Life University, Inc.

Financial Statements
Years Ended June 30, 2013 and 2012

Life University, Inc.

Financial Statements
Years Ended June 30, 2013 and 2012

Life University, Inc.

Contents

Tel: 404-688-6841
Fax: 404-688-1075
www.bdo.com

1100 Peachtree Street NE, Suite 700
Atlanta, GA 30309-4516

Independent Auditor's Report

The Board of Trustees
Life University, Inc.

We have audited the accompanying financial statements of Life University, Inc., which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets, 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 Life University, Inc. as of June 30, 2013, 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

Report on 2012 Financial Statements

The 2012 financial statements of Life University, Inc. were audited by other auditors, whose report dated September 25, 2012 expressed an unmodified opinion on those statements.

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 September 26, 2013 on our consideration of Life University, Inc.'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 Life University, Inc.'s internal control over financial reporting and compliance.

BDO USA, LLP

Atlanta, Georgia
September 26, 2013

Life University, Inc.

Statements of Financial Position

June 30,	**2013**	2012
Assets		
Cash and cash equivalents	**$ 15,193,548**	$ 13,126,774
Pledges receivable, net	**3,640,581**	3,833,242
Other receivables	**554,956**	682,561
Other assets	**337,499**	122,196
Notes receivable, net	**2,486,445**	1,865,408
Investments	**202,126**	943,892
Deposits with trustee	**6,544,219**	6,460,901
Debt issuance costs, net	**1,323,282**	1,531,726
Property and equipment, net	**82,363,191**	85,004,345
Investments permanently restricted for endowment	**1,565,100**	835,508
Total Assets	**$ 114,210,947**	$ 114,406,553
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 4,048,734**	$ 3,837,963
Other liabilities	**745,361**	1,183,176
Notes payable, net	**67,797,590**	68,173,770
Total Liabilities	**72,591,685**	73,194,909
Net Assets		
Unrestricted	**34,183,394**	35,032,855
Temporarily restricted	**5,870,768**	5,343,281
Permanently restricted	**1,565,100**	835,508
Total Net Assets	**41,619,262**	41,211,644
Total Liabilities and Net Assets	**$ 114,210,947**	$ 114,406,553

See accompanying independent auditor's report and notes to financial statements.

Life University, Inc.

Statements of Activities and Changes in Net Assets

	2013				2012			
Year ended June 30,	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue, Gains and Other Support								
Student tuition and fees								
College of Chiropractic	$ 44,078,192	$ -	$ -	**$ 44,078,192**	$ 40,027,107	$ -	$ -	$ 40,027,107
Non-chiropractic graduate	900,453	-	-	**900,453**	877,420	-	-	877,420
Undergraduate	7,310,630	-	-	**7,310,630**	7,840,769	-	-	7,840,769
Less Institutional scholarships and tuition discounts	(2,289,482)	-	-	**(2,289,482)**	(2,372,038)	-	-	(2,372,038)
Net student tuitions and fees	49,999,793	-	-	**49,999,793**	46,373,258	-	-	46,373,258
Private contributions	148,983	772,624	60,488	**982,095**	176,811	339,465	12,754	529,030
Interest and dividend income	98,860	13,827	14,905	**127,592**	100,326	62,776	6,002	169,104
Proceeds from short-term endowment	-	-	-	**-**	-	-	17,665	17,665
Net realized and unrealized gains (losses) from investments	(28,440)	(414)	77,719	**48,865**	(31,800)	2,085	(70,515)	(100,230)
Clinic receipts	1,470,135	-	-	**1,470,135**	715,494	-	-	715,494
Sales and services of auxiliary enterprises	2,713,480	-	-	**2,713,480**	2,566,612	-	-	2,566,612
Other	256,547	-	-	**256,547**	277,206	-	-	277,206
Net assets released from restrictions and net assets legally appropriated to endowment	(317,930)	(258,550)	576,480	**-**	59,009	(59,009)	-	-
Total Revenue, Gains and Other Support	54,341,428	527,487	729,592	**55,598,507**	50,236,916	345,317	(34,094)	50,548,139
Expenses								
Educational and general								
Instructional and research	18,554,279	-	-	**18,554,279**	17,457,068	-	-	17,457,068
Public service	841,875	-	-	**841,875**	881,091	-	-	881,091
Academic support	2,502,757	-	-	**2,502,757**	2,395,219	-	-	2,395,219
Student services	6,507,169	-	-	**6,507,169**	5,919,412	-	-	5,919,412
Institutional support	12,572,471	-	-	**12,572,471**	11,862,175	-	-	11,862,175
Fundraising	820,181	-	-	**820,181**	613,833	-	-	613,833
Operational and Maintenance of plant	4,022,456	-	-	**4,022,456**	3,858,285	-	-	3,858,285
Interest Expense	5,308,773	-	-	**5,308,773**	4,989,224	-	-	4,989,224
Total Education and General	51,129,961	-	-	**51,129,961**	47,976,307	-	-	47,976,307
Auxiliary Enterprises Expenses	4,060,928	-	-	**4,060,928**	3,212,815	-	-	3,212,815
Total Expenses	55,190,889	-	-	**55,190,889**	51,189,122	-	-	51,189,122
Change in Net Assets	(849,461)	527,487	729,592	**407,618**	(952,206)	345,317	(34,094)	(640,983)
Net Assets, beginning of year	35,032,855	5,343,281	835,508	**41,211,644**	35,985,061	4,997,964	869,602	41,852,627
Net Assets, end of year	$ 34,183,394	$ 5,870,768	$ 1,565,100	**$ 41,619,262**	$ 35,032,855	$ 5,343,281	$ 835,508	$ 41,211,644

