

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2021 and 2020

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INDEPENDENT AUDITORS' 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, 2021, and the related statements of activities, functional expenses 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 auditors' 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, 2021, 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 October 27, 2021 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.

Dennis Ventrone + Folio PLLC

Lebanon, Tennessee
October 27, 2021

Cumberland University

STATEMENTS OF FINANCIAL POSITION

	May 31,			
	Without Donor Restrictions	With Donor Restrictions	Total 2021	Combined 2020
ASSETS				
Cash and cash equivalents	\$ 8,591,345	\$ 1,839,564	\$ 10,430,909	\$ 6,762,114
Accounts receivable, less allowance for doubtful accounts of \$219,341 and \$204,469	1,433,510	-	1,433,510	1,492,268
Loans receivable	-	-	-	23,883
Pledges receivable	164,779	129,779	294,558	218,559
Inventories	-	-	-	138,131
Due from other funds	-	1,107,849	1,107,849	991,332
Investments at market value	1,926,686	14,067,859	15,994,545	12,598,198
Other assets	393,968	-	393,968	315,479
Property and equipment, net	30,476,636	-	30,476,636	29,535,037
TOTAL ASSETS	\$ 42,986,924	\$ 17,145,051	\$ 60,131,975	\$ 52,075,001
LIABILITIES				
Accounts payable, deposits, and accrued expenses	\$ 3,130,921	\$ -	\$ 3,130,921	\$ 2,113,096
Deferred revenues	1,602,351	-	1,602,351	1,701,754
Due to other funds	1,107,848	-	1,107,848	991,331
Line of Credit	2,394,098	-	2,394,098	2,394,098
Notes payable	13,097,490	-	13,097,490	11,401,521
Federal student loan funds	-	-	-	53,278
TOTAL LIABILITIES	21,332,708	-	21,332,708	18,655,078
NET ASSETS				
Without donor restrictions	21,654,216	-	21,654,216	19,002,059
With donor restrictions	-	17,145,051	17,145,051	14,417,864
TOTAL NET ASSETS	21,654,216	17,145,051	38,799,267	33,419,923
TOTAL LIABILITIES AND NET ASSETS	\$ 42,986,924	\$ 17,145,051	\$ 60,131,975	\$ 52,075,001

Cumberland University

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Combined 2020
REVENUES, GAINS, AND RECLASSIFICATIONS				
Tuition and fees	\$36,615,244	\$ -	\$36,615,244	\$34,127,527
Less scholarships and discounts	(19,117,656)	-	(19,117,656)	(17,729,002)
Net tuition and fees	17,497,588	-	17,497,588	16,398,525
Government grants	5,062,491	-	5,062,491	4,414,056
Private gifts and grants	2,270,016	1,555,427	3,825,443	3,214,663
Sales and services of auxiliary enterprises	4,960,618	28,109	4,988,727	5,328,761
Investment income	963,172	2,632,184	3,595,356	669,838
Other additions	1,618,895	24,131	1,643,026	237,279
TOTAL REVENUES AND GAINS	32,372,780	4,239,851	36,612,631	30,263,122
Net assets released from restrictions	1,512,664	(1,512,664)	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	33,885,444	2,727,187	36,612,631	30,263,122
EXPENSES:				
Operating:				
Program Services:				
Instruction	8,146,311	-	8,146,311	7,643,192
Student services	6,310,247	-	6,310,247	5,821,657
Auxiliary enterprises	2,695,140	-	2,695,140	2,726,122
Government grants expended	5,074,121	-	5,074,121	4,405,736
Supporting Services:				
Academic support	476,027	-	476,027	439,343
Institutional support	8,115,199	-	8,115,199	7,571,942
Total operating	30,817,045	-	30,817,045	28,607,993
Non-operating:				
Interest expense	431,217	-	431,217	397,679
Liquidation of Perkins loans	(14,975)	-	(14,975)	-
Total non-operating	416,242	-	416,242	397,679
TOTAL EXPENSES	31,233,287	-	31,233,287	29,005,672
CHANGE IN NET ASSETS	2,652,157	2,727,187	5,379,344	1,257,450
NET ASSETS, beginning of year	19,002,059	14,417,864	33,419,923	32,162,473
NET ASSETS, end of year	\$21,654,216	\$17,145,051	\$38,799,267	\$33,419,923

