

Cumberland University

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

Years Ended May 31, 2015 and 2014

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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, 2015, 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 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, 2015, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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

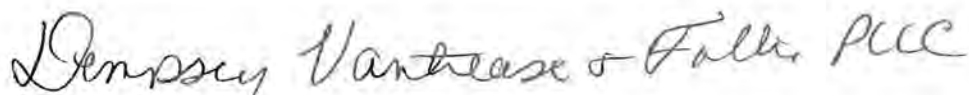
generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 01, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Cumberland University's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Lebanon, Tennessee

February 01, 2016

STATEMENTS OF FINANCIAL POSITION

May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Combined 2014
ASSETS					
Cash and cash equivalents	\$ 2,360,218	\$ 67,578	\$ 1,133,386	\$ 3,561,182	\$ 4,003,437
Accounts receivable, less allowance for uncollectible accounts of \$82,552 in 2015 and \$72,087 in 2014	1,460,934	-	-	1,460,934	1,704,293
Loans receivable	192,988	-	-	192,988	216,793
Pledges receivable	55,980	245,504	28,121	329,605	350,356
Inventories	98,444	-	-	98,444	282,739
Due from other funds	-	676,533	9,864	686,397	799,853
Investments at market value	1,666,039	5,181,702	4,726,522	11,574,263	11,527,400
Assets held under split-interest agreements	-	-	71,835	71,835	96,140
Deposits with trustees	-	-	-	-	-
Other assets	254,841	-	-	254,841	282,748
Property and equipment, net	20,245,374	-	-	20,245,374	21,171,939
TOTAL ASSETS	\$26,334,818	\$6,171,317	\$ 5,969,728	\$38,475,863	\$40,435,698
LIABILITIES					
Accounts payable, deposits, and accrued expenses	\$ 1,135,700	\$ -	\$ -	\$ 1,135,700	\$ 1,552,083
Deferred revenues	1,929,986	-	-	1,929,986	2,212,566
Due to other funds	686,397	-	-	686,397	799,854
Liabilities under split-interest agreements	-	-	45,418	45,418	71,942
Notes payable	-	-	-	-	5,868
Bonds payable	7,645,000	-	-	7,645,000	8,325,000
Federal student loan funds	272,415	-	-	272,415	276,394
TOTAL LIABILITIES	11,669,498	-	45,418	11,714,916	13,243,707
NET ASSETS					
Unrestricted - operating	2,064,946	-	-	2,064,946	2,649,472
Unrestricted - investment in plant	12,600,374	-	-	12,600,374	12,841,072
Temporarily restricted	-	6,171,317	-	6,171,317	5,965,004
Permanently restricted	-	-	5,924,310	5,924,310	5,736,443
TOTAL NET ASSETS	14,665,320	6,171,317	5,924,310	26,760,947	27,191,991
TOTAL LIABILITIES AND NET ASSETS	\$26,334,818	\$6,171,317	\$ 5,969,728	\$38,475,863	\$40,435,698

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

Years Ended May 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Combined 2014
REVENUES, GAINS, AND RECLASSIFICATIONS					
Tuition and fees	\$25,130,634	\$ -	\$ -	\$25,130,634	\$26,387,998
Less scholarships and discounts	(11,463,333)	-	-	(11,463,333)	(11,987,597)
Net tuition and fees	13,667,301	-	-	13,667,301	14,400,401
Government grants	1,976,795	-	-	1,976,795	2,282,940
Private gifts and grants	683,215	808,458	169,010	1,660,683	1,535,104
Sales and services of auxiliary enterprises	4,064,989	-	-	4,064,989	4,750,956
Investment income	57,130	229,054	16,639	302,823	1,372,155
Other additions	216,045	5,067	-	221,112	163,734
TOTAL REVENUES AND GAINS	20,665,475	1,042,579	185,649	21,893,703	24,505,290
Net assets released from restrictions	836,266	(836,266)	-	-	-
TOTAL REVENUES, GAINS, AND RECLASSIFICATIONS	21,501,741	206,313	185,649	21,893,703	24,505,290
EXPENSES:					
Operating:					
Instruction	8,163,772	-	-	8,163,772	8,472,883
Academic support	422,260	-	-	422,260	475,517
Student services	4,069,990	-	-	4,069,990	4,757,541
Institutional support	4,521,257	-	-	4,521,257	4,391,872
Auxiliary enterprises	2,925,779	-	-	2,925,779	2,998,301
Government grants expended	1,976,214	-	-	1,976,214	2,282,919
Total operating	22,079,271	-	-	22,079,271	23,379,033
Non-operating:					
Interest expense	244,672	-	-	244,672	266,797
Amortization of loan costs	3,022	-	-	3,022	6,045
Total non-operating	247,694	-	-	247,694	272,842
Change in value of split-interest agreements	-	-	(2,218)	(2,218)	(2,302)
TOTAL EXPENSES	22,326,965	-	(2,218)	22,324,747	23,649,573
CHANGE IN NET ASSETS	(825,224)	206,313	187,867	(431,044)	855,717
NET ASSETS, beginning of year	15,490,544	5,965,004	5,736,443	27,191,991	26,336,274
NET ASSETS, end of year	\$14,665,320	\$6,171,317	\$5,924,310	\$26,760,947	\$27,191,991

