

Cumberland University

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Years Ended May 31, 2022 and 2021

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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, 2022, 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, 2022, 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. 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 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 October 26, 2022, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dempsey Ventresca + Folles RUC

Lebanon, Tennessee
October 26, 2022

Cumberland University

STATEMENTS OF FINANCIAL POSITION

	May 31,			
	Without Donor Restrictions	With Donor Restrictions	Total 2022	Combined 2021
ASSETS				
Cash and cash equivalents	\$ 2,987,382	\$ 3,272,500	\$ 6,259,882	\$ 10,430,909
Accounts receivable, less allowance for doubtful accounts of \$578,933 and \$219,341	1,486,226	-	1,486,226	1,433,510
Pledges receivable	163,636	262,471	426,107	294,558
Inventories	-	-	-	-
Due from other funds	-	199,510	199,510	1,107,849
Investments at market value	1,951,150	13,774,600	15,725,750	15,994,545
Other assets	226,703	-	226,703	393,968
Property and equipment, net	35,520,839	-	35,520,839	30,476,636
TOTAL ASSETS	\$ 42,335,936	\$ 17,509,081	\$ 59,845,017	\$ 60,131,975
LIABILITIES				
Accounts payable, deposits, and accrued expenses	\$ 3,381,860	\$ -	\$ 3,381,860	\$ 3,130,921
Deferred revenues	1,811,732	-	1,811,732	1,602,351
Due to other funds	199,511	-	199,511	1,107,848
Line of Credit	2,395,787	-	2,395,787	2,394,098
Notes payable	10,088,937	-	10,088,937	13,097,490
TOTAL LIABILITIES	17,877,827	-	17,877,827	21,332,708
NET ASSETS				
Without donor restrictions	24,458,109	-	24,458,109	21,654,216
With donor restrictions	-	17,509,081	17,509,081	17,145,051
TOTAL NET ASSETS	24,458,109	17,509,081	41,967,190	38,799,267
TOTAL LIABILITIES AND NET ASSETS	\$ 42,335,936	\$ 17,509,081	\$ 59,845,017	\$ 60,131,975

Cumberland University

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Combined 2021
REVENUES, GAINS, AND RECLASSIFICATIONS				
Tuition and fees	\$49,510,641	\$ -	\$49,510,641	\$36,615,244
Less scholarships and discounts	(31,693,926)	-	(31,693,926)	(19,117,656)
Net tuition and fees	17,816,715	-	17,816,715	17,497,588
Government grants	3,786,517	-	3,786,517	5,062,491
Private gifts and grants	1,886,179	3,237,329	5,123,508	3,825,444
Sales and services of auxiliary enterprises	5,043,917	62,374	5,106,291	4,988,727
Investment income (loss)	131,898	(353,379)	(221,481)	3,595,356
Other additions	4,526,095	56,848	4,582,943	1,643,026
TOTAL REVENUES AND GAINS	33,191,321	3,003,172	36,194,493	36,612,632
Net assets released from restrictions	2,639,142	(2,639,142)	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	35,830,463	364,030	36,194,493	36,612,632
EXPENSES:				
Operating:				
Program Services:				
Instruction	8,540,466	-	8,540,466	8,146,311
Student services	7,377,764	-	7,377,764	6,310,247
Auxiliary enterprises	3,303,374	-	3,303,374	2,695,140
Government grants expended	3,780,672	-	3,780,672	5,074,121
Supporting Services:				
Academic support	493,457	-	493,457	476,027
Institutional support	9,179,976	-	9,179,976	8,115,199
Total operating	32,675,710	-	32,675,710	30,817,046
Non-operating:				
Interest expense	342,116	-	342,116	431,217
Loan Fees	8,744	-	8,744	-
Liquidation of Perkins loans	-	-	-	(14,975)
Total non-operating	350,860	-	350,860	416,242
TOTAL EXPENSES	33,026,570	-	33,026,570	31,233,288
CHANGE IN NET ASSETS	2,803,893	364,030	3,167,923	5,379,344
NET ASSETS, beginning of year	21,654,216	17,145,051	38,799,267	33,419,923
NET ASSETS, end of year	\$24,458,109	\$17,509,081	\$41,967,190	\$38,799,267

