

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2018 and 2017

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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, 2018, 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, 2018, 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 September 6, 2018 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
September 6, 2018

Cumberland University

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Combined 2017
ASSETS					
Cash and cash equivalents	\$ 2,720,514	\$ 1,853,961	\$ 70,718	\$ 4,645,193	\$ 3,927,494
Accounts receivable, less allowance for uncollectible accounts of \$101,700 in 2018 and \$54,109 in 2017	1,814,157	-	-	1,814,157	1,871,334
Loans receivable	111,486	-	-	111,486	134,780
Pledges receivable	43,150	4,973	-	48,123	57,913
Inventories	93,497	-	-	93,497	63,553
Due from other funds	-	1,257,143	-	1,257,143	1,665,665
Investments at market value	1,189,572	4,252,514	6,588,937	12,031,023	11,600,898
Other assets	208,234	-	-	208,234	244,855
Property and equipment, net	21,048,486	-	-	21,048,486	19,247,854
TOTAL ASSETS	\$27,229,096	\$7,368,591	\$6,659,655	\$41,257,342	\$38,814,346
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 2,364,368	\$ -	\$ -	\$ 2,364,368	\$ 2,081,924
Deferred revenues	2,355,486	-	-	2,355,486	2,461,387
Due to other funds	1,257,143	-	-	1,257,143	1,665,665
Line of Credit	2,395,000	-	-	2,395,000	2,695,000
Notes payable	3,292,439	-	-	3,292,439	3,153,600
Federal student loan funds	127,046	-	-	127,046	165,559
TOTAL LIABILITIES	11,791,482	-	-	11,791,482	12,223,135
NET ASSETS					
Unrestricted - operating	76,567	-	-	76,567	318,263
Unrestricted - investment in plant	15,361,047	-	-	15,361,047	13,399,254
Temporarily restricted	-	7,368,591	-	7,368,591	6,314,924
Permanently restricted	-	-	6,659,655	6,659,655	6,558,770
TOTAL NET ASSETS	15,437,614	7,368,591	6,659,655	29,465,860	26,591,211
TOTAL LIABILITIES AND NET ASSETS	\$27,229,096	\$7,368,591	\$6,659,655	\$41,257,342	\$38,814,346

Cumberland University

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Combined 2017
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$30,587,549	\$ -	\$ -	\$30,587,549	\$27,503,192
Less scholarships and discounts	(14,547,800)	-	-	(14,547,800)	(13,173,418)
Net tuition and fees	16,039,749	-	-	16,039,749	14,329,774
Government grants	3,091,314	-	-	3,091,314	2,568,665
Private gifts and grants	1,324,123	1,637,635	70,718	3,032,476	2,311,681
Sales and services of auxiliary enterprises	5,299,046	-	-	5,299,046	4,793,089
Investment income (loss)	102,902	646,158	30,167	779,227	681,124
Other additions	223,522	-	-	223,522	225,468
TOTAL REVENUES AND GAINS	26,080,656	2,283,793	100,885	28,465,334	24,909,801
Net assets released from restrictions	1,230,126	(1,230,126)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	27,310,782	1,053,667	100,885	28,465,334	24,909,801
EXPENSES:					
Operating:					
Instruction	8,316,014	-	-	8,316,014	8,494,309
Academic support	469,768	-	-	469,768	422,218
Student services	5,540,038	-	-	5,540,038	4,703,323
Institutional support	4,946,450	-	-	4,946,450	5,004,025
Auxiliary enterprises	2,965,557	-	-	2,965,557	2,633,659
Government grants expended	3,091,314	-	-	3,091,314	2,568,253
Total operating	25,329,140	-	-	25,329,140	23,825,788
Non-operating:					
Interest expense	261,545	-	-	261,545	185,940
Total non-operating	261,545	-	-	261,545	185,940
Change in value of split-interest agreements	-	-	-	-	5,063
TOTAL EXPENSES	25,590,685	-	-	25,590,685	24,016,791
CHANGE IN NET ASSETS	1,720,097	1,053,667	100,885	2,874,649	893,010
NET ASSETS, beginning of year	13,717,517	6,314,924	6,558,770	26,591,211	25,698,201
NET ASSETS, end of year	<u>\$15,437,614</u>	<u>\$7,368,591</u>	<u>\$6,659,655</u>	<u>\$29,465,860</u>	<u>\$26,591,211</u>

See accompanying notes to financial statements.

