mutual funds	2,833,028	2,776,999	686,269	638,988
Cash and money market funds	618,207	618,207	1,881,015	1,881,015
Real estate	25,900	25,900	25,900	25,900
	<u>\$ 18,844,156</u>	<u>\$ 20,022,528</u>	<u>\$ 13,797,136</u>	<u>\$ 15,725,750</u>

Cumberland University

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE D – INVESTMENTS AND ENDOWMENT (CONTINUED)**

Investment activity for the year ended May 31, 2023, is as follows:

	With Donor Restrictions		Without Donor Restrictions	Total
	Endowment	Other		
Balance, beginning of year	\$ 8,120,196	\$ 5,654,404	\$ 1,951,150	\$ 15,725,750
Gifts available for investment:				
Gifts creating perpetual endowment	5,084,798	-	-	5,084,798
Other gifts	-	401,550	-	401,550
Transfers				-
Investment return, net	-	(87,745)	(136,807)	(224,552)
Other changes		(615,441)	17,177	(598,264)
Appropriated for scholarships	-	(197,084)	(169,670)	(366,754)
Balance, end of year	<u>\$ 13,204,994</u>	<u>\$ 5,155,684</u>	<u>\$ 1,661,850</u>	<u>\$ 20,022,528</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.

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE D – INVESTMENTS AND ENDOWMENT (CONTINUED)**

Endowment (Continued)

Additionally, in accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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, 2023 is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 12,426,843
Accumulated Investment gains	778,151
	<u>\$ 13,204,994</u>

The activity in the endowment investments for the year ended May 31, 2023 is included in the investment table above.

**NOTE E – PLEDGES RECEIVABLE**

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

	<u>2023</u>	<u>2022</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 481,750	\$ -
One to five years	2,662,545	2,925,475
Total unconditional promises	3,144,295	2,925,475
Less: amortized discount	(247,138)	(252,345)
Pledges receivable, net	<u>\$ 2,897,156</u>	<u>\$ 2,673,130</u>

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE F - PROPERTY AND EQUIPMENT, NET**

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

	2023	2022
Land and improvements	\$ 2,387,043	\$ 2,347,312
Buildings and improvements	49,005,495	44,119,622
Equipment	12,227,598	11,093,082
Vans	477,351	496,758
Library books	1,292,435	1,292,435
Construction in process	593,688	2,654,332
	<u>65,983,610</u>	<u>62,003,541</u>
Less accumulated depreciation	<u>(28,794,599)</u>	<u>(26,482,702)</u>
	<u>\$ 37,189,011</u>	<u>\$ 35,520,839</u>

Some of these assets are security on certain loans – see Note H for more information.

**NOTE G – NOTES PAYABLE**

The University had the following notes payable outstanding at May 31, 2023:

	2023	2022
Cedarstone Bank. \$5,000,000 loan dated 04/30/2021; payable in 240 installments of \$27,730, including interest at 3%, maturing May 2041, secured by certain real property	\$ 4,607,483	\$ 4,798,867
Wilson Bank & Trust, \$5,000,000 loan dated 04/30/2021; payable in 240 installments of \$27,730, including interest at 3%, maturing May 2041, secured by certain real estate	4,605,856	4,797,642
Vendor financing, \$400,000 loan dated 6/1/19; payable in monthly installments of \$3,030 at no interest, maturing 5/31/2030	268,706	305,347
First Bank, \$200,000 loan dated 7/27/2020; payable in 240 installments of \$1,212, including interest at 4%, maturing July 2040, secured by certain real property	179,676	187,081
	<u>\$ 9,661,721</u>	<u>\$ 10,088,937</u>

Cumberland University

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE G – NOTES PAYABLE (CONTINUED)**

Future maturities of notes are as follows:		Principal	Interest	Total
Fiscal year ended:				
	2024	\$ 437,110	\$ 267,075	\$ 704,185
	2025	449,845	277,049	726,894
	2026	462,460	253,323	715,783
	2027	475,463	240,321	715,784
		452,503	226,922	679,425
	Thereafter	7,384,340	2,118,276	9,502,616
		<u>\$ 9,661,721</u>	<u>\$ 3,382,966</u>	<u>\$ 13,044,687</u>

**NOTE H – LINES 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, 2023, the interest rate is 6.75%. Interest payments are not required, but are being paid monthly. At May 31, 2023, the principal outstanding is \$2,406,041 and interest paid for the year ended May 31, 2023 was \$115,348. The available credit at May 31, 2023 is \$12,475,033.

