

LIVING UNIVERSITY

FINANCIAL STATEMENTS

*As of and for the Years Ended June 30, 2017
and 2016*

And Report of Independent Auditor

LIVING UNIVERSITY
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1-2

FINANCIAL STATEMENTS

Statements of Financial Position 3
Statements of Activities..... 4-5
Statements of Cash Flows 6
Notes to Financial Statements..... 7-11

Report of Independent Auditor

Board of Regents
Living University
Charlotte, North Carolina

We have audited the accompanying financial statements of Living University (the "University"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 Living University as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 5 and 6 to the financial statements, the University depends largely upon support from the Living Church of God International, Inc. As a result, the University's ability to maintain its operations could be adversely affected should such support decline significantly. Our opinion is not modified with respect to this matter.

As discussed in Note 7 to the financial statements, the University has restated its 2016 financial statements during the current year to reflect the correction of an error in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Charlotte, North Carolina
October 6, 2017

LIVING UNIVERSITY
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	Restated 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 131,593	\$ 156,327
Investments	891	891
Accounts receivable	3,804	36,200
Contribution receivable for use of real estate	55,210	55,210
Other receivables	420	6,614
Prepaid expenses and other assets	6,591	19,640
Total Current Assets	198,509	274,882
Contribution receivable for use of real estate	55,210	110,420
Property and equipment, net	193,809	205,975
Library special collections	75,894	75,894
Total Assets	\$ 523,422	\$ 667,171
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 10,622	\$ 35,723
Accrued expenses	25,488	21,862
Student deposits	1,370	-
Total Current Liabilities	37,480	57,585
Net Assets:		
Unrestricted	333,689	398,956
Temporarily restricted	152,253	210,630
Total Net Assets	485,942	609,586
Total Liabilities and Net Assets	\$ 523,422	\$ 667,171

LIVING UNIVERSITY
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>Restated 2016</u>
Support and Operating Revenues:				
Tuition and fees, net of tuition discounts of \$89,460 and \$125,274, respectively	\$ 109,233	\$ -	\$ 109,233	\$ 82,085
Contributions	524,881	16,074	540,955	814,575
Noncash contributions	72,589	-	72,589	75,395
Auxiliary enterprises	39,387	-	39,387	23,520
Other income	9,024	-	9,024	8,886
Unrealized loss on investments	-	-	-	(802)
	<u>755,114</u>	<u>16,074</u>	<u>771,188</u>	<u>1,003,659</u>
Net assets released from restrictions:				
Satisfaction of donor restrictions	<u>74,451</u>	<u>(74,451)</u>	<u>-</u>	<u>-</u>
Total Support and Operating Revenues	<u>829,565</u>	<u>(58,377)</u>	<u>771,188</u>	<u>1,003,659</u>
Expenses:				
Educational Services:				
Instruction	290,695	-	290,695	283,248
Academic affairs	50,093	-	50,093	52,583
Library	<u>163,624</u>	<u>-</u>	<u>163,624</u>	<u>142,092</u>
Total Educational Services	<u>504,412</u>	<u>-</u>	<u>504,412</u>	<u>477,923</u>
Support Services:				
Student affairs	107,230	-	107,230	104,182
Institutional support	<u>195,313</u>	<u>-</u>	<u>195,313</u>	<u>153,265</u>
Total Support Services	<u>302,543</u>	<u>-</u>	<u>302,543</u>	<u>257,447</u>
Auxiliary enterprises	<u>87,877</u>	<u>-</u>	<u>87,877</u>	<u>99,669</u>
Total Expenses	<u>894,832</u>	<u>-</u>	<u>894,832</u>	<u>835,039</u>
Change in net assets	(65,267)	(58,377)	(123,644)	168,620
Net assets, beginning of year	<u>398,956</u>	<u>210,630</u>	<u>609,586</u>	<u>440,966</u>
Net assets, end of year	<u>\$ 333,689</u>	<u>\$ 152,253</u>	<u>\$ 485,942</u>	<u>\$ 609,586</u>

LIVING UNIVERSITY
STATEMENT OF ACTIVITIES (RESTATED)