Cumberland University

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,874,649	\$ 893,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	969,396	842,424
Provision for bad debt	47,591	(32,530)
Net (gains) losses on investments	(384,035)	(349,110)
Private gifts and grants restricted for long-term investment	(1,708,353)	(1,424,796)
Change in value of split-interest agreements	-	5,063
(Increase) decrease in:		
Inventories	(29,944)	(8,981)
Accounts receivable	9,586	(106,185)
Other assets	36,621	24,271
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	282,444	317,855
Federal student loan funds	(38,513)	(59,947)
Deferred revenues	(105,901)	177,056
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,953,540	278,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,567,808)	(326,321)
Purchase of investments	(3,037,801)	(2,007,378)
Proceeds from student loan collections	23,294	38,218
Proceeds from sale and maturity of investments	2,991,711	1,798,769
NET CASH USED IN INVESTING ACTIVITIES	(2,590,604)	(496,712)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(120,596)	(8,926)
Proceeds on notes payable, net of loan fees	57,215	3,093,722
Payments on line of credit, net of loan fees amortized	(300,000)	(3,268,971)
Proceeds from private gifts and grants restricted for long-term investment	1,718,143	1,517,879
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,354,762	1,333,704
NET INCREASE IN CASH AND CASH EQUIVALENTS	717,699	1,115,122
CASH AND CASH EQUIVALENTS, beginning of year	3,927,494	2,812,372
CASH AND CASH EQUIVALENTS, end of year	\$ 4,645,193	\$ 3,927,494
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ 202,220	\$ 68,804
Assets donated	\$ 478,500	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 261,545	\$ 185,940

See accompanying notes to financial statements.

Cumberland University

NOTES TO FINANCIAL STATEMENTS

May 31, 2018 and 2017

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 1500 full-time undergraduate, 500 part-time undergraduate, and 500 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.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be filled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on the assets for general or specific purposes.

Cash and Cash Equivalents

The University considers cash equivalents to be financial instruments with maturities of three months or less, except those that are included in the endowment fund, which are accounted for as investments.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Uncollectible Accounts

The University provides an allowance for uncollectible accounts receivable based on review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. As of May 31, 2018 and 2017, the allowance for uncollectible accounts was \$101,700 and \$54,109, respectively.

Contributions

The University accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Contributions, including unconditional promises to give, are recognized as revenues in the period received.

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Donor restricted contributions whose restrictions are met in the same reporting period as the contributions are recorded as increases in unrestricted net assets.

Numerous alumni provide significant hours of volunteer services to the University throughout the year. Volunteers also provide hours of services during fund-raising campaigns. The services do not meet the criteria for recognition as contribution under Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities* and are not reflected in the accompanying financial statements.

Inventories

Inventories are stated at the lower of cost or net realizable value on the first in, first out basis.

Investments

Investments in marketable securities are stated at fair market value. Real estate investments are stated primarily at current appraised value.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments

It is the University's policy to diversify its endowment investments to obtain the desired return objectives within its risk parameters.

The return objectives per the 2013 Investment Policy are as follows (all objectives are long-term):

- Safety or preservation of capital
- Income
- 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, 2018 is as follows:

	<u>Min</u>	<u>Tactical</u>	<u>Max</u>	<u>Benchmark</u>
Total Global Equities:				
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 Emergin 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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

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.

It is the University's understanding that the principal endowed by the donor remains permanently restricted. Certain endowments have a percentage of earnings added to corpus, and these earnings are also permanently restricted. Other earnings on endowments, including the unrealized gains or losses are considered temporarily restricted until appropriated for disbursement. At that time, net assets are released from temporarily restricted to unrestricted net assets.

Plant Assets and Depreciation

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes items with a cost or fair value of \$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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, the University's tax returns related to fiscal years ended May 31, 2015 through May 31, 2017 remain open to examination by tax authorities.

Operation and Maintenance of Physical Plant

For financial statement presentation purposes, the University allocates the non-capital expenses for the operation and maintenance of physical plant to the other departments using a systematic and rational method.