The University has a \$500,000 line of credit with Cedarstone Bank, with variable interest (4% as of May 31, 2023). The maturity date is March 3, 2023. At May 31, 2023, the University had a \$0 balance outstanding on this line of credit.

The University has a \$500,000 line of credit with Wilson Bank & Trust with variable interest (4% as of May 31, 2023). The maturity date is April 30, 2023. At May 31, 2023, the University had a \$0 balance outstanding on this line of credit.

**NOTE I – 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 a discretionary amount of employees' compensation (5% for the years ended May 31, 2023 and 2022) which amounted to \$356,285 and \$379,009 for the years ended May 31, 2023 and 2022, respectively.

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE J - OPERATING LEASES**

In May 2023, the University entered into an operating lease for copy machines for 4 years. It is the University's policy to use a incremental borrowing rate as the discount rate (3.66% at May 31, 2023) for the operating lease in accordance with ASU 2021-09. The remaining lease term for the operating lease is 48 months. The operating lease is presented as a right-of-use asset and related operating lease liability on the balance sheet as of May 31, 2023 in the amount of \$204,710. The future minimum payments under the lease for the next five years are as follows:

<u>May 31,</u>	
2024	\$ 61,519
2025	61,519
2026	61,519
2027	61,519
	<u>\$ 246,076</u>
Less effects of discounting	(41,366)
	<u>\$ 204,710</u>

The Organization leases office equipment with operating agreements of varying lengths. It is the Organization's policy not to present short-term leasing activities with agreements maturing in 12 months or less on the statement of financial position.

**NOTE K – DONATED GOODS AND SERVICES**

Donated goods and services for May 31, were as follows:

	<u>2023</u>	<u>2022</u>
Student supplies	\$ 41,000	\$ 47,751
Building and land leases	176,304	410,842
Property and equipment	276,272	\$ 900,000
Auction items	56,500	\$ -
	<u>\$ 550,076</u>	<u>\$ 1,358,593</u>

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE L - NET ASSETS**

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

	2023	2022
Subject to expenditure for specified purpose:		
Scholarships	\$ 7,221,696	\$ 7,109,835
Capital Improvements and Other	2,359,927	2,279,050
	<u>9,581,623</u>	<u>9,388,885</u>
Subject to University spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount), which, once appropriated is available to support:		
Scholarships	13,204,995	8,120,196
In kind building space	1,685,267	2,247,023
	<u>14,890,262</u>	<u>10,367,219</u>
Total net assets with donor restrictions	<u>\$ 24,471,885</u>	<u>\$ 19,756,104</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:

	2023	2022
Purpose restrictions accomplished:		
Operations and support	\$ 1,275,099	\$ 677,643
Capital expenditures	1,358,103	1,280,612
Scholarships	765,414	680,887
	<u>3,398,616</u>	<u>2,639,142</u>
Time restrictions:		
In-kind building space	618,341	-
	<u>\$ 4,016,957</u>	<u>\$ 2,639,142</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.

In January 2021, the University amended an agreement with a vendor to operate the University's bookstore. The contract is for a 10 year period starting February 22, 2021. If the contract is terminated for any reason during the first year of the term, the University must pay the vendor \$50,000. In addition, if the University terminates during the 10 year period without cause, it will be required to pay the vendor the unamortized value of the facility upgrades made by the vendor.

## NOTES TO FINANCIAL STATEMENTS

May 31, 2023 and 2022

### NOTE N – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$557,620 and \$511,165 during 2023 and 2022, respectively related to development and fund-raising. Such amounts are included in institutional support expenses in the accompanying statements of activities.

### NOTE O – 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 P – 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.

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE P – FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table summarizes the classification of fair value assets as of May 31, 2023:

	Fair value at May 31, 2023	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 12,548,952	\$ 12,548,952	\$ -	\$ -
Fixed income securities:				
Government bonds	3,288,354	3,288,354	-	-
Corporate bonds	98,637	98,637		
Certificates of deposit	665,478	665,478		
Mutual funds	2,776,999	2,776,999		
Cash and money market funds	618,207	618,207	-	-
Real estate	25,900	-	25,900	-
	<u>\$ 20,022,528</u>	<u>\$ 19,996,628</u>	<u>\$ 25,900</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, 2023. 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 Q – RELATED PARTY TRANSACTIONS**

The University conducts business with several local banks and companies who have board members that are also 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.