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	2022	2021
Salaries	\$ 6,717,950	\$ 3,735,964	\$ 95,945	\$ -	\$ 10,549,859	\$ 149,728	\$ 2,117,345	\$ 2,267,073	\$ 12,816,932	\$ 11,671,823
Fringe Benefits	1,008,988	655,379	6,336	-	1,670,681	28,038	218,561	246,599	1,917,280	2,004,685
Supplies	(50,617)	918,979	32,396	-	898,758	178,681	903,056	1,082,717	1,981,475	2,797,630
Utilities	2,662	13,872	86,395	-	102,929	-	965,736	965,736	1,068,655	953,134
Travel & Meals	13,010	955,176	1,871,807	-	2,839,993	1,079	51,720	52,799	2,892,792	2,085,975
Bad Debt	-	-	314,500	-	314,500	-	80,325	80,325	394,825	22,895
Memberships	23,148	43,892	-	-	67,040	370	63,177	63,547	130,587	105,603
Repairs & Maintenance	1,380	100,359	24,223	-	125,962	-	198,834	198,834	324,796	296,210
Insurance	-	110,983	-	-	110,983	-	304,876	304,876	415,859	478,307
Other Expenses	70,865	539,054	70,253	-	680,172	115	1,927,931	1,928,046	2,608,218	1,551,455
Government Grants	-	-	-	3,780,672	3,780,672	-	-	-	3,780,672	5,074,121
Depreciation	-	-	-	-	-	-	2,048,964	2,048,964	2,048,964	1,821,495
	7,787,364	7,071,658	2,501,855	3,780,672	21,141,549	356,991	8,880,525	9,239,516	30,381,065	28,663,333
Allocated Operation & Maintenance	753,102	306,106	801,519	-	1,860,728	134,466	289,451	433,917	2,294,645	2,153,712
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	
Total Expenses Year Ended 2021	\$ 8,146,311	\$ 6,310,247	\$ 2,695,140	\$ 5,074,121	\$ 22,225,819	\$ 476,027	\$ 8,115,199	\$ 8,591,226		\$ 30,817,045

See accompanying notes to financial statements.

Cumberland University

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 3,167,923	\$ 5,379,344
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,048,964	1,621,495
Provision for bad debt	359,593	14,871
Net losses (gains) on investments	491,369	(3,216,132)
Private gifts and grants restricted for long-term investment	(3,237,329)	(1,555,427)
(Increase) decrease in:		
Inventories	-	138,131
Accounts receivable	(412,309)	43,886
Other assets	167,265	(78,489)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	250,939	1,017,825
Federal student loan funds	-	(53,278)
Deferred revenues	209,383	(99,403)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,045,798	3,212,823
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(7,093,186)	(2,563,094)
Purchase of investments	(2,934,903)	(3,517,545)
Proceeds from student loan collections/assignments	-	23,883
Proceeds from sale and maturity of investments	2,712,329	3,337,330
NET CASH USED IN INVESTING ACTIVITIES	(7,315,739)	(2,719,426)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(3,008,554)	(3,912,208)
Proceeds on notes payable, net of loan fees	-	5,608,178
Proceeds on line of credit	1,689	750,000
Payments on line of credit, net of loan fees amortized	-	(750,000)
Proceeds from private gifts and grants restricted for long-term investment	3,105,780	1,479,428
NET CASH PROVIDED BY FINANCING ACTIVITIES	98,915	3,175,398
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,171,027)	3,668,795
CASH AND CASH EQUIVALENTS, beginning of year	10,430,909	6,762,114
CASH AND CASH EQUIVALENTS, end of year	\$ 6,259,882	\$ 10,430,909
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ -	\$ -
Assets donated	\$ 172,751	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 342,116	\$ 431,217

See accompanying notes to financial statements.