NOTE B - CREDIT CONCENTRATION RISK

The University maintains interest-bearing cash accounts at several banks. At times, account balances may exceed federally insured limits. The University has not experienced any losses on these accounts, and management believes the University is not exposed to any significant risk on cash accounts.

The University offers degrees in a variety of disciplines. Its accounts receivable represents concentrations with students and third parties. Its loans to students are made through the Perkins Loan federal program. Students attending the University are typically from the Middle Tennessee area; however, there are many from out-of-state.

NOTE C - LOANS RECEIVABLE

Advances from the Federal government under the Perkins loan program are distributable to the Federal government upon liquidation of the fund and thus is reflected as an asset (under "Loans Receivable") and a liability (under "Federal Student Loan Funds") on the statements of financial position.

NOTE D - INVESTMENTS

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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE D – INVESTMENTS (CONTINUED)

	2018		2017	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 8,692,880	\$ 9,403,603	\$ 8,142,591	\$ 8,639,911
Fixed income securities:				
Corporate bonds	50,000	46,646	50,000	48,480
Government Bonds	1,838,075	1,782,911	2,435,380	2,409,511
Certificates of deposit			-	-
Cash and money market funds	732,263	732,263	437,396	437,396
Real estate	65,600	65,600	65,600	65,600
	<u>\$ 11,378,819</u>	<u>\$ 12,031,024</u>	<u>\$ 11,130,968</u>	<u>\$ 11,600,898</u>

Investment income results for the years ended May 31, 2018 and 2017, were as follows:

	2018	2017
Interest, dividends, and capital gain distributions	\$ 404,086	\$ 355,276
Realized gains	186,493	500,557
Unrealized gains (losses)	188,648	(174,709)
	<u>\$ 779,227</u>	<u>\$ 681,124</u>

The endowment investments by net asset class as of May 31, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- Restricted Funds	<u>\$ 1,123,972</u>	<u>\$ 4,252,514</u>	<u>\$ 6,588,937</u>	<u>\$ 11,965,423</u>

The activity in the endowment investments for the year ended May 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 1, 2017	\$ 1,161,072	\$ 4,097,595	\$ 6,276,631	\$ 11,535,298
Net transfers in (out)	(125,142)	\$ (521,406)	\$ 312,306	(334,242)
Interest, dividends and capital gain distributions	142,074	238,258	-	380,332
Realized gains/(losses)	72,968	122,419	-	195,387
Unrealized gains (losses)	(127,000)	315,648	-	188,648
Balance May 31, 2018	<u>\$ 1,123,972</u>	<u>\$ 4,252,514</u>	<u>\$ 6,588,937</u>	<u>\$ 11,965,423</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE E – PLEDGES RECEIVABLE

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

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	\$ 15,023	\$ 50,967
One to five years	40,000	10,000
Total unconditional promises	55,023	60,967
Less: amortized discount	(6,900)	(3,054)
Less: allowance for uncollectible pledges	-	
Pledges receivable, net	<u>\$ 48,123</u>	<u>\$ 57,913</u>

NOTE F - PROPERTY AND EQUIPMENT, NET

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

	2018	2017
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	29,875,605	28,451,710
Equipment	8,144,167	7,460,869
Vans	344,738	318,519
Library books	1,276,754	1,276,754
Construction in process	692,342	98,858
	41,340,104	38,613,208
Less accumulated depreciation	20,291,618	19,365,354
	<u>\$ 21,048,486</u>	<u>\$ 19,247,854</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE G – NOTES PAYABLE

The University had the following notes payable outstanding at May 31, 2018:

	<u>2018</u>	<u>2017</u>
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	\$ 2,911,734	\$ 3,008,744
Ally Bank notes, payable in monthly installments of \$1,424 including interest at 4.99%, maturing October 2021, secured by certain vehicles	51,884	66,378
Ally Bank notes, payable in monthly installments of \$552 including interest at 4.99%, maturing December 2023, secured by certain vehicles	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	139,377	144,437
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	165,696	-
Less: loan fees, net of amortization	(8,744)	(65,959)
	<u>\$ 3,292,439</u>	<u>\$ 3,153,600</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE G – NOTES PAYABLE (CONTINUED)