**NOTE R – COMPENSATED ABSENCES**

Twelve month faculty and full time 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, 2023 and 2022, the University had accrued \$468,412 and \$422,346, respectively for compensated absences.

**NOTE S – 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).

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2023 and 2022

**NOTE S – FINANCIAL ASSETS AND LIQUIDITY (CONTINUED)**

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

Financial Assets:	2023	2022
Cash	\$ 10,229,142	\$ 6,259,882
Accounts Receivable, net	1,688,335	1,486,226
Pledges Receivable, net	2,897,156	2,673,130
Investments, excluding land	19,996,629	15,699,850
Total Financial Assets	34,811,262	26,119,088
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(18,842,428)	(13,774,600)
Pledges receivable in more than one year	(2,662,545)	(2,673,130)
Financial assets available to meet cash needs for general expenditure within 1 year	<u>\$ 13,306,289</u>	<u>\$ 9,671,358</u>

**NOTE T - RESTATEMENT**

During 2023, the University made a prior period adjustments to pledge receivable for donated leased property for long-term use. The adjustment was an increase of \$2,247,023 to pledge receivable and unrestricted net assets.

**NOTE U – SUBSEQUENT EVENTS**

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through , 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, 2023

Federal Grantor/Pass Through Grantor	Program/Cluster Name	CFDA#	Contract #	Expenditure	Passed to Subrecipients
<b>FEDERAL AWARDS:</b>					
Direct Funding:					
Department of Education	Student Financial Assistance Federal Supplemental Educational Opportunity Grants	84.007		\$ 85,700	\$ 85,700
Department of Education	Student Financial Assistance Federal Work Study Program	84.033		95,330	95,330
Department of Education	Student Financial Assistance Federal Pell Grant Profram	84.063		3,795,828	3,795,828
	Total Student Financial Assistance			3,976,858	3,976,858
Department of Education	Higher Education Emergency Relief Funds III Student Aid	84.425E	P425E202604-20B	19,394	19,394
Department of Education	Higher Education Emergency Relief Funds III Institutonal Aid	84.425F	P425F200543-20B	116,590	-
	Total Higher Education Emergency Relief			135,984	19,394
National Archives and Records Administration	National Historical Pubications and Records	89.003	PE-102761-19	129,446	-
<b>TOTAL FEDERAL AWARDS</b>				<u>\$ 4,242,288</u>	<u>\$ 3,996,252</u>

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of federal awards includes the federal grant activity of Cumberland University and is presented on the same basis of accounting as Cumberland University's financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

**NOTE B - LOANS**

During the year ended May 31, 2023, the University processed the following amount of new loans under the Federal Direct Student Loan Program:

Department of Education	Student Financial Assistance				
	Federal Family Education Loans	84.268		<u>\$ 5,695,952</u>	<u>\$ 5,695,952</u>

**NOTE C - INDIRECT COST RATE**

Only the National Archives and Records grant includes indirect costs. For that grant, the University used the 10% de minimus indirect cost rate allowed by the Uniform Guidance.

**INDEPENDENT AUDITORS' 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, 2023, 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 November 9, 2023.

**Report on 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) as a basis for designing 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's internal control.

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 or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cumberland 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 financial statements. 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 Vantrasse + Folles PLLC*

Lebanon, Tennessee  
November 9, 2023

**INDEPENDENT AUDITORS' 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**

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

We have audited Cumberland University's compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, Cumberland University, 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, 2023.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cumberland University and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Cumberland University's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Cumberland University's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cumberland University's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cumberland University's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Cumberland University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Cumberland University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Cumberland University's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

*Government Auditing Standards* requires the auditor to perform limited procedures on Cumberland University's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Cumberland University's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Dempsey Unbrase + Folles PLLC*

Lebanon, Tennessee  
November 9, 2023

**Cumberland University**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year ended May 31, 2023

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**Section I - Summary of Auditor's Reports**

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**Financial Statements**

Type of auditor's report issued: unmodified

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; 84.033; 84.063	Student Financial Aid Cluster
84.268	Federal Direct Student Loans

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, 2023

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**Section II-Financial Statement Findings**

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No matters were reported.

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

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No matters were reported.