Cumberland University

NOTES TO FINANCIAL STATEMENTS

May 31, 2022 and 2021

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 1,780 full-time undergraduate, 483 part-time undergraduate, and 285 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:

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

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations. This includes restrictions that can be filled by actions of the University pursuant to the donor stipulations or that expire by the passage of time, as well as those that are required by the donor to be maintained permanently. Generally, the donors of these assets permit the University to use all or part of the income earned on the assets for general or specific purposes.

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022.

Cash and Cash Equivalents

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

Accounts Receivable

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

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, 2022 and 2021, the allowance for uncollectible accounts was \$578,933 and \$219,341, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The investment allocation policy at May 31, 2022 is as follows:

	<u>Min</u>	<u>Tactical Target</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 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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

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.

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, 2022 is 3%.

It is the University's understanding that the principal endowed by the donor remains permanently restricted. Certain endowments have a percentage of earnings added to corpus, and these earnings are also permanently restricted. Other earnings on endowments, including the unrealized gains or losses are considered restricted until appropriated for disbursement. At that time, net assets with donor restrictions are released to net assets without donor restrictions.

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, 2022 and 2021

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, 2022, the University's tax returns related to fiscal years ended May 31, 2019 through May 31, 2021 remain open to examination by tax authorities.

NOTE B - CREDIT CONCENTRATION RISK

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

At May 31, 2022, the bank balances of cash and cash equivalents exceeding FDIC limits was \$4,948,060.

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, 2022 and 2021 consists of the following:

	2022	2021
Student Receivables, net	\$ 1,455,390	\$ 1,390,146
Other Receivables	30,836	43,364
Accounts Receivable, net	<u>\$ 1,486,226</u>	<u>\$ 1,433,510</u>

NOTE D - LOANS RECEIVABLE

Advances from the Federal government under the Perkins Loan Program are distributable to the Federal government upon liquidation of the fund and thus are reflected as an asset (under "Loans receivable") and a liability (under "Federal student loan funds") on the statements of financial position.

The Perkins Loan Program was not renewed by Congress after September 30, 2017, consequently no new loans can be made. The University liquidated the loan program in the fiscal year ended May 31, 2021.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE E – INVESTMENTS AND ENDOWMENT

General

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

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

	2022		2021	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 9,791,713	\$ 11,768,909	\$ 10,644,114	\$ 13,961,252
Fixed income securities:				
Government Bonds	1,187,240	1,186,958	442,050	448,123
Certificates of deposit	225,000	223,981	225,000	230,486
Mutual Funds	686,269	638,988	375,085	467,689
Cash and money market funds	1,881,015	1,881,015	861,095	861,095
Real estate	25,900	25,900	25,900	25,900
	<u>\$ 13,797,136</u>	<u>\$ 15,725,751</u>	<u>\$ 12,573,244</u>	<u>\$ 15,994,544</u>

Investment activity for the year ended May 31, 2022, is as follows:

	With Donor Restrictions		Without Donor Restrictions	Total
	Endowment	Other		
Balance, beginning of year	\$ 7,489,159	\$ 6,578,700	\$ 1,926,686	\$ 15,994,545
Gifts available for investment:				
Gifts creating perpetual endowment	572,418			572,418
Other gifts		12,323	56,848	69,171
Transfers				
Investment return, net	58,619	(355,150)	127,237	(169,294)
Other changes		(406,884)	(53,822)	(460,706)
Appropriated for scholarships	-	(174,585)	(105,799)	(280,384)
Balance, end of year	<u>\$ 8,120,196</u>	<u>\$ 5,654,404</u>	<u>\$ 1,951,150</u>	<u>\$ 15,725,750</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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE E – INVESTMENTS AND ENDOWMENT (CONTINUED)

Endowment, continued

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

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, 2022 is as follows:

	<u>With Donor Restrictions</u>
Board-designated endowment funds	\$ -
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	7,122,688
Accumulated Investment gains	997,508
	<u>\$ 8,120,196</u>

The activity in the endowment investments for the year ended May 31, 2022 is included in the investment table above.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE F – PLEDGES RECEIVABLE