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended May 31,

	Program Services					Supporting Services			Total	
	Instruction	Student Services	Auxiliary Enterprises	Government Grants	Total Program	Academic Support	Institutional Support	Total Supporting Services	2021	2020
Salaries	\$ 6,016,814	\$ 3,392,996	\$ 126,239	\$ -	\$ 9,536,049	\$ 155,531	\$ 1,980,243	\$ 2,135,774	\$ 11,671,823	\$ 11,106,349
Fringe Benefits	935,740	613,812	16,582	-	1,566,134	19,668	418,883	438,551	2,004,685	1,874,909
Supplies	325,718	880,166	133,690	-	1,339,574	174,352	1,283,704	1,458,056	2,797,630	2,117,423
Utilities	1,395	12,971	75,693	-	90,059	-	863,075	863,075	953,134	939,672
Travel & Meals	2,674	538,297	1,524,952	-	2,065,923	72	19,980	20,052	2,085,975	2,306,076
Bad Debt	-	-	-	-	-	-	22,895	22,895	22,895	128,504
Memberships	17,948	36,975	-	-	54,923	100	50,580	50,680	105,603	113,017
Repairs & Maintenance	4,635	94,093	12,281	-	111,009	-	185,201	185,201	296,210	292,417
Insurance	6,806	140,900	-	-	147,706	-	330,601	330,601	478,307	395,138
Other Expenses	127,733	312,732	53,411	-	493,876	96	1,057,483	1,057,579	1,551,455	1,399,968
Government Grants	-	-	-	5,074,121	5,074,121	-	-	-	5,074,121	4,405,736
Depreciation	-	-	-	-	-	-	1,621,495	1,621,495	1,621,495	1,438,903
	7,439,463	6,022,942	1,942,848	5,074,121	20,479,374	349,819	7,834,140	8,183,959	28,663,333	26,518,112
Allocated Operation & Maintenance	706,848	287,305	752,292	-	1,746,445	126,208	281,059	407,267	2,153,712	2,089,881
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	
Total Expenses Year Ended 2020	\$ 7,643,192	\$ 5,821,657	\$ 2,726,122	\$ 4,405,736	\$ 20,596,707	\$ 439,343	\$ 7,571,942	\$ 8,011,285		\$ 28,607,993

See accompanying notes to financial statements.

Cumberland University

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 5,379,344	\$ 1,257,450
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,621,495	1,438,903
Provision for bad debt	14,871	101,454
Net (gains) on investments	(3,216,132)	(291,943)
Private gifts and grants restricted for long-term investment	(1,555,427)	(2,050,222)
(Increase) decrease in:		
Inventories	138,131	(43,718)
Accounts receivable	43,886	(53,436)
Other assets	(78,489)	(135,827)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	1,017,825	71,992
Federal student loan funds	(53,278)	1,196
Deferred revenues	(99,403)	(20,327)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,212,823	275,522
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,563,094)	(2,855,607)
Purchase of investments	(3,517,545)	(3,422,160)
Proceeds from student loan collections/assignments	23,883	-
Proceeds from sale and maturity of investments	3,337,330	3,482,222
NET CASH USED IN INVESTING ACTIVITIES	(2,719,426)	(2,795,544)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(3,912,208)	(412,969)
Proceeds on notes payable, net of loan fees	5,608,178	2,438,700
Proceeds on line of credit	750,000	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	1,479,428	2,109,396
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,175,398	4,885,127
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,668,795	2,365,105
CASH AND CASH EQUIVALENTS, beginning of year	6,762,114	4,397,009
CASH AND CASH EQUIVALENTS, end of year	\$ 10,430,909	\$ 6,762,114
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets aquired through debt financing	\$ -	\$ 2,388,712
Assets donated	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 431,217	\$ 397,679

See accompanying notes to financial statements.