**Cumberland University**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
For the Year ended May 31, 2023

Prior Year Finding Number: 2022-001

Finding Title: Procurement Standards

Status: Corrected

**FINANCIAL RESPONSIBILITY  
SUPPLEMENTAL SCHEDULE**

May 31, 2023

	<b>Components</b>	<b>Totals</b>
<b>PRIMARY RESERVE RATIO</b>		
Expendable Net Assets:		
1 Net assets without donor restrictions		30,449,151
2 Net assets with donor restrictions		24,471,885
3 Secured and Unsecured related party receivable	-	-
4 Unsecured related party receivable		-
4a Unsecured other related party assets		-
5 Property, plant and equipment, net (includes Construction in progress) - Total		37,189,011
6 Property, plant and equipment pre-implementation, including capital leases	36,595,323	
7 Property, plant and equipment post-implementation with outstanding debt for original purchase	-	
8 Property, plant and equipment post-implementation without outstanding debt for original purchase	-	
9 Construction in progress	593,688	
10 Lease right-of-use asset, net - Total		204,710
11 Lease right-of-use asset, pre-implementation (grandfather of leases option chosen)	-	-
12 Lease right-of-use asset, post-implementation	204,710	
13 Intangible assets		-
14 Post-employment and pension liabilities		-
15 Long-term debt - for long term purposes		12,067,763
16 Long-term debt - for long term purposes pre-implementation	4,330,476	
17 Long-term debt - for long term purposes post-implementation	-	
18 Line of Credit for Construction in progress	-	
19 Lease right-of-use asset liability		204,710
20 Pre-implementation right-of-use asset liability (grandfather of leases option chosen)	-	-
21 Post-implementation right-of-use asset liability	204,710	
22 Annuities, term endowments and life income with donor restrictions		-
23 Annuities with donor restrictions	-	
24 Term endowments with donor restrictions	-	
25 Life income funds with donor restrictions	-	
Net assets with donor restrictions: Other, for purpose or time	11,266,890	
26 Net assets with donor restrictions: restricted in perpetuity		13,204,995
Total Expendable Net Assets(Formula = Lines 1+2-4-5-10+14+15+19-22-26)		<b>53,783,804</b>
Expenses and Losses:		
27 Total expenses without donor restrictions - taken directly from Statement of Activities		35,744,652
28 Non-Operating and Net Investment (loss)	-	
28a Other components of net periodic pension costs		-
28b Change in value of split-interest agreements		-
28c Other losses		-
29 Net investment losses	-	
30 Pension-related changes other than net periodic costs	-	
Total Expenses and Losses(Formula = Lines 27+28a+28b+28c)		<b>35,744,652</b>
<b>EQUITY RATIO</b>		
Modified Net Assets		
31 Net assets without donor restrictions		30,449,151
32 Net assets with donor restrictions		24,471,885
32a Lease right-of-use asset pre-implementation		-
32b Pre-implementation right-of-use liabilities		-
33 Intangible assets		-
34 Intangible assets-Goodwill		-
35 Unsecured related party receivables		-
36 Unsecured related party other assets		-
Total Modified Net Assets(Formula = Lines 31+32-32A+32-33-34-35-36)		<b>54,921,036</b>
Modified Assets		
37 Total assets		73,827,605
38 Lease right-of-use asset pre-implementation		-
39 Pre-implementation right-of-use asset liability		-
40 Intangible assets		-
41 Secured and Unsecured related party receivables	-	
42 Unsecured related party receivables		-
Total Modified Assets(Formula = Lines 37-38+39-40-42)		<b>73,827,605</b>
<b>Net Income Ratio</b>		
43 Change in Net Assets Without Donor Restrictions		5,991,042
44 Total revenues without donor restrictions and gains without donor restrictions:		
45 Total Operating Revenues and Other Additions (Gains)		42,164,826
46 Investment return appropriated for spending		169,670
47 Non-Operating Revenue and Other Gains		-

