

Cumberland University

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

Years Ended May 31, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Cumberland University

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

We have audited the accompanying financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland University as of May 31, 2020, 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 November 11, 2020 on our consideration of Cumberland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland University's internal control over financial reporting and compliance.

*Dempsey Untraine & Folles PLLC*

Lebanon, Tennessee  
November 11, 2020



Cumberland University

STATEMENTS OF FINANCIAL POSITION

May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Combined 2019
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,923,861	\$ 1,838,253	\$ 6,762,114	\$ 4,397,008
Accounts receivable, less allowance for	1,492,268	-	1,492,268	1,540,285
Loans receivable	23,883	-	23,883	23,883
Pledges receivable	90,276	128,283	218,559	277,733
Inventories	138,131	-	138,131	94,413
Due from other funds	-	991,332	991,332	2,882,900
Investments at market value	1,138,202	11,459,996	12,598,198	12,366,318
Other assets	315,479	-	315,479	179,652
Property and equipment, net	29,535,037	-	29,535,037	25,779,625
<b>TOTAL ASSETS</b>	<b>\$ 37,657,137</b>	<b>\$ 14,417,864</b>	<b>\$ 52,075,001</b>	<b>\$ 47,541,817</b>
<b>LIABILITIES</b>				
Accounts payable, deposits, and accrued expenses	\$ 2,113,096	\$ -	\$ 2,113,096	\$ 2,041,104
Deferred revenues	1,701,754	-	1,701,754	1,722,081
Due to other funds	991,331	-	991,331	2,882,900
Line of Credit	2,394,098	-	2,394,098	1,644,098
Notes payable	11,401,521	-	11,401,521	7,037,079
Federal student loan funds	53,278	-	53,278	52,082
<b>TOTAL LIABILITIES</b>	<b>18,655,078</b>	<b>-</b>	<b>18,655,078</b>	<b>15,379,344</b>
<b>NET ASSETS</b>				
Without donor restrictions	19,002,059	-	19,002,059	18,050,990
With donor restrictions	-	14,417,864	14,417,864	14,111,483
<b>TOTAL NET ASSETS</b>	<b>19,002,059</b>	<b>14,417,864</b>	<b>33,419,923</b>	<b>32,162,473</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 37,657,137</b>	<b>\$ 14,417,864</b>	<b>\$ 52,075,001</b>	<b>\$ 47,541,817</b>

Cumberland University

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Combined 2019
<b>REVENUES, GAINS, AND RECLASSIFICATIONS</b>				
Tuition and fees	\$ 34,127,527	\$ -	\$ 34,127,527	\$ 32,012,471
Less scholarships and discounts	(17,729,002)	-	(17,729,002)	(15,605,217)
Net tuition and fees	16,398,525	-	16,398,525	16,407,254
Government grants	4,414,056	-	4,414,056	3,571,793
Private gifts and grants	1,164,441	2,050,222	3,214,663	4,152,571
Sales and services of auxiliary enterprises	5,289,892	38,869	5,328,761	5,306,154
Investment income (loss)	178,971	490,867	669,838	(37)
Other additions	237,279	-	237,279	191,591
<b>TOTAL REVENUES AND GAINS</b>	27,683,164	2,579,958	30,263,122	29,629,326
Net assets released from restrictions	2,273,577	(2,273,577)	-	-
<b>TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS</b>	29,956,741	306,381	30,263,122	29,629,326
<b>EXPENSES:</b>				
Operating:				
Program Services:				
Instruction	7,643,192	-	7,643,192	7,819,586
Student services	5,821,657	-	5,821,657	5,798,843
Auxiliary enterprises	2,726,122	-	2,726,122	2,741,437
Government grants expended	4,405,736	-	4,405,736	3,571,793
Supporting Services:				
Academic support	439,343	-	439,343	404,376
Institutional support	7,571,942	-	7,571,942	6,247,020
Total operating	28,607,993	-	28,607,993	26,583,054
Non-operating:				
Interest expense	397,679	-	397,679	349,659
Total non-operating	397,679	-	397,679	349,659
<b>TOTAL EXPENSES</b>	29,005,672	-	29,005,672	26,932,713
<b>CHANGE IN NET ASSETS</b>	951,069	306,381	1,257,450	2,696,613
<b>NET ASSETS, beginning of year</b>	18,050,990	14,111,483	32,162,473	29,465,861
<b>NET ASSETS, end of year</b>	<u>\$ 19,002,059</u>	<u>\$ 14,417,864</u>	<u>\$ 33,419,923</u>	<u>\$ 32,162,473</u>

See accompanying notes to financial statements.

## STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended May 31,

	Program Services					Supporting Services			Total	
	Instruction	Student Services	Auxiliary Enterprises	Government Grants	Total Program	Academic Support	Institutional Support	Total Supporting Services	2020	2019
Salaries	\$ 5,919,568	\$ 3,087,541	\$ 119,473	\$ -	\$ 9,126,582	\$ 136,958	\$ 1,842,809	\$ 1,979,767	\$ 11,106,349	\$ 10,409,299
Fringe Benefits	932,785	558,104	16,689	-	1,507,578	16,531	350,800	367,331	1,874,909	1,558,790
Supplies	(141,740)	819,559	119,737	-	797,556	162,795	1,157,072	1,319,867	2,117,423	2,289,288
Utilities	593	12,113	82,651	-	95,357	-	844,315	844,315	939,672	986,796
Travel & Meals	17,319	654,166	1,600,926	-	2,272,411	-	33,665	33,665	2,306,076	2,494,273
Bad Debt	-	-	-	-	-	-	128,504	128,504	128,504	31,140
Memberships	19,424	39,934	-	-	59,358	353	53,306	53,659	113,017	99,630
Repairs & Maintenance	4,580	92,867	7,784	-	105,231	-	187,186	187,186	292,417	250,389
Insurance	-	1,294	-	-	1,294	-	393,844	393,844	395,138	424,178
Other Expenses	204,764	277,289	48,867	-	530,920	239	868,809	869,048	1,399,968	1,286,356
Government Grants	-	-	-	4,405,736	4,405,736	-	-	-	4,405,736	3,571,793
Depreciation	-	-	-	-	-	-	1,438,903	1,438,903	1,438,903	1,169,417
	6,957,293	5,542,867	1,996,127	4,405,736	18,902,023	316,876	7,299,213	7,616,089	26,518,112	24,571,349
Allocated Operation & Maintenance	685,899	278,790	729,995	-	1,694,685	122,467	272,729	395,196	2,089,881	2,011,705
Total	\$ 7,643,192	\$ 5,821,657	\$ 2,726,122	\$ 4,405,736	\$ 20,596,708	\$ 439,343	\$ 7,571,942	\$ 8,011,285	\$ 28,607,993	
Total Expenses Year Ended 2019	\$ 7,819,586	\$ 5,798,843	\$ 2,741,437	\$ 3,571,793	\$ 19,931,659	\$ 404,376	\$ 6,247,020	\$ 6,651,396		\$ 26,583,054

See accompanying notes to financial statements.



Cumberland University

**STATEMENTS OF CASH FLOWS**

Years Ended May 31,

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,257,450	\$ 2,696,613
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,438,903	1,169,417
Provision for bad debt	101,454	1,315
Net (gains) losses on investments	(291,943)	446,136
Private gifts and grants restricted for long-term investment	(2,050,222)	(2,376,833)
(Increase) decrease in:		
Inventories	(43,718)	(916)
Accounts receivable	(53,436)	272,557
Other assets	(135,827)	28,582
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	71,992	(323,264)
Federal student loan funds	1,196	(74,964)
Deferred revenues	(20,327)	(633,405)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>275,522</b>	<b>1,205,238</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,855,607)	(2,175,059)
Purchase of investments	(3,422,160)	(5,487,073)
Proceeds from student loan collections	-	87,603
Proceeds from sale and maturity of investments	3,482,222	4,705,643
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,795,544)</b>	<b>(2,868,886)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(412,969)	(355,360)
Proceeds on notes payable, net of loan fees	2,438,700	374,503
Proceeds on line of credit	750,000	-
Payments on line of credit, net of loan fees amortized	-	(750,902)
Proceeds from private gifts and grants restricted for long-term investment	2,109,396	2,147,223
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>4,885,127</b>	<b>1,415,464</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,365,105</b>	<b>(248,184)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>4,397,009</b>	<b>4,645,193</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 6,762,114</b>	<b>\$ 4,397,009</b>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Assets aquired through debt financing	\$ 2,338,712	\$ 3,725,497
Assets donated	\$ -	\$ 450,000
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 397,679	\$ 349,659

See accompanying notes to financial statements.