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

	2022	2021
Unconditional promises expected to be collected in:		
Less than one year	\$ -	\$ -
One to five years	452,115	325,461
Total unconditional promises	452,115	325,461
Less: amortized discount	(26,008)	(30,903)
Less: allowance for uncollectible pledges	-	-
Pledges receivable, net	<u>\$ 426,107</u>	<u>\$ 294,558</u>

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2022	2021
Land and improvements	\$ 2,347,312	\$ 2,222,312
Buildings and improvements	44,119,622	39,953,880
Equipment	11,093,082	10,175,689
Vans	496,758	447,794
Library books	1,292,435	1,292,435
Construction in process	2,654,332	905,959
	62,003,541	54,998,069
Less accumulated depreciation	(26,482,702)	(24,521,433)
	<u>\$ 35,520,839</u>	<u>\$ 30,476,636</u>

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

NOTE H – NOTES PAYABLE

The University had the following notes payable outstanding at May 31, 2022:

	2022	2021
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	\$ 4,798,867	\$ 4,984,599
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	4,797,642	4,984,770
Cedarstone Bank, \$2,438,700 PPP loan dated 4/8/2020; payable in 18 monthly payments of \$137,152, including interest at 1%, maturing March 2022	-	2,438,700

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE H – NOTES PAYABLE (CONTINUED)

Vendor financing, \$400,000 loan dated 6/1/19; payable in monthly installments of \$3,030 at no interest, maturing 5/31/2030	305,347	341,985
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	187,081	193,680
Vendor financing, \$1,200,000 loan dated 4/10/18; initial disbursement of \$600,000 paid in monthly installments of \$12,500, at no interest, maturing 05/31/2022. Second installment to be paid on or after 06/01/2022 if loan is not in default.	-	162,500
Less: loan fees, net of amortization	-	(8,744)
	<u>\$ 10,088,937</u>	<u>\$ 13,097,490</u>

Future maturities of notes are as follows:
Fiscal year ended:

	Principal	Interest	Total
2023	588,219	290,064	878,283
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
Thereafter	7,675,840	2,055,134	9,730,974
	<u>\$ 10,088,937</u>	<u>\$ 3,382,966</u>	<u>\$ 13,471,903</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE I – 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, 2022, the interest rate is 2.50%. Interest payments are not required, but are being paid monthly. At May 31, 2022, the principal outstanding is \$2,395,787 and interest paid for the year ended May 31, 2022 was \$48,009. The available credit at May 31, 2022 is \$8,853,898.

The University has a \$500,000 line of credit with Cedarstone Bank, with variable interest (4% as of May 31, 2022). The maturity date is March 3, 2023. At May 31, 2022, 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, 2022). The maturity date is April 30, 2023. At May 31, 2022, the University had a \$0 balance outstanding on this line of credit.

NOTE J – EMPLOYEE BENEFITS

The University participates in a retirement plan for the benefit of its employees which is administered by the Teacher's Insurance Annuities Association and College Retirement Equities Fund. The plan is a defined contribution plan in which the University's participation is limited to contributing a discretionary amount of employees' compensation (5% for the years ended May 31, 2022 and 2021) which amounted to \$371,009 and \$303,244 for the years ended May 31, 2022 and 2021, respectively.

NOTE K - OPERATING LEASES

The University has various non-cancelable operating lease agreements in effect for information systems communications and office equipment. These operating leases do not have a remaining term in excess of one year. Rent expense was approximately \$9,000 and \$16,000 for the years ended May 31, 2022 and 2021, 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 \$410,842 has been recognized for this agreement.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE L - NET ASSETS

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

	2022	2021
Subject to expenditure for specified purpose:		
Scholarships	\$ 7,109,835	\$ 7,572,712
Capital Improvements and Other	2,279,050	2,083,180
	<u>9,388,885</u>	<u>9,655,892</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	8,120,196	7,464,574
Subject to appropriation and expenditure when a specified event occurs:		
Endowment requiring income to be added until fund's value is \$1.0 million	-	24,585
	<u>-</u>	<u>24,585</u>
Total net assets with donor restrictions	<u>\$ 17,509,081</u>	<u>\$ 17,145,051</u>

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

Purpose restrictions accomplished:

	2022	2021
Operations and support	\$ 677,643	\$ 610,915
Capital expenditures	1,280,612	68,071
Scholarships	680,887	833,678
	<u>\$ 2,639,142</u>	<u>\$ 1,512,664</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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE N – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$511,165 and \$426,122 during 2022 and 2021, 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.

