LIVING UNIVERSITY

Financial Statements

For the Year Ended
June 30, 2008

LIVING UNIVERSITY

Contents

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

The Board of Regents
Living University
Charlotte, North Carolina

We have audited the accompanying statement of financial position of Living University (the "University") as of June 30, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
April 16, 2009

LIVING UNIVERSITY

Statement of Financial Position
June 30, 2008

Assets

Current assets		
Cash and cash equivalents	$	15,932
Accounts receivable		2,200
Other receivables		727
Total current assets		18,859
Furniture and equipment, net		16,406
Total assets	$	35,265

Liabilities and Net Assets

Current liabilities		
Accounts payable	$	2,442
Accrued expenses		3,487
Deferred revenue		1,054
Total current liabilities		6,983
Net assets		
Unrestricted		28,282
Total liabilities and net assets	$	35,265

See notes to financial statements.

LIVING UNIVERSITY

Statement of Activities
For the Year Ended June 30, 2008

Support and operating revenues:	
Tuition and fees, net of tuition discounts of $99,438	$ 53,299
Contributions	155,241
Other income	537
Total support and operating revenues	209,077
Expenses	
Educational services:	
Instruction	4,994
Library	1,516
Support services:	
Institutional support	174,778
Operations and maintenance	13,834
Total expenses	195,122
Change in net assets	13,955
Net assets, beginning of year	14,327
Net assets, end of year	$ 28,282

LIVING UNIVERSITY

Statement of Cash Flows
For the Year Ended June 30, 2008

Cash flows from operating activities	
Change in net assets	$ 13,955
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	6,284
Other	3,911
Changes in operating assets and liabilities:	
Increase in accounts and other receivables	(2,927)
Increase in accounts payable	2,442
Increase in accrued expenses	3,487
Increase in deferred revenue	1,054
Net cash provided by operating activities	28,206
Cash flows from investing activities	
Purchases of furniture and equipment	(13,496)
Net increase in cash and cash equivalents	14,710
Cash and cash equivalents at beginning of year	1,222
Cash and cash equivalents at end of year	$ 15,932

See notes to financial statements.

Note 1 – Summary of significant accounting policies

Affiliation and nature of activities – Living University (the "University") is a wholly owned subsidiary of the Living Church of God International, Inc. The University was established in 2007 to initially 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. The University began offering online study in the fall semester of 2007.

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 revenue, 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.
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> *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 Statement of Activities as net assets released from restriction. As of June 30, 2008, the University had no temporarily restricted net assets.
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> *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, 2008, the University had no permanently restricted net assets

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.

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

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents - Cash and cash equivalents consist of demand deposits on deposit at banks in North Carolina.

Accounts receivable – Accounts receivable are student receivables for tuition and are stated at cost less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the age of receivables, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. At June 30, 2008, management believed no allowance for doubtful accounts was necessary.

Furniture and equipment – Furniture and equipment are stated at cost for purchased items and the estimated fair market value at the time of donation if contributed. Fixtures and small equipment are expensed when purchased. Depreciation is computed on the straight-line method over the estimated useful lives of 3 to 5 years for office furniture and equipment. The cost and accumulated depreciation of equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the Statement of Activities.

Deferred revenue – Deferred revenue represents tuition income received for future periods.

Income taxes - The Internal Revenue Service has determined that the University qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not generally subject to income taxes under present tax laws.

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.

Recent accounting pronouncements - In July 2006, Financial Accounting Standards Board Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, was issued and interprets SFAS No. 109, *Accounting for Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

FASB Staff Position (FSP) 48-3 defers the effective date of FIN 48 for certain non-public enterprises for fiscal year beginning after December 15, 2008. The University has elected to defer the application of FIN 48 in accordance with FSP 48-3. During the deferral period of the application of FIN 48 the University will continue to evaluate uncertain tax positions utilizing the underlying principals of FAS 109, *Accounting for Income Taxes*, and FAS 5, *Accounting for Contingencies*.

Note 2 – Furniture and equipment

The following is a summary of property and equipment at June 30, 2008:

Furniture and fixtures	$ 4,737
Equipment	16,738
Software	1,215
	22,690
Less accumulated depreciation	6,284
Furniture and equipment, net	$ 16,406

Depreciation expense was $6,284 for the year ended June 30, 2008.

Note 3 – Related party transactions

The University is a wholly owned subsidiary of the Living Church of God International, Inc. (the "Church") and received cash contributions of $125,755 from the Church during the year. In addition, the University received in-kind contributions of $28,613 which include salary expenses for the services of Church employees and facility expenses allocated to the University. These revenues are included in contributions in the Statement of Activities.

Note 4 - Concentration of credit risk

The majority of students are in the United States; however, the University attracts students from throughout the world.

The University places its cash with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures these balances for up to $100,000. Periodically, the University may maintain cash balances in excess of the amount insured by the FDIC.

The University depends largely upon support from the Church, as described in Note 3. 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, 2009 the University will continue to receive this source of support.