# Cumberland University

## NOTES TO FINANCIAL STATEMENTS

May 31, 2020 and 2019

### 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, 1,080 part-time undergraduate, and 280 graduate students per semester. The University is located in Lebanon, Tennessee.

Cumberland University was founded in 1842 and is a private, independent, coeducational, liberal arts institution with five undergraduate divisions, graduate degree programs, degree completion programs for working adults, and a non-credit continuing education program. The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools.

#### Accrual Basis

The financial statements of Cumberland University have been prepared on the accrual basis.

#### Recently Adopted Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which added a new ASC Topic 606 ("ASC 606"). ASC 606 revises and consolidates prior guidance, eliminates industry-specific revenue recognition guidance and establishes a comprehensive principle-based approach for determining revenue recognition.

The core principle of the guidance is that an entity must recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for providing those goods or services. ASC 606 sets forth a five-step revenue recognition model to be applied consistently to all contracts with customers, except those that are within the scope of other topics in the ASC: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The update also provides guidance regarding the recognition of costs related to obtaining and fulfilling customer contracts. This update also requires quantitative and qualitative disclosures sufficient to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including disclosures on significant judgments made when applying the guidance. The FASB subsequently amended ASC 606 on multiple occasions to, among other things, delay its effective date and clarify certain implementation guidance.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Standards, continued

Management adopted this update for the University's fiscal year beginning June 01, 2019, using a modified retrospective approach. Under this approach, the University's financial statements are prepared under the revised guidance for the year of adoption, but not for prior years, and the University recognizes a cumulative adjustment to the opening balance of net assets for contracts that still require performance by the University at the date of adoption. The adoption of ASC 606 on June 01, 2019 did not result in a material impact that required recognition of a cumulative adjustment of the opening net assets balance for contracts that still required performance at June 01, 2018.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Clarifying the Scope and the Accounting guidance for Contributions Received and Contributions Made. The amendments in this update clarify and improve guidance about whether a transfer of assets is a contribution or an exchange transaction and whether a contribution is conditional. The amendments are to be applied on a modified prospective basis, whereby the amendments are applied to agreements that are either not completed as of or entered into after the effective date on the first set of financial statements issued following the effective date. The adoption of this standard had no effect on the May 31, 2020 financial statements.

Basis of Presentation

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

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

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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measure of Operations

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

Tuition and Housing Revenue

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

The University bills the student at the start of each semester, and payment plans are available for students to pay the amount due over time. If a student withdraws within the first 60% of a semester, they will receive a prorated refund of fees, based on the date withdrawn. After 60% of the semester has passed, no refunds will be issued. The University recognizes student accounts receivable and deferred revenues at the start of each semester, and adjusts deferred revenues as the term progresses. At year end, the balance in student accounts receivable is largely for the summer term, and the deferred revenue balance is for the portion of the summer term occurring after May 31, 2020.

Cash and Cash Equivalents

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

Accounts Receivable

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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable, continued

The University provides an allowance for uncollectible accounts receivable based on review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a change to the valuation allowance and a credit to accounts receivable. As of May 31, 2020 and 2019, the allowance for uncollectible accounts was \$204,469 and \$103,016, respectively.

Contributions

The University accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Codification ASC 958, *Not-for-Profit Entities*. Gifts of cash and other assets received are reported as revenues increasing net assets without donor restrictions if donors do not specify purposes for which or period in which the gifts must be used. Gifts received with a donor stipulation that limits their use are reported as revenue increasing net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and is reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings and equipment and other long-lived assets are reported as revenues increasing net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case they are reported as revenue increasing net assets with donor restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Donor restricted contributions whose restrictions are met in the same reporting period as the contributions are recorded as increases in net assets without donor restrictions.