Cumberland University

NOTES TO FINANCIAL STATEMENTS

May 31, 2021 and 2020

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 1,050 full-time undergraduate, 1,150 part-time undergraduate, and 300 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, 2021 and 2020

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, 2021.

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, 2021 and 2020, the allowance for uncollectible accounts was \$219,341 and \$204,469, respectively.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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 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, 2021 is as follows:

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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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, 2021 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, 2021 and 2020

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, 2021, the University's tax returns related to fiscal years ended May 31, 2018 through May 31, 2020 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, 2021, the bank balances of cash and cash equivalents exceeding FDIC limits was \$9,391,906.

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, 2021 and 2020 consists of the following:

	2021	2020
Student Receivables, net	\$ 1,345,893	\$ 1,420,691
Other Receivables	87,617	71,577
Accounts Receivable, net	<u>\$ 1,433,510</u>	<u>\$ 1,492,268</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, 2021 and 2020

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:

	2021		2020	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 10,644,114	\$ 13,961,252	\$ 9,234,277	\$ 9,625,148
Fixed income securities:				
Corporate bonds	-	-	-	-
Government Bonds	442,050	448,123	937,240	951,863
Certificates of deposit	225,000	230,486	385,000	392,388
Cash and money market funds	1,236,180	1,328,784	1,602,899	1,602,899
Real estate	25,900	25,900	25,900	25,900
	<u>\$ 12,573,244</u>	<u>\$ 15,994,545</u>	<u>\$ 12,185,316</u>	<u>\$ 12,598,198</u>

Investment activity for the year ended May 31, 2021, is as follows:

	With Donor Restrictions		Without Donor Restrictions	Total
	Endowment	Other	Restrictions	
Balance, beginning of year	\$ 7,067,015	\$ 4,392,981	\$ 1,138,202	\$ 12,598,198
Gifts available for investment:				
Gifts creating perpetual endowment	239,335			239,335
Other gifts		17,470		17,470
Transfers	24,131			24,131
Investment return, net	4,639	2,607,600	906,516	3,518,755
Other changes	154,039	(264,058)	(15,145)	(125,164)
Appropriated for scholarships		(175,293)	(102,887)	(278,180)
Balance, end of year	<u>\$ 7,489,159</u>	<u>\$ 6,578,700</u>	<u>\$ 1,926,686</u>	<u>\$ 15,994,545</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, 2021 and 2020

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, 2021 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	5,884,598
Accumulated Investment gains	1,604,561
	<u>\$ 7,489,159</u>

The activity in the endowment investments for the year ended May 31, 2021 is included in the investment table above.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

NOTE F – PLEDGES RECEIVABLE

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

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	\$ -	\$ -
One to five years	325,461	225,488
Total unconditional promises	325,461	225,488
Less: amortized discount	(30,903)	(6,929)
Less: allowance for uncollectible pledges	-	-
Pledges receivable, net	<u>\$ 294,558</u>	<u>\$ 218,559</u>

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2021	2020
Land and improvements	\$ 2,222,312	\$ 2,222,312
Buildings and improvements	39,953,880	39,222,449
Equipment	10,175,689	8,972,283
Vans	447,794	370,949
Library books	1,292,435	1,292,435
Construction in process	905,959	354,545
	54,998,069	52,434,975
Less accumulated depreciation	(24,521,433)	(22,899,938)
	<u>\$ 79,519,502</u>	<u>\$ 75,334,913</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, 2021:

	2021	2020
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	\$ 4,984,599	\$ -
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	4,984,770	-
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	2,438,700