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>
Support and Operating Revenues:			
Tuition and fees, net of tuition discounts of \$89,460 and \$125,274, respectively	\$ 82,085	\$ -	\$ 82,085
Contributions	590,142	224,433	814,575
Noncash contributions	75,395	-	75,395
Auxiliary enterprises	23,520	-	23,520
Other income	8,886	-	8,886
Unrealized loss on investments	(802)	-	(802)
	<u>779,226</u>	<u>224,433</u>	<u>1,003,659</u>
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>13,803</u>	<u>(13,803)</u>	<u>-</u>
Total Support and Operating Revenues	<u>793,029</u>	<u>210,630</u>	<u>1,003,659</u>
Expenses:			
Educational Services:			
Instruction	283,248	-	283,248
Academic affairs	52,583	-	52,583
Library	142,092	-	142,092
Total Educational Services	<u>477,923</u>	<u>-</u>	<u>477,923</u>
Support Services:			
Student affairs	104,182	-	104,182
Institutional support	153,265	-	153,265
Total Support Services	<u>257,447</u>	<u>-</u>	<u>257,447</u>
Auxiliary enterprises	<u>99,669</u>	<u>-</u>	<u>99,669</u>
Total Expenses	<u>835,039</u>	<u>-</u>	<u>835,039</u>
Change in net assets	(42,010)	210,630	168,620
Net assets, beginning of year	<u>440,966</u>	<u>-</u>	<u>440,966</u>
Net assets, end of year	<u>\$ 398,956</u>	<u>\$ 210,630</u>	<u>\$ 609,586</u>

The accompanying notes to financial statements are an integral part of this statement.

LIVING UNIVERSITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (123,644)	\$ 168,620
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	45,412	34,758
Non-cash lease expense	55,210	13,803
Unrealized loss on investments	-	802
Donated property and equipment	(8,060)	(6,680)
Non-cash donation of use of real estate	-	(179,433)
Changes in operating assets and liabilities:		
Accounts and other receivables	38,590	(3,392)
Prepaid expenses and other assets	13,049	(7,778)
Accounts payable	(25,101)	17,586
Accrued expenses	3,626	(1,406)
Student deposits	1,370	(35)
Net cash flows from operating activities	<u>452</u>	<u>36,845</u>
Cash flows from investing activities:		
Purchases of library special collections	-	(3,741)
Purchases of property and equipment	<u>(25,186)</u>	<u>(41,905)</u>
Net cash flows from investing activities	<u>(25,186)</u>	<u>(45,646)</u>
Net change in cash and cash equivalents	(24,734)	(8,801)
Cash and cash equivalents, beginning of year	<u>156,327</u>	<u>165,128</u>
Cash and cash equivalents, end of year	<u>\$ 131,593</u>	<u>\$ 156,327</u>
Noncash items:		
Property and equipment acquired by donation	<u>\$ 8,060</u>	<u>\$ 6,680</u>

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Summary of significant accounting policies

Affiliation and Nature of Activities – Living University (the “University”) is affiliated and financially interrelated with the Living Church of God International, Inc. (“Church”). The University was established in 2007 to offer online course work for the development of the whole person by educating men and women in the skills, concepts, and values that lead to success in life, while helping them prepare for leadership and worthwhile service to God and humanity.

Basis of Presentation – The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are both undesignated and designated in nature. Undesignated unrestricted net assets are those currently available for use in the day-to-day operations of the University and those resources invested in property and equipment. The University may designate certain amounts to be utilized/invested to meet specific objectives of the University.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met by specific actions of the University and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Temporarily restricted contributions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as unrestricted support.

Permanently Restricted Net Assets – Net assets that are 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 any related investments for general or specific purposes. As of June 30, 2017 and 2016, the University had no permanently restricted net assets.

Contributions – Contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises, are recognized as revenues in the period made. Conditional promises 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 and primarily consist of library books, salary expenses for the services of Church employees, facility expenses allocated to the University, and vehicle donations.

Tuition and Fees – Earned revenues, which include tuition and related fees, are recognized as revenues when the services or goods are provided.

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the University have been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received are presented in the related party transactions Note 5.

LIVING UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Summary of significant accounting policies (continued)

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposits at banks in North Carolina.

Property and Equipment – Property and equipment are stated at cost for purchased items and the estimated fair value at the time of donation if contributed. Fixtures and small equipment costing less than \$1,000 are expensed when purchased. Depreciation is computed on the straight-line method over the estimated useful lives of 3 to 10 years for office furniture, equipment, and library books. The cost and accumulated depreciation of equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the statements of activities.

Library Special Collections – Library special collections are holdings of a library normally considered inexhaustible and accounted for like works of art and historical treasures. These special collection books are not depreciable.

Income Taxes – The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements. The University is however liable for federal and state income tax on unrelated business income. The University follows Financial Accounting Standards Board (“FASB”) guidance on accounting for uncertainty in income taxes. The University’s policy is to record a liability for any tax position taken that is beneficial to the University, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination.