Line	<b>Property, plant and equipment (PP&amp;E)</b>	<b>Pre-Implementation</b>	<b>Post-Implementation</b>	<b>Total</b>
1	PP&E, net of accumulated depreciation as of May 31, 2022			
2	(1) Land, Buildings, Equipment, Furniture and Software	21,829,510	11,036,997	32,866,507
3	(2) Leased capital assets	-	-	-
4	(3) CIP	188,349	2,465,983	2,654,332
5	Total at May 31, 2022	22,017,859	13,502,980	35,520,839
6	<b>FY 21 Activity:</b>			
7	<b>(1) Land, Buildings, Equipment, Furniture and Software:</b>			
8	Additions	-	6,064,420	6,064,420
9	Disposals	-	-	-
10	Depreciation	(1,374,118)	(961,486)	(2,335,604)
11	<b>Sub-total PP&amp;E excl Leases and CIP</b>	<b>(1,374,118)</b>	<b>5,102,934</b>	<b>3,728,816</b>
12	<b>(2) Leases:</b>			
13	Principle reductions	-	-	-
14	Amortization	-	-	-
15	<b>Sub-total Leases</b>	<b>-</b>	<b>-</b>	<b>-</b>
16	<b>(3) CIP:</b>			
17	Additions	-	(2,060,644)	(2,060,644)
18	<b>Sub-total CIP</b>	<b>-</b>	<b>(2,060,644)</b>	<b>(2,060,644)</b>
19	<b>PP&amp;E, net at May 31, 2023</b>	<b>20,643,741</b>	<b>16,545,270</b>	<b>37,189,011</b>
20	<b>Comprised of:</b>			
21	PP&E	20,455,392	16,139,931	36,595,323
22	Leases	-	-	-
23	CIP	188,349	405,339	593,688
24		<b>20,643,741</b>	<b>16,545,270</b>	<b>37,189,011</b>

		ALLOWABLE DOLP All pre-implementation and post-implementation debt associated with PP&E		NONALLOWABLE DEBT (Debt associated with operations)	
Line	Debt and LOC for Supplemental Schedule	Pre-Implementation	Post-Implementation	Post-Implementation	Total
25	Debt at May 31, 2022:				
26	(1) PP&E	4,337,881	7,089,807	-	11,427,688
27	(2) Capital Leases	-	-	-	-
28	(3) CIP	-	-	-	-
29	(4) Debt for operations	-	-	1,057,037	1,057,037
30	Total at May 31, 2022	4,337,881	7,089,807	1,057,037	12,484,725
31	<b>FY 23 Activity:</b>				
32	(1) PP&E				
33	Payments	(7,405)	(383,169)	-	(390,574)
34	Additions	-	-	-	-
	<b>Sub-total PP&amp;E</b>				
35	<b>excl Leases and CIP</b>	<b>(7,405)</b>	<b>(383,169)</b>	<b>-</b>	<b>(390,574)</b>
36	(2) Leases				
37	Payments	-	-	-	-
38	<b>Sub-total Leases</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
39	(3) CIP				
40	Additions	-	-	-	-
41	<b>Sub-total CIP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
42	(4) Operations				
43	Payments	-	-	(36,641)	(36,641)
44	Additions	-	-	10,253	10,253
45	<b>Sub-total Operations</b>	<b>-</b>	<b>-</b>	<b>(26,388)</b>	<b>(26,388)</b>
46	Debt at May 31, 2023	4,330,476	6,706,638	1,030,649	12,067,763
47	<b>Allowable Debt comprised of:</b>				
48	(1) PP&E	4,330,476	6,706,638	-	11,037,114
49	(2) Capital Leases	-	-	-	-
50	(3) CIP	-	-	-	-
51	(4) Debt for operations	-	-	-	-
52	<b>Sub-total allowable debt</b>	<b>4,330,476</b>	<b>6,706,638</b>	<b>-</b>	<b>11,037,114</b>
53	(4) Non-allowable debt for operations	-	-	1,030,649	1,030,649
54	<b>Total Debt at May 31, 2021</b>	<b>4,330,476</b>	<b>6,706,638</b>	<b>1,030,649</b>	<b>12,067,763</b>

		Financial Responsibility Supplemental	
		Primary Reserve	Net Income
		Ratio	Ratio
		<u>Appendix B, Line 28:</u>	<u>Appendix B, Line 47:</u>
		Non-Operating and	Non-operating
		Net Investment	Revenue and Other
		(loss)	Gains
Line	From the non-operating section of the statement of activities, without donor restrictions:	<u>Gain/(Loss)</u>	
	Net return on investments, net of amount appropriated for endowment		
1	spending payout	\$ 136,359	
	Adjustment: add investment returns appropriated for spending from board-		
2	designated endowments	<u>169,670</u>	
3	Adjusted investment returns	306,029	306,029
4	Change in value of interest rate swaps	-	-
5	Change in value of annuity agreements	-	-
6	Gain/(loss) on disposals of property and equipment	-	-
7	Pension-related changes other than net periodic pension costs	-	-
8	Adjusted total non-operating items	<u>\$ 306,029</u>	<u>\$ 306,029</u>