The following table summarizes the classification of fair value assets as of May 31, 2022:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE P – FAIR VALUE MEASUREMENTS, CONTINUED

	Fair value at May 31, 2022	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 11,768,909	\$ 11,768,909	\$ -	\$ -
Fixed income securities:				
Government Bonds	1,186,958	1,186,958	-	-
Certificates of Deposit	223,981	223,981		
Mutual Funds	638,988	638,988		
Cash and money market funds	1,881,015	1,881,015	-	-
Real estate	25,900	-	25,900	-
	<u>\$ 15,725,751</u>	<u>\$ 15,699,851</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, 2022. 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 – FINANCIAL ASSETS AND LIQUIDITY

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

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

	2022	2021
Financial Assets:		
Cash	\$ 6,259,882	\$ 10,430,909
Accounts Receivable, net	1,486,226	1,433,510
Loans Receivable	-	-
Pledges Receivable, net	426,107	294,558
Investments, excluding land	15,699,850	15,968,645
Total Financial Assets	<u>23,872,065</u>	<u>28,127,622</u>
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(13,774,600)	(14,067,859)
Pledges receivable in more than one year	(452,115)	(325,461)
Loans that must be used to repay government loans	-	-
Financial assets available to meet cash needs for general expenditure within 1 year	<u>\$ 9,645,350</u>	<u>\$ 13,734,302</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2022 and 2021

NOTE R – 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 S – 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, 2022 and 2021, the University had accrued \$422,346 and \$442,132, respectively for compensated absences.

NOTE T – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 26, 2022, 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, 2022

Federal Grantor/Pass Through Grantor	Program/Cluster Name	CFDA#	Contract #	Expenditure	Passed to Subrecipients
FEDERAL AWARDS:					
Direct Funding:					
Department of Education	Student Financial Assistance Federal Supplemental Educational Opportunity Grants	84.007		\$ 146,105	\$ 146,105
Department of Education	Student Financial Assistance Federal Work Study Program	84.033		54,470	54,470
Department of Education	Student Financial Assistance Federal Pell Grant Program	84.063		<u>3,580,792</u>	<u>3,580,792</u>
	Total Student Financial Assistance			3,781,366	3,781,366
Department of Education	Higher Education Emergency Relief Funds III Student Aid	84.425E	P425E202604-20B	2,691,200	2,691,200
Department of Education	Higher Education Emergency Relief Funds III Institutional Aid	84.425F	P425F200543-20B	2,589,046	-
Department of Education	Higher Education Emergency Relief Funds II Student Aid	84.425E	P425E202604-20A	71,728	71,728
Department of Education	Higher Education Emergency Relief Funds II Institutional Aid	84.425F	P425F200543-20A	<u>1,661,477</u>	-
	Total Higher Education Emergency Relief			7,013,451	2,762,928
National Archives and Records Administration	National Historical Publications and Records	89.003	PE-102761-19	119,641	-
TOTAL FEDERAL AWARDS				<u>\$ 10,914,459</u>	<u>\$ 6,544,294</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, 2022, 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	84.266	<u>\$ 5,842,026</u>	<u>\$ 5,842,026</u>
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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, 2022, 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 October 26, 2022.

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.

Lebanon, Tennessee
October 26, 2022

**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, 2022. 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, 2022.

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

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001. Our opinion on each major federal program is not modified with respect to these 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 Ventresca & Folles PLLC

Lebanon, Tennessee
October 26, 2022

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2022

Section I - Summary of Auditor's Reports

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)? X yes 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
84.425 E, F	Education Stabilization Fund

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, 2022

Section II-Financial Statement Findings

No matters were reported.