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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	341,985	378,622
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	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	300,000
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	-	2,696,608
Cedarstone Bank, \$1,912,500 loan dated 01/08/2020; payable in 59 monthly installments of \$10,427, including interest at 4.25% and a balloon payment of \$1,685,513 due 1/8/2025, secured by certain real estate	-	1,898,040
Wilson Bank & Trust, \$2,000,000 loan dated 4/5/2018; payable as interest only for the first 6 months at 4.95%, then 120 monthly payments of \$13,144, including interest at 4.95%, then 119 monthly payments of \$13,326 including interest at prime plus .5%, with a final payment due 10/5/2038	-	1,895,215
Seller financing, \$1,500,000 loan dated 06/1/2018; payable in 360 installments of \$7,600, including interest at 4.5%, maturing 6/1/2048, secured by certain real estate	-	1,452,644
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	-	154,063

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

NOTE H – NOTES PAYABLE (CONTINUED)

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

- 128,265

Ally Bank \$26,211 note, payable in monthly
installments of \$435, including interest
at 5.99%, maturing September 2025,
secured by certain vehicles

- 23,863

Ally Bank notes, payable in monthly
installments of \$1,424
including interest at 4.99%, maturing
October 2021, secured by certain
vehicles

- 22,239

Ally Bank notes, payable in monthly
installments of \$552
including interest at 4.99%, maturing
December 2023, secured by certain
vehicles

- 22,006

Less: loan fees, net of amortization

	(8,744)	(8,744)
\$	13,097,490	\$ 11,401,521

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

	Principal	Interest	Total
2022	\$ 3,015,036	\$ 301,612	\$ 3,316,648
2023	425,387	290,083	715,470
2024	437,295	267,093	704,388
2025	449,567	277,067	726,634
2026	462,214	253,340	715,554
Thereafter	8,307,991	1,993,771	10,301,762
	<u>\$ 13,097,490</u>	<u>\$ 3,382,966</u>	<u>\$ 16,480,456</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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, 2021, the interest rate is 1.75%. Interest payments are not required, but are being paid monthly. At May 31, 2021, the principal outstanding is \$2,394,098 and interest paid for the year ended May 31, 2021 was \$48,009. The available credit at May 31, 2021 is \$8,895,984.

The University has a \$500,000 line of credit with Cedarstone Bank, with variable interest (4% as of May 31, 2021). The maturity date is March 3, 2022. At May 31, 2021, 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, 2021). The maturity date is April 30, 2023. At May 31, 2021, 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, 2021 and 2020) which amounted to \$371,009 and \$303,244 for the years ended May 31, 2021 and 2020, 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, 2021 and 2020, respectively.

The University also has use of 11,657 square feet of space at the McFarland Campus of the local hospital. The space is used for instruction in the nursing program. An in-kind contribution of \$225,000 has been recognized for this agreement.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

NOTE L - NET ASSETS

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

	2021	2020
Subject to expenditure for specified purpose:		
Scholarships	\$ 7,572,712	\$ 5,238,863
Capital Improvements and Other	2,083,180	1,957,947
	<u>9,655,892</u>	<u>7,196,810</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	7,464,574	7,191,428
Subject to appropriation and expenditure when a specified event occurs:		
Endowment requiring income to be added until fund's value is \$1.0 million	<u>24,585</u>	<u>29,626</u>
Total net assets with donor restrictions	<u>\$ 17,145,051</u>	<u>\$ 14,417,864</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:

	2021	2020
Operations and support	\$ 610,915	\$ 560,124
Capital expenditures	68,071	894,950
Scholarships	<u>833,678</u>	<u>818,503</u>
	<u>\$ 1,512,664</u>	<u>\$ 2,273,577</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, 2021 and 2020

NOTE N – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$426,122 and \$481,840 during 2021 and 2020, 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, 2021:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