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended May 31,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (431,044)	\$ 855,717
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,114,134	1,126,543
Provision for bad debt	10,465	(11,266)
Net (gains) losses on investments	229,128	(820,224)
Private gifts and grants restricted for long-term investment	(977,468)	(723,953)
Change in value of split-interest agreements	(2,219)	(2,328)
(Increase) decrease in:		
Inventories	184,295	3,365
Accounts receivable	232,894	(184,640)
Other assets	27,907	(51,420)
Increase (decrease) in:		
Accounts payable, deposits, and accrued expenses	(416,383)	(131,889)
Federal student loan funds	(3,979)	(10,798)
Deferred revenues	(282,580)	119,803
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(314,849)	168,909
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(187,570)	(216,182)
Purchase of investments	(2,620,697)	(7,013,773)
Proceeds from student loan collections	45,805	42,551
Student loans issued	(22,000)	(40,125)
Proceeds from sale and maturity of investments	2,344,705	6,594,271
NET CASH USED IN INVESTING ACTIVITIES	(439,757)	(633,258)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in deposits with trustees	-	35,693
Payments on bonds payable	(680,000)	(670,000)
Payments on notes payable	(5,868)	(16,861)
Proceeds from private gifts and grants restricted for long-term investment	998,219	905,132
NET CASH PROVIDED BY FINANCING ACTIVITIES	312,351	253,964
NET DECREASE IN CASH AND CASH EQUIVALENTS	(442,255)	(210,385)
CASH AND CASH EQUIVALENTS, beginning of year	4,003,437	4,213,822
CASH AND CASH EQUIVALENTS, end of year	\$ 3,561,182	\$ 4,003,437
NON CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through debt financing	\$ -	\$ -
Assets donated	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 246,428	\$ 267,779

See accompanying notes to financial statements.

Cumberland University
NOTES TO FINANCIAL STATEMENTS

May 31, 2015 and 2014

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 900 full-time undergraduate, 350 part-time undergraduate, and 200 graduate students per semester. The University is located in Lebanon, Tennessee.

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

Accrual Basis

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Uncollectible Accounts

The University provides an allowance for uncollectible accounts receivable based on review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. As of May 31, 2015 and 2014, the allowance for uncollectible accounts was \$82,552 and \$72,087, respectively.

Contributions

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

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

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

Inventories

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

Investments

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

Endowment Investments

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

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

- Safety or preservation of capital
- Income

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments, continued

- 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, 2015 is as follows:

<u>Type of Investment</u>	<u>Minimum %</u>	<u>Maximum %</u>	<u>Performance Benchmark</u>
Long Term Equity	50%	90%	S&P 500
Short Term Equity	0%	20%	S&P 500
Fixed Income	10%	30%	
Alternative Investments	0%	10%	
REIT	0%	10%	
Cash	0%	10%	

The primary objective of the endowment is to earn a net average annual real total return over the long term in excess of inflation. The investment of endowment assets shall be governed by the "Prudent Man Rule", considering risk versus reward. Safety of preservation of capital shall be number one priority, number two priority shall be income, and number three priority shall be long term growth. The proposed rate of return will be reviewed each year by the Investment Committee and the results of the equities shall be compared to the performance of the S & P 500 for one, three, five and ten year periods.

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

Plant Assets and Depreciation

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes items with a cost or fair value of \$1,000 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, the University's tax returns related to fiscal years ended May 31, 2012 through May 31, 2014 remain open to examination by tax authorities.

Operation and Maintenance of Physical Plant

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

NOTE B - CREDIT CONCENTRATION RISK

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

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

NOTE C - LOANS RECEIVABLE

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE D - INVESTMENTS

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

	2015		2014	
	Cost	Fair value	Cost	Fair value
Publicly traded stocks	\$ 6,839,646	\$ 7,442,562	\$ 6,986,833	\$ 7,644,311
Mutual funds	1,716,395	2,427,275	1,793,182	2,620,216
Fixed income securities:				
Corporate bonds	50,000	49,222	50,000	47,309
Municipal Bonds	-	-	-	-
Certificates of deposit	404,817	402,797	741,407	744,088
Cash and money market funds	1,212,706	1,212,706	425,103	425,103
Real estate	39,700	39,700	39,700	39,700
Accrued interest receivable	0	0	6,674	6,674
	<u>\$ 10,263,265</u>	<u>\$ 11,574,261</u>	<u>\$ 10,042,901</u>	<u>\$ 11,527,400</u>