Section III-Federal Award Findings and Questioned Costs

DEPARTMENT OF EDUCATION

CFDA 84.425F – Education Stabilization Fund under the Coronavirus Aid, Relief, And Economic Security Act

2022-001 Procurement Standards

Condition: The University is not in compliance with procurement standards under the Uniform Guidance as follows:

- Thresholds for micro-purchases (not to exceed \$10,000), small purchases (not to exceed \$250,000) and simplified acquisition were not included in the University's documented procurement procedures
- The University does not have a written standard of conduct that bars any employee or officer from participating in the selection, award, or administration of a contract supported by a federal award if the employee or officer has a direct or indirect financial or other interest in or a tangible personal benefit from a firm considered for a contract
- There is no documentation that vendors were checked against the suspended and debarred vendor list

Criteria: The University is required to be in compliance with procurement standards.

Cause: Procurement standards were adopted during the current fiscal year but the grant expenditures tested occurred prior to implementation

Effect: The University is not in compliance with procurement standards.

Recommendation: Ensure that the University is in compliance with all Uniform Guidance standards related to this grant.

Views of Responsible Officials and Planned Corrective Actions: Cumberland University has adopted Federal Procurement Guidelines for all qualifying Federal Grants going forward.

**CUMBERLAND UNIVERSITY
MANAGEMENT'S CORRECTIVE ACTION PLAN
May 31, 2022**

October 26, 2022

To whom it may concern,

Cumberland University respectfully submits the following corrective action plan for the year ended May 31, 2022.

Name and address of independent public accounting firm: Dempsey Vantrease & Follis PLLC,
724 West Main Street, Lebanon, TN 37087

The findings from the May 31, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FEDERAL AWARDS

DEPARTMENT OF EDUCATION

2022-001 Procurement Standards

Recommendation: Ensure that the University is in compliance with all Uniform Guidance standards related to this grant.

Action Taken: We concur with the recommendation and we have adopted Federal Procurement Guidelines for all qualifying Federal Grants, beginning January 1, 2022.

If there are any questions regarding this plan, please call Dr Paul Stumb at 615-547-1223.

Sincerely,

Dr Paul Stumb, President

CUMBERLAND UNIVERSITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
May 31, 2022

Prior Year Finding Number: 2021-001

Finding Title: Procurement Standards

Status: Repeated/ 2022-001

**FINANCIAL RESPONSIBILITY
SUPPLEMENTAL SCHEDULE**

May 31, 2021

	Components	Totals
PRIMARY RESERVE RATIO		
Expendable Net Assets:		
1 Net assets without donor restrictions		24,458,109
2 Net assets with donor restrictions		17,509,081
3 Secured and Unsecured related party receivable	-	
4 Unsecured related party receivable		-
Unsecured other related party assets		-
5 Property, plant and equipment, net (includes Construction in progress) - Total		35,520,839
6 Property, plant and equipment pre-implementation, including capital leases	32,866,507	
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	2,654,332	
10 Lease right-of-use asset, net - Total		-
11 Lease right-of-use asset, pre-implementation (grandfather of leases option chosen)	-	
12 Lease right-of-use asset, post-implementation	-	
13 Intangible assets		-
14 Post-employment and pension liabilities		-
15 Long-term debt - for long term purposes		12,484,725
16 Long-term debt - for long term purposes pre-implementation	4,337,881	
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		-
20 Pre-implementation right-of-use asset liability (grandfather of leases option chosen)	-	
21 Post-implementation right-of-use asset liability	-	
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	9,388,885	
26 Net assets with donor restrictions: restricted in perpetuity		8,120,196
Total Expendable Net Assets(Formula = Lines 1+2-4-5-10+14+15+19-22-26)		46,331,719
Expenses and Losses:		
27 Total expenses without donor restrictions - taken directly from Statement of Activities		32,675,710
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)		32,675,710
EQUITY RATIO		
Modified Net Assets		
31 Net assets without donor restrictions		24,458,109
32 Net assets with donor restrictions		17,509,081
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)		41,967,190
Modified Assets		
37 Total assets		59,845,017
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)		59,845,017
Net Income Ratio		
43 Change in Net Assets Without Donor Restrictions		2,803,893
44 Total revenues without donor restrictions and gains without donor restrictions:		
45 Total Operating Revenues and Other Additions (Gains)		35,830,463
46 Investment return appropriated for spending		105,799
47 Non-Operating Revenue and Other Gains		-
Total revenues without donor restrictions and gains without donor restrictions:(Formula = Lines 45-46+47)		35,724,664

