

LIVING UNIVERSITY

FINANCIAL STATEMENTS

*As of and for the Years Ended June 30, 2016
and 2015*

And Report of Independent Auditor

LIVING UNIVERSITY
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1

FINANCIAL STATEMENTS

Statements of Financial Position 2

Statements of Activities..... 3

Statements of Cash Flows 4

Notes to Financial Statements..... 5-8

Report of Independent Auditor

The 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, 2016 and 2015, 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 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 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, 2016 and 2015, 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 Matter

As discussed in Notes 4 and 5 to the financial statements, the University depends largely upon support from the Living Church of God International, Inc. (the "Church"). 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 that matter.



Charlotte, North Carolina
September 8, 2016

LIVING UNIVERSITY
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 156,327	\$ 165,128
Investments	891	1,693
Accounts receivable	36,200	37,100
Other receivables	6,614	2,322
Prepaid expenses and other assets	19,640	11,862
Total Current Assets	219,672	218,105
Property and equipment, net	205,975	192,148
Library special collections	75,894	72,153
Total Assets	\$ 501,541	\$ 482,406
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 34,690	\$ 18,137
Accrued expenses	21,862	23,268
Student deposits	-	35
Total Current Liabilities	56,552	41,440
Net Assets:		
Unrestricted	399,989	440,966
Temporarily restricted	45,000	-
Total Net Assets	444,989	440,966
Total Liabilities and Net Assets	\$ 501,541	\$ 482,406

LIVING UNIVERSITY
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
Support and Operating Revenues:				
Tuition and fees, net of tuition discounts of \$89,460 and \$125,274, respectively	\$ 82,085	\$ -	\$ 82,085	\$ 78,138
Contributions	601,995	45,000	646,995	618,905
Noncash contributions	75,395	-	75,395	166,039
Auxiliary enterprises	23,520	-	23,520	12,600
Other income	8,886	-	8,886	10,023
Unrealized loss on investments	(802)	-	(802)	-
Total Support and Operating Revenues	<u>791,079</u>	<u>45,000</u>	<u>836,079</u>	<u>885,705</u>
Expenses:				
Educational Services:				
Instruction	283,248	-	283,248	312,890
Academic affairs	52,583	-	52,583	70,561
Library	142,092	-	142,092	105,598
Total Educational Services	<u>477,923</u>	<u>-</u>	<u>477,923</u>	<u>489,049</u>
Support Services:				
Student affairs	150,973	-	150,973	120,961
Institutional support	153,265	-	153,265	153,508
Total Support Services	<u>304,238</u>	<u>-</u>	<u>304,238</u>	<u>274,469</u>
Auxiliary enterprises	49,895	-	49,895	13,400
Total Expenses	<u>832,056</u>	<u>-</u>	<u>832,056</u>	<u>776,918</u>
Change in net assets	(40,977)	45,000	4,023	108,787
Net assets, beginning of year	440,966	-	440,966	332,179
Net assets, end of year	<u>\$ 399,989</u>	<u>\$ 45,000</u>	<u>\$ 444,989</u>	<u>\$ 440,966</u>

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

LIVING UNIVERSITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,023	\$ 108,787
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	34,758	25,431
Unrealized loss on investments	802	-
Donated property and equipment	(6,680)	(102,198)
Donated library special collections	-	(2,250)
Changes in operating assets and liabilities:		
Accounts and other receivables	(3,392)	(32,156)
Prepaid expenses and other assets	(7,778)	(11,487)
Accounts payable	16,553	6,026
Accrued expenses	(1,406)	1,931
Student deposits	(35)	(90)
Net cash flows from operating activities	<u>36,845</u>	<u>(6,006)</u>
Cash flows from investing activities:		
Purchases of library special collections	(3,741)	-
Purchases of property and equipment	(41,905)	(11,084)
Net cash flows from investing activities	<u>(45,646)</u>	<u>(11,084)</u>
Net change in cash and cash equivalents	(8,801)	(17,090)
Cash and cash equivalents, beginning of year	165,128	182,218
Cash and cash equivalents, end of year	<u>\$ 156,327</u>	<u>\$ 165,128</u>
Noncash items:		
Property and equipment acquired by donation	<u>\$ 6,680</u>	<u>\$ 102,198</u>
Library special collections acquired by donation	<u>\$ -</u>	<u>\$ 2,250</u>

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

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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. (the “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. As of June 30, 2016 and 2015, the University had \$45,000 and \$0 temporarily restricted net assets, respectively. These net assets are purpose restricted for scholarships.

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, 2016 and 2015, 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.

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

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 4.

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.

LIVING UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

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:

	2016	2015
Instruction	\$ 29,718	\$ 29,797
Academic affairs	2,036	2,041
Library	98,444	75,698
Student affairs	10,696	10,724
Institutional support	4,737	4,750
	<u>\$ 145,631</u>	<u>\$ 123,010</u>

Note 2—Property and equipment

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

	2016	2015
Furniture and fixtures	\$ 82,082	\$ 53,022
Equipment	19,789	27,531
Library books	192,139	180,151
Building improvements	3,470	3,470
Automobiles	23,912	23,912
	<u>321,392</u>	<u>288,086</u>
Less accumulated depreciation	115,417	95,938
Property and equipment, net	<u>\$ 205,975</u>	<u>\$ 192,148</u>

Depreciation expense was \$34,758 and \$25,431 for the years ended June 30, 2016 and 2015, respectively.

Note 3—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, 2016 and 2015, was approximately \$36,000 and \$13,000, respectively.

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

2017	\$ 7,290
2018	4,130
2019	4,130
	<u>\$ 15,550</u>

LIVING UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 4—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, 2016 and 2015, as well as in-kind contributions of \$68,715 and \$112,741 from the Church during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the University owed the Church \$20,254 and \$11,570, respectively, while the Church owed the University \$35,700 at June 30, 2016 and 2015. These receivables and payables are included in accounts receivable and accounts payable on the statements of financial position.

Note 5—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 4. 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 6—Subsequent events

The University has evaluated subsequent events through September 8, 2016, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.