Future maturities of notes are as follows:		Principal	Interest	Total
Fiscal year ended:				
2019		\$ 132,246	\$ 135,595	\$ 267,841
2020		138,151	130,069	268,220
2021		144,317	124,300	268,617
2022		2,727,677	118,371	2,846,048
2023		145,862	3,614	149,476
Thereafter		4,186	65	4,251
		<u>\$ 3,292,439</u>	<u>\$ 512,014</u>	<u>\$ 3,804,454</u>

In addition to the notes above, the University obtained a loan in the amount of \$2,000,000 dated 4/5/2018, with a maturity date of 10/5/2038. The note bears interest at an initial rate of 4.95%. As of May 31, 2018, no amounts had been drawn on this loan.

NOTE H– 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, 2018, the interest rate is 3.5%. Interest payments are not required, but are being paid monthly. At May 31, 2018, the principal outstanding is \$2,395,000 and interest paid for the year ended May 31, 2018 was \$98,558.35.

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, 2019. At May 31, 2018, 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 an amount equal to the employees' contributions, which amounted to \$259,127 and \$249,623 for the years ended May 31, 2018 and 2017, respectively.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE J - 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 \$266,000 and \$365,000 for the years ended May 31, 2018 and 2017 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.

NOTE K - NET ASSETS

Net assets released from restrictions were comprised of the following:

	2018	2017
Operations and support	\$ 311,630	\$ 320,842
Capital expenditures	207,952	-
Scholarships	710,544	743,837
	<u>\$ 1,230,126</u>	<u>\$ 1,064,679</u>

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

	2018	2017
Available for scholarships	\$ 4,838,857	\$ 4,311,943
Available for capital improvements/operations	2,529,735	2,002,981
	<u>\$ 7,368,592</u>	<u>\$ 6,314,924</u>

Permanently restricted net assets at May 31, 2018 and 2017 primarily consist of endowment funds.

NOTE L- 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.

During the prior fiscal year, the University obtained a letter of credit in the amount of \$5,721,472 in favor of the US Department of Education. At May 31, 2018, the University had not drawn on the letter of credit. During the current fiscal year, the letter of credit was released by the Department of Education.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE M - SUPPLEMENTAL CASH FLOW INFORMATION

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

	2018	2017
Cash paid for interest	<u>\$ 261,545</u>	<u>\$ 185,940</u>

NOTE N - DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$605,986 and \$589,417 during 2018 and 2017, 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.

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.

The following table summarizes the classification of fair value assets as of May 31, 2018:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2018 and 2017

NOTE P – FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value at May 31, 2018	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 9,403,603	\$ 9,403,603	\$ -	\$ -
Fixed income securities:				
Corporate bonds	46,646	46,646	-	-
Government Bonds	1,782,911	1,782,911	-	-
Cash and money market funds	732,263	732,263	-	-
Real estate	65,600		65,600	-
	<u>\$ 12,031,024</u>	<u>\$ 11,965,424</u>	<u>\$ 65,600</u>	<u>\$ -</u>

NOTE Q – 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 R – CHANGE IN ACCOUNTING PRINCIPLE

During the current fiscal year, the University was required to implement ASU 2015-11 *Simplifying the Measurement of Inventory*. There was no change in May 31, 2017 net assets as a result of applying this new accounting principle.

NOTE S – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 6, 2018, 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, 2018

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education (Direct Programs)</u>		
Pell Grant	84.063	\$ 2,922,278
Supplemental Educational Opportunity Grant (SEOG)	84.007	58,219
Federal Work Study Program (FWS)	84.033	68,355
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, 2018, the University processed the following amount of new loans under the Stafford Loan Program (CFDA #84.032):

	<u>Amount Authorized</u>
Total Loans	\$ 7,899,481

At May 31, 2018 the University had \$111,487 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, 2018, 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 September 6, 2018.

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

September 6, 2018

**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, 2018. 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, 2018.

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.

Dempsey Ventresca + Folles PLLC

Lebanon, Tennessee
September 6, 2018

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2018

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:

CFDA Number(s)

Name of Federal Program or Cluster

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