Investment income results for the years ended May 31, 2015 and 2014, were as follows:

	2015	2014
Interest, dividends, and capital gain distributions	\$ 531,951	\$ 442,480
Realized gains (losses)	(55,625)	399,119
Unrealized gains (losses)	(173,503)	530,556
	<u>\$ 302,823</u>	<u>\$ 1,372,155</u>

The endowment investments by net asset class as of May 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- Restricted Funds	\$ 1,666,039	\$ 5,181,702	\$ 4,726,522	\$ 11,574,262

The activity in the endowment investments for the year ended May 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 1, 2014	\$ 1,873,776	\$ 4,927,102	\$ 4,726,522	\$ 11,527,400
Net transfers in (out)	(267,429)			(267,429)
Interest, dividends and capital gain distributions	138,061	405,360	-	543,421
Realized gains/(losses)	58,259	(113,884)	-	(55,625)
Unrealized gains (losses)	(136,628)	(36,876)	-	(173,504)
Balance May 31, 2015	<u>\$ 1,666,039</u>	<u>\$ 5,181,702</u>	<u>\$ 4,726,522</u>	<u>\$ 11,574,262</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE E – PLEDGES RECEIVABLE

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

	2015	2014
Unconditional promises expected to be collected in:		
Less than one year	\$ 152,472	\$ 102,673
One to five years	198,000	267,441
Total unconditional promises	350,472	370,114
Less: amortized discount	(20,867)	(19,758)
Less: allowance for uncollectible pledges	-	-
Pledges receivable, net	<u>\$ 329,605</u>	<u>\$ 350,356</u>

NOTE F - SPLIT-INTEREST AGREEMENTS

The University is the charitable beneficiary under a split-interest trust agreement. The trust provides for income to certain beneficiaries during their lifetime. Agreements which provide for third-party trustees are recorded as contributions receivable and gift revenue (see Note E). The trust agreement has been discounted over estimated life expectancies of the beneficiaries of trust.

NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2015	2014
Land and improvements	\$ 1,006,498	\$ 1,006,498
Buildings and improvements	27,835,594	27,789,180
Equipment	7,275,483	7,141,598
Vans	273,422	279,222
Library books	1,251,767	1,243,917
Construction in process	349,389	349,389
	37,992,153	37,809,804
Less accumulated depreciation	17,746,779	16,637,865
	<u>\$ 20,245,374</u>	<u>\$ 21,171,939</u>

NOTE H - BONDS PAYABLE

Educational Facilities Revenue Refunding and Improvement Bonds, at May 31, 2015, in the amount of \$10,500,000 are due in monthly payments of interest at 3% and semi-annual principal payments each year on April 1 and October 1 through April 1, 2031. The bonds are secured by a negative pledge agreement in favor of the lender. At May 31, 2015, the University had drawn \$10,500,000 of bond proceeds. Net of repayments, the outstanding balance at May 31, 2015 is \$7,645,000.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE H – BONDS PAYABLE (CONTINUED)

Annual payments on the bonds are due as follows:

Year ending May 31,	Total Principal Payments
2016	\$ 690,000
2017	670,000
2018	575,000
2019	590,000
2020	400,000
2021-2025	2,080,000
2026-2030	2,200,000
2031	440,000
	<u>\$ 7,645,000</u>

As of May 31, 2015, the University was not in compliance with the bond debt covenant related to debt service coverage. See the subsequent events footnote for details of the forbearance agreement.

NOTE I – NOTES PAYABLE

Notes payable at May 31, consist of the following:

	2015	2014
Notes payable to GMAC at 6.1% and 7.7% interest payable in monthly installments of interest and principal through August 2014. The loans are secured by certain vehicles.	<u>\$ -</u>	<u>\$ 5,868</u>

NOTE J – EMPLOYEE BENEFITS

Retirement Plan

The University participates in a retirement plan for the benefit of its employees which is administered by the Teacher's Insurance Annuities Association and College Retirement Equities Fund. The plan is a defined contribution plan in which the University's participation is limited to contributing an amount equal to the employees' contributions, which amounted to \$-0- and \$105,233 for the years ended May 31, 2015 and 2014, respectively.

Cumberland University

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

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 \$245,000 and \$236,000 for the years ended May 31, 2015 and 2014 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 \$187,500 has been recognized for this agreement.

NOTE L - NET ASSETS

Net assets released from restrictions were comprised of the following:

	2015	2014
Operations and support	\$ 135,434	\$ 65,917
Capital expenditures	56,587	64,251
Scholarships	644,245	672,138
	<u>\$ 836,266</u>	<u>\$ 802,306</u>

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

	2015	2014
Available for scholarships	\$ 4,402,446	\$ 4,232,928
Available for capital improvements/operations	1,768,871	1,732,076
	<u>\$ 6,171,317</u>	<u>\$ 5,965,004</u>

Permanently restricted net assets at May 31, 2015 and 2014 primarily consist of endowment funds.