Management Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Functional Expense Classification – The University’s functional expense classification and allocation policy is based on accounting principles generally accepted in the United States of America and a review of the current organizational structure and the identification, reclassification and allocation of certain employee, facility and departmental expenses, which serve multiple functional areas. The total square footage of space is allocated to each employee based on their occupation of the total space. Then, each employee’s time is further broken down into the appropriate functional category based on the amount of time worked in each category.

As required by the FASB codification, operations and maintenance are allocated to specific programs or supporting services based on the above methods in each category as follows for the years ended June 30:

	2017	2016
Instruction	\$ 31,413	\$ 29,718
Academic affairs	2,152	2,036
Library	104,059	98,444
Student affairs	11,306	10,696
Institutional support	5,007	4,737
	<u>\$ 153,937</u>	<u>\$ 145,631</u>

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Summary of significant accounting policies (continued)

Future Pronouncements – In August of 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of this standard on the University’s financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact the pending adoption will have on the University’s financial statements.

Note 2—Contribution receivable for use of real estate

The University entered into two below fair value operating leases with a Church congregation member in March 2016. The operating leases are for two houses that are being used for student housing by the University. The initial term of the leases is 39 months following the commencement date at an annual cost of \$2,065 each. The University estimated the fair value of the leases at approximately \$193,000 based on comparable market rates. In accordance with GAAP, the University recorded the use of the real estate as an unconditional promise to give and as restricted support at its fair value. In the initial and future years, the receivable will be reduced in an amount equal to the estimated annual lease value of the property. Contributions receivable for the use of real estate is \$110,420 and \$165,630 at June 30, 2017 and 2016, respectively.

Note 3—Property and equipment

The following is a summary of property and equipment at June 30:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 97,552	\$ 82,082
Equipment	26,299	19,789
Library books	203,405	192,139
Building improvements	3,470	3,470
Automobiles	<u>23,912</u>	<u>23,912</u>
	354,638	321,392
Less accumulated depreciation	<u>160,829</u>	<u>115,417</u>
Property and equipment, net	<u>\$ 193,809</u>	<u>\$ 205,975</u>

Depreciation expense was \$45,412 and \$34,758 for the years ended June 30, 2017 and 2016, respectively.

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 4—Leases

The University leases dormitory housing under operating leases. The terms of the agreements require payment in monthly installments ranging from \$172 to \$1,350 with various expiration dates through June 2019. Lease expense for housing for the years ended June 30, 2017 and 2016, was approximately \$6,300 and \$36,000, respectively.

Future minimum lease payments required under the operating lease agreements are as follows:

2018	\$	4,130
2019		4,130
	\$	<u>8,260</u>

Note 5—Related party transactions

The University is affiliated and financially interrelated with the Church and received cash contributions of \$428,400 during the years ended June 30, 2017 and 2016, as well as in-kind contributions of \$64,529 and \$68,715 from the Church during the years ended June 30, 2017 and 2016, respectively. The in-kind contributions include salary expenses for the services of Church employees, facility expenses allocated to the University, and vehicle donations. These revenues are included in contributions in the statements of activities. The expenses are allocated and included in the statements of activities.

At June 30, 2017 and 2016, the University owed the Church \$8,367 and \$20,254, respectively, while the Church owed the University \$0 and \$35,700, respectively. These receivables and payables are included in accounts receivable and accounts payable on the statements of financial position.

Note 6—Concentration of credit risk

The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The University from time to time may have amounts on deposit in excess of the insured limits.

The University depends largely upon support from the Church, as described in Note 5. As a result, the University's ability to maintain its operations could be adversely affected should such support decline significantly. It is anticipated that for the year ended June 30, 2017, the University will continue to receive this source of support.

Note 7—Prior period adjustment

As discussed in Note 2, management entered into two lease agreements below market value during the year ended June 30, 2016. During the year ended June 30, 2017, management determined that the difference between market value and rent paid should have been recorded as an unconditional promise to give. The adjustment to correct the error increased accounts receivable \$165,630, accounts payable \$1,033, temporarily restricted contributions \$167,580, student affairs expense \$2,982 as of and for the year ended June 30, 2016.

LIVING UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 8—Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 41,833	\$ 45,000
Contribution receivable for the use of real estate	110,420	165,630
	<u>\$ 152,253</u>	<u>\$ 210,630</u>

Note 9—Net assets released from restrictions

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 19,241	\$ -
Contribution receivable for the use of real estate	55,210	13,803
	<u>\$ 74,451</u>	<u>\$ 13,803</u>

Note 10—Subsequent events

The University has evaluated subsequent events through October 6, 2017, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.