Line	Property, plant and equipment (PP&E)	Pre-Implementation	Post-Implementation	Total	
1	PP&E, net of accumulated depreciation as of May 31, 2020				
2	(1) Land, Buildings, Equipment, Furniture and Software	23,022,438	6,548,239	29,570,677	PY FRSS Schedules
3	(2) Leased capital assets	-	-	-	PY FRSS Schedules
4	(3) CIP	188,349	717,610	905,959	PY FRSS Schedules
5	Total at May 31, 2020	23,210,787	7,265,849	30,476,636	PY FRSS Schedules
6	FY 21 Activity:				
7	(1) Land, Buildings, Equipment, Furniture and Software:				
8	Additions	-	5,344,794	5,344,794	Cash Flow worksheet
9	Disposals	-	-	-	
10	Depreciation	(1,192,928)	(856,035)	(2,048,964)	SOCF Depreciation Breakdown from w/p 6003
11	Sub-total PP&E excl Leases and CIP	(1,192,928)	4,488,759	3,295,830	
12	(2) Leases:				
13	Principle reductions	-	-	-	SOCF
14	Amortization	-	-	-	SOCF
15	Sub-total Leases	-	-	-	
16	(3) CIP:				
17	Additions	-	1,748,373	1,748,373	Change in CIP PP&E Note 22-21
18	Sub-total CIP	-	1,748,373	1,748,373	
19	PP&E, net at May 31, 2021	22,017,859	13,502,981	35,520,839	
20	Comprised of:				
21	PP&E	21,829,510	11,036,998	32,866,507	
22	Leases	-	-	-	
23	CIP	188,349	2,465,983	2,654,332	
24		22,017,859	13,502,981	35,520,839	

		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, 2020:					
26	(1) PP&E	4,491,637	7,469,267	1,091,985	13,052,889	Long-term debt note
27	(2) Capital Leases	-	-	-	-	Long-term debt note
28	(3) CIP	-	-	-	-	
29	(4) Debt for operations	-	-	-	-	Long-term debt note
30	Total at May 31, 2020	4,491,637	7,469,267	1,091,985	13,052,889	
31	FY 21 Activity:					
32	(1) PP&E					
33	Payments	(162,500)	(379,460)	-	(541,960)	SOCF Pmts
34	Additions	8,744	-	-	8,744	SOCF Proceeds
	Sub-total PP&E					
35	excl Leases and CIP	(153,756)	(379,460)	-	(533,216)	
36	(2) Leases					
37	Payments	-	-	-	-	SOCF Pmts
38	Sub-total Leases	-	-	-	-	
39	(3) CIP					
40	Additions	-	-	-	-	SOCF Proceeds
41	Sub-total CIP	-	-	-	-	
42	(4) Operations					
43	Payments	-	-	(36,638)	(36,638)	SOCF Pmts
44	Additions	-	-	1,690	1,690	SOCF Proceeds
45	Sub-total Operations	-	-	(34,948)	(34,948)	
46	Debt at May 31, 2021	4,337,881	7,089,807	1,057,037	12,484,725	
47	Allowable Debt comprised of:					
48	(1) PP&E	4,337,881	7,089,807	-	11,427,688	
49	(2) Capital Leases	-	-	-	-	
50	(3) CIP	-	-	-	-	
51	(4) Debt for operations	-	-	-	-	
52	Sub-total allowable debt	4,337,881	7,089,807	-	11,427,688	
53	(4) Non-allowable debt for operations	-	-	1,057,037	1,057,037	
54	Total Debt at May 31, 2021	4,337,881	7,089,807	1,057,037	12,484,725	

		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	\$ 26,099	
	Adjustment: add investment returns appropriated for spending from board-		
2	designated endowments	105,799	
3	Adjusted investment returns	131,898	131,898
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	\$ 131,898	\$ 131,898