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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

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

Investments

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

Endowment Investments

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

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

- Safety or preservation of capital
- Income
- Long-term growth
- Earn a net average annual real total return over the long term in excess of inflation
- Investment of endowments asset shall be governed by the "Prudent Man Rule"

The University is willing to forgo potential return in strong markets in return for protection against a severe decline during bear markets.

The investment allocation policy at May 31, 2020 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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

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
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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, 2020 is 3%.

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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plant Assets and Depreciation

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes items with a cost or fair value of \$5,000 or more. Depreciation on physical plant and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Buildings and Improvements	5 – 40 years
Equipment	3 – 15 years
Books	5 – 8 years
Leased Equipment	5 – 40 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The University is recognized as an organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. At May 31, 2020, the University's tax returns related to fiscal years ended May 31, 2017 through May 31, 2019 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, 2020, the bank balances of cash and cash equivalents exceeding FDIC limits was \$6,388,395.

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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable at May 31, 2020 and 2019 consists of the following:

	2020	2019
Student Receivables, net	\$ 1,420,691	\$ 1,522,145
Other Receivables	71,577	18,140
Accounts Receivable, net	<u>\$ 1,492,268</u>	<u>\$ 1,540,285</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 is in the process of liquidating the Perkins Loan program and expects to have it completed within the next fiscal year.

NOTE E – INVESTMENTS AND ENDOWMENT

General

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

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

	2020		2019	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 9,234,277	\$ 9,625,148	\$ 8,860,264	\$ 9,141,103
Fixed income securities:				
Corporate bonds	-	-	50,000	49,224
Government Bonds	937,240	951,863	1,663,913	1,647,483
Certificates of deposit	385,000	392,388	100,000	100,001
Cash and money market funds	1,602,899	1,602,899	1,362,908	1,362,908
Real estate	25,900	25,900	65,600	65,600
	<u>\$ 12,185,316</u>	<u>\$ 12,598,198</u>	<u>\$ 12,102,687</u>	<u>\$ 12,366,318</u>



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE E – INVESTMENTS AND ENDOWMENT (CONTINUED)

General, continued

Investment activity for the year ended May 31, 2020, is as follows:

	With Donor Restrictions		Without Donor Restrictions	Total
	Endowment	Other		
Balance, beginning of year	\$ 6,676,489	\$ 4,534,829	\$ 1,155,000	\$ 12,366,318
Gifts available for investment:				
Gifts creating perpetual endowment	154,040	-	-	154,040
Other gifts	-	-	-	-
Transfers	191,258	(396,580)	(54,602)	(259,924)
Investment return, net	45,228	465,579	156,036	666,843
Other changes	-	-	(39,700)	(39,700)
Appropriated for scholarships	-	(210,847)	(78,532)	(289,379)
Balance, end of year	<u>\$ 7,067,015</u>	<u>\$ 4,392,981</u>	<u>\$ 1,138,202</u>	<u>\$ 12,598,198</u>

Endowment

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

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

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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE E – INVESTMENTS AND ENDOWMENT (CONTINUED)

Endowment, continued

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, 2020 is as follows:

Board-designated endowment funds	With Donor Restrictions \$ -
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	6,834,930
Accumulated Investment gains	232,085
	<u>\$ 7,067,015</u>

The activity in the endowment investments for the year ended May 31, 2020 is included in the investment table above.

NOTE F – PLEDGES RECEIVABLE

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

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	\$ -	\$ 5,023
One to five years	225,488	279,639
Total unconditional promises	225,488	284,662
Less: amortized discount	(6,929)	(6,929)
Less: allowance for uncollectible pledges	-	-
Pledges receivable, net	<u>\$ 218,559</u>	<u>\$ 277,733</u>

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2020	2019
Land and improvements	\$ 2,222,312	\$ 2,113,144
Buildings and improvements	39,222,449	34,571,400
Equipment	8,972,283	8,738,010
Vans	370,950	344,738
Library books	1,292,436	1,285,019
Construction in process	354,545	188,349
	52,434,975	47,240,660
Less accumulated depreciation	22,899,938	21,461,035
	<u>\$ 29,535,037</u>	<u>\$ 25,779,625</u>

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

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE H – NOTES PAYABLE

The University had the following notes payable outstanding at May 31, 2020:

	<u>2020</u>	<u>2019</u>
Cedarstone Bank, \$3,008,744 loan dated 5/10/2017; payable in 59 installments of \$18,732 per month, including interest at 4.25% and a balloon payment of \$2,498,184 due 5/10/2022, secured by certain real estate	\$ 2,696,608	\$ 2,802,011
Ally Bank notes, payable in monthly installments of \$1,424 including interest at 4.99%, maturing October 2021, secured by certain vehicles	22,239	37,753
Ally Bank notes, payable in monthly installments of \$552 including interest at 4.99%, maturing December 2023, secured by certain vehicles	22,006	27,379
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	133,691
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	159,994

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE H – NOTES PAYABLE (CONTINUED)

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	1,477,860
Wilson Bank & Trust, \$2,000,000 loan dated 4/5/2018; payable as interest only for the first 6 months at 4.95%, then 120 monthly payments of \$13,144, including interest at 4.95%, then 119 monthly payments of \$13,326 including interest at prime plus .5%, with a final payment due 10/5/2038	1,895,215	1,957,135
Vendor financing, \$1,200,000 loan dated 4/10/18; initial disbursement of \$600,000 paid in monthly installments of \$12,500, at no interest, maturing 05/31/2022. Second installment to be paid on or after 06/01/2022 if loan is not in default.	300,000	450,000
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	-
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	-
Vendor financing, \$400,000 loan dated 6/1/19; payable in monthly installments of \$3,030 at no interest, maturing 5/31/2030	378,622	-
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	-
Less: loan fees, net of amortization	(8,744)	(8,744)
	<u>\$ 11,401,521</u>	<u>\$ 7,037,079</u>



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE H – NOTES PAYABLE (CONTINUED)

Future maturities of notes are as follows:

Fiscal year ended:

	Principal	Interest	Total
2021	\$ 1,538,139	\$ 386,337	\$ 1,924,476
2022	4,423,758	356,607	4,780,365
2023	338,414	228,570	566,984
2024	202,159	217,653	419,812
2025	1,856,582	186,323	2,042,905
Thereafter	3,042,469	1,363,021	4,405,490
	<u>\$ 11,401,521</u>	<u>\$ 2,738,511</u>	<u>\$ 14,140,032</u>

NOTE I – LINE OF CREDIT

During the fiscal year ended May 31, 2016, the University obtained a line of credit secured by certain investments. The amount that can be borrowed on the line of credit is determined based on a percentage of the fair market value of the various classes of investments in the account. If the percentage of the fair market value of the investments falls below the outstanding principal balance, the lender has the right to require repayment of the outstanding principal down to the computed loanable amount and/or sell securities in the account. The line of credit has no maturity date or scheduled principal payments. Interest is variable and at May 31, 2020, the interest rate is 2.0%. Interest payments are not required, but are being paid monthly. At May 31, 2020, the principal outstanding is \$2,394,098 and interest paid for the year ended May 31, 2020 was \$77,148. The available credit at May 31, 2020 is \$6,638,801.

The University also has a \$500,000 line of credit with Cedarstone Bank, with variable interest at no less than 4% and no more than 18%. The maturity date is March 3, 2021. At May 31, 2020, 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, 2020 and 2019) which amounted to \$303,244 and \$266,033 for the years ended May 31, 2020 and 2019, respectively.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

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 \$16,000 and \$25,000 for the years ended May 31, 2020 and 2019, respectively.

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

NOTE L - NET ASSETS

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

	2020	2019
Subject to expenditure for specified purpose:		
Scholarships	\$ 5,238,863	\$ 4,894,780
Capital Improvements and Other	1,957,947	2,194,917
	<u>7,196,810</u>	<u>7,089,697</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	7,191,428	6,992,860
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>29,626</u>	<u>28,926</u>
Total net assets with donor restrictions	<u>\$ 14,417,864</u>	<u>\$ 14,111,483</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:

	2020	2019
Operations and support	\$ 560,124	\$ 906,273
Capital expenditures	894,950	719,004
Scholarships	818,503	766,475
	<u>\$ 2,273,577</u>	<u>\$ 2,391,752</u>



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

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.