See accompanying independent auditor's report and notes to financial statements.

Life University, Inc.

Statements of Cash Flows

Year ended June 30,	**2013**	2012
Cash Flows From Operating Activities		
Change in net assets	**$ 407,618**	$ (640,983)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**5,194,709**	4,906,795
Net realized and unrealized (gain) loss on investments	**28,854**	100,230
Provision for present value of pledges receivable	**(150,376)**	(85,831)
Provision for uncollectible pledge receivable	**27,840**	173,117
Provision for uncollectible notes receivable	**181,780**	(72,506)
Gifts restricted for long-term investments	**(729,592)**	(370,232)
Decrease (increase) in operating assets:		
Pledges receivable	**(414,395)**	21,868
Other receivables	**127,605**	(134,777)
Other assets	**(215,303)**	(31,021)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	**210,771**	(370,825)
Other liabilities	**(437,815)**	(65,301)
Net cash provided by operating activities	**4,231,696**	3,430,534
Cash Flows From Investing Activities		
Purchase of property and equipment	**(2,081,291)**	(1,925,786)
Purchase of investments	**(135,508)**	(51,065)
Proceeds from sale of investments	**848,420**	-
Increase (decrease) in:		
Cash restricted to investment	**-**	(472,965)
Deposits with trustee	**(83,318)**	(92,025)
Notes receivable, net	**(802,817)**	238,780
Net cash used in investing activities	**(2,254,514)**	(2,303,061)
Cash Flows From Financing Activities		
Gifts restricted for long-term investments	**729,592**	525,847
Payments on long-term debt	**(640,000)**	(575,000)
Net cash provided by (used in) financing activities	**89,592**	(49,153)
Net Increase in Cash	**2,066,774**	1,078,320
Cash and Cash Equivalents, beginning of year	**13,126,774**	12,048,454
Cash and Cash Equivalents, end of year	**$ 15,193,548**	$ 13,126,774
Supplemental Cash Flow Disclosures		
Cash paid for interest	**$ 4,836,508**	$ 4,874,113
Non-Cash Investing Activities		
Assets acquired from capital lease obligation	**$ -**	$ 229,900

See accompanying independent auditor's report and notes to financial statements.

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Life University, Inc. (the "University") is a not-for-profit educational institution located in Marietta, Georgia (metropolitan Atlanta) offering a doctor of chiropractic degree, Masters degree programs in sports health science and clinical nutrition, and undergraduate degrees in business, biology, psychology, exercise science, nutrition, dietetics, biopsychology, computer information management, general studies and health coaching. The University was founded in 1974. The College of Chiropractic is the largest program offered by the University, accounting for approximately 86% and 82% of tuition revenue for the years ended June 30, 2013 and 2012, respectively.

The University maintains fully accredited status with its regional accrediting agency, the Southern Association of Colleges and Schools ("SACS"). SACS granted reaffirmation of accreditation to the University effective through 2021. In addition, the University's chiropractic program is accredited by the Council on Chiropractic Education (CCE) through 2021.

The University's nutrition and dietetics programs maintain either approved or developmental accreditation