NOTE P – FAIR VALUE MEASUREMENTS, CONTINUED

	Fair value at May 31, 2021	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 13,961,252	\$ 13,961,252	\$ -	\$ -
Fixed income securities:				
Corporate bonds	-	-	-	-
Government Bonds	448,123	448,123	-	-
Cash and money market funds	1,559,270	1,559,270	-	-
Real estate	25,900	-	25,900	-
	<u>\$ 15,994,545</u>	<u>\$ 15,968,645</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, 2021. 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:

Financial Assets:	2021	2020
Cash	\$ 10,430,909	\$ 6,762,114
Accounts Receivable, net	1,433,510	1,492,268
Loans Receivable	-	23,883
Pledges Receivable, net	294,558	218,559
Investments, excluding land	15,968,645	12,572,298
Total Financial Assets	<u>28,127,622</u>	<u>21,069,122</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	(14,067,859)	(11,459,996)
Pledges receivable in more than one year	(325,461)	(225,488)
Loans that must be used to repay government loans	<u>-</u>	<u>(53,278)</u>
Financial assets available to meet cash needs for general expenditure within 1 year	<u>\$ 13,734,302</u>	<u>\$ 9,330,360</u>

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2021 and 2020

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, 2021 and 2020, the University had accrued \$442,132 and \$469,174, 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 , the date the financial statements were available to be issued.

Subsequent to May 31, 2021, the University received forgiveness on its PPP loan of \$2,438,700. The loan was included in notes payable on the financial statements. The forgiveness will be reported on the May 31, 2022 financial statements.

SUPPLEMENTAL INFORMATION

Cumberland University
Schedule of Expenditures of Federal Awards
For the year ended May 31, 2021

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		\$ 123,433	\$ 123,433
Department of Education	Student Financial Assistance Federal Work Study Program	84.033		73,327	73,327
Department of Education	Student Financial Assistance Federal Pell Grant Program	84.063		3,708,946	3,708,946
	Total Student Financial Assistance			3,905,706	3,905,706
Department of Education	Higher Education Emergency Relief Funds I Student Aid	84.425E	P425E202604	285,670	285,670
Department of Education	Higher Education Emergency Relief Funds I Institutional Aid	84.425F	P425F200543	960,321	-
Department of Education	Higher Education Emergency Relief Funds II Student Aid	84.425E	P425E202604-20A	888,593	888,593
Department of Education	Higher Education Emergency Relief Funds II Institutional Aid	84.425F	P425F200543-20A	430,327	-
	Total Higher Education Emergency Relief			2,564,911	1,174,263
National Archives and Records Administration	National Historical Publications and Records	89.003	PE-102761-19	139,088	-
Pass Through Funding: Department of the Treasury TN Higher Education Commission	Coronavirus Relief Fund	21.019	33201-02121.18	129,450	-
TOTAL FEDERAL AWARDS				\$ 6,739,155	\$ 5,079,969

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, 2020, the University processed the following amount of new loans under the Federal Family Education Loan Program:

Department of Education	Student Financial Assistance Federal Family Education Loans	84.032		\$ 6,491,521	\$ 6,491,521
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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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2021.

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 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'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 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

October 27, 2021

**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

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, 2021. 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, 2021.

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 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

Cumberland University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cumberland University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Demsey Ventresca + Folles RUC

Lebanon, Tennessee
October 27, 2021

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2021

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
84.032	Federal Family Education 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, 2021

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

2021-001 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: The grant itself is a new federal grant and the past federal awards received by the University did not involve procurement standards. Therefore, the University was not familiar with the procurement standard.

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 will adopt Federal Procurement Guidelines for all qualifying Federal Grants going forward.



Cumberland UNIVERSITY

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CUMBERLAND UNIVERSITY MANAGEMENT'S CORRECTIVE ACTION PLAN May 31, 2021

October 27, 2021

To whom it may concern,

Cumberland University respectfully submits the following corrective action plan for the year ended May 31, 2021.

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, 2021 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

2021-001 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 will adopt 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