NOTE M - 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 - SUPPLEMENTAL CASH FLOW INFORMATION

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

	2015	2014
Cash paid for interest	<u>\$ 246,428</u>	<u>\$ 267,779</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE O – DEVELOPMENT EXPENSES

The University incurred expenses amounting to \$558,265 and \$673,034 during 2015 and 2014, respectively related to development and fund-raising. Such amounts are included in institutional support expenses in the accompanying statements of activities.

NOTE P – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the University's various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE Q – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Codification ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. FAS 157 describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach, and the cost approach. Each approach includes multiple valuation techniques. The standard does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used when applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given highest priority in the hierarchy while level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the inputs to the valuation technique used:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in a sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liabilities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2015 and 2014

NOTE Q – FAIR VALUE MEASUREMENTS, CONTINUED

The following table summarizes the classification of fair value assets as of May 31, 2015:

	Fair value at May 31, 2015	Level 1	Level 2	Level 3
Publicly traded stocks	\$ 7,442,562	\$ 7,442,562	\$ -	\$ -
Mutual funds	2,427,275	2,427,275	-	-
Fixed income securities:				
Corporate bonds	49,222	49,222	-	-
Municipal Bonds	-	-	-	-
Certificates of deposit	402,797	402,797	-	-
Cash and money market funds	1,212,706	1,212,706	-	-
Real estate	39,700	-	39,700	-
Accrued interest receivable	0	0	-	-
	<u>\$ 11,574,261</u>	<u>\$ 11,534,561</u>	<u>\$ 39,700</u>	<u>\$ -</u>

NOTE R – SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through February 01, 2016, the date the financial statements were available to be issued.

As noted in footnote H, the University was not in compliance with its debt service covenants as of May 31, 2015. As of January 1, 2016, the bank and the University executed a forbearance agreement. Under the terms of this agreement, the University is required to pay \$1,310,000 in principal, due at execution. Then University must also pay interest monthly in arrears at 3% per annum starting January 2016, as long as the University grants the bank a first priority deed of trust lien on the main campus. In addition, there are further conditions of the forbearance agreement, including certain financial performance criteria, financial information reporting requirements, and a liquidity covenant of \$2,000,000 of unrestricted liquid assets. The forbearance agreement will terminate on the earlier of December 31, 2017, or the occurrence of any termination event, as defined in the agreement.

The University intends to refinance the debt and notified the creditor of its intentions as of January 26, 2016. As of February 01, 2016, the debt had not been refinanced.

NOTE S – RELATED PARTIES

The former vice president of online learning was also employed by the legal firm that represents Cumberland University. The form employee's full time employment was terminated as of 12/31/14 and was paid as a part time consultant from then until 03/31/15. Fees paid to the firm in the year ended 2015 amounted to \$108,904.

One of the board members is also a partner in an advertising/marketing firm that provided services to the University. The amount billed in the year ended 2015 amounted to \$ 268,252.

SUPPLEMENTAL INFORMATION

Cumberland University
Schedule of Expenditures of Federal Awards
For the year ended May 31, 2015

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education (Direct Programs)</u>		
Pell Grant	84.063	\$ 1,800,981
Supplemental Educational Opportunity Grant (SEOG)	84.007	51,000
Federal Work Study Program (FWS)	84.033	85,547
Federal Perkins Loan Program	84.038	22,000

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 OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

NOTE B - LOANS

During the year ending May 31, 2015, the University processed the following amount of new loans under the Stafford Loan Program (CFDA #84.032):

	<u>Amount Authorized</u>
Total Loans	\$ 7,639,042

At May 31, 2015 the University had \$192,988 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, 2015, 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 February 01, 2016.

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 Cumberland University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

February 01, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

Report on Internal Control Over Compliance

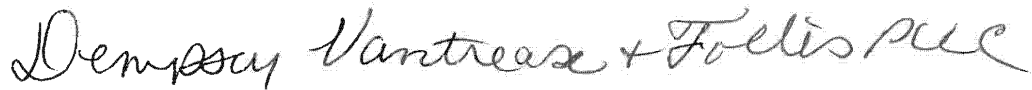
Management of Cumberland University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cumberland University's internal control over compliance 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Dempsey Vantrease + Follis PLLC". The signature is written in a cursive, flowing style.

Lebanon, Tennessee
February 01, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2015

Section I - Summary of Auditor's Reports

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ___yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ___yes X no

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes ___no

Cumberland University
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended May 31, 2015

Section II-Financial Statement Findings

No matters were reported.

Section III-Federal Award Findings and Questioned Costs

No matters were reported.