NOTE N – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$481,840 and \$627,393 during 2020 and 2019, 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:

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE Q – FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020:

	Fair value at May 31, 2020	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 9,625,148	\$ 9,625,148	\$ -	\$ -
Fixed income securities:				
Corporate bonds	-	-	-	-
Government Bonds	951,863	951,863	-	-
Cash and money market funds	1,995,287	1,995,287	-	-
Real estate	25,900		25,900	-
	<u>\$ 12,598,198</u>	<u>\$ 12,572,298</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, 2020. The real estate is valued at cost, which is not representative of fair value, but is a conservative estimate of the property's value.

NOTE R – FINANCIAL ASSETS AND LIQUIDITY

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

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



Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE R – FINANCIAL ASSETS AND LIQUIDITY (CONTINUED)

Financial Assets:	2020	2019
Cash	\$ 6,762,114	\$ 4,397,009
Accounts Receivable, net	1,492,268	1,540,285
Loans Receivable	23,883	23,883
Pledges Receivable, net	218,559	277,733
Investments, excluding land	12,532,598	12,300,718
Total Financial Assets	21,029,422	18,539,628
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(11,459,996)	(11,216,341)
Pledges receivable in more than one year	(225,488)	(279,639)
Loans that must be used to repay government loans	(53,278)	(52,082)
Financial assets available to meet cash needs for general expenditure within 1 year	\$ 9,290,660	\$ 6,991,566

NOTE S – 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 T – COMPENSATED ABSENCES

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

At May 31, 2020 and 2019, the University had accrued \$469,174 and \$410,937, respectively for compensated absences.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2020 and 2019

NOTE U – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through November 11, 2020, the date the financial statements were available to be issued.

Although the University has not yet submitted the application for loan forgiveness on the PPP loan (see Note H), management expects that the loan will be forgiven in the next fiscal year.

In addition, the University was awarded CARES Act funds for both the students and the institution. At May 31, 2020, the University had not drawn down any of the \$960,321 of institutional funds awarded but expect it will draw down the funds in the next fiscal year. This funding was not reflected in the May 31, 2020 financial statements.



## SUPPLEMENTAL INFORMATION

Cumberland University  
Schedule of Expenditures of Federal Awards  
For the year ended May 31, 2020

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education (Direct Programs)</u>		
Pell Grant	84.063	3,545,960
Supplemental Educational Opportunity Grant (SEOG)	84.007	61,738
Federal Work Study Program (FWS)	84.033	86,513
Higher Education Emergency Relief Fund- IHE/Institution	84.425F	- ***

NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Cumberland University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance

\*\*\* During the year end May 31, 2020 the school had incurred certain qualifying expense as subsequently determined by managements review of the updated guidance provided by the Department of Ed. Management had not drawn down funds for reimbursement of these costs as of May 31, 2020 as the guidance was being reviewed, analyzed and the appropriate documentatin was being collected.

NOTE B - LOANS

During the year ending May 31, 2020, the University processed the following amount of new loans under the Stafford Loan Program (CFDA #84.032):

	<u>Amount Authorized</u>
Total Loans	\$ 6,033,746

At May 31, 2020 the University had \$23,883 of loans outstanding under the Federal Perkins Loan Program (CFDA #84.038).



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of Cumberland University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cumberland University (a nonprofit organization), which comprise the statement of financial position as of May 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2020.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Dempsey Vantrease & Follis PLLC*

Lebanon, Tennessee

November 11, 2020



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

To the Board of Trustees of  
Cumberland University

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

We have audited Cumberland University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cumberland University's major federal programs for the year ended May 31, 2020. 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, 2020.

**Report on Internal Control Over Compliance**

Management of Cumberland University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cumberland University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cumberland University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely



basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Dempsey Ventresca + Folles PLLC*

Lebanon, Tennessee  
November 11, 2020

**Cumberland University**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year ended May 31, 2020

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

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**Financial Statements**

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes   X  no
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_yes   X  none reported

Noncompliance material to financial statements noted? \_\_\_yes   X  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes   X  no
- Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_yes   X  none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_yes   X  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007; 84.033; 84.038; 84.063	Student Financial Aid Cluster
84.032	Federal Family Education Loans
84.425	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, 2020

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**Section II-Financial Statement Findings**

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No matters were reported.

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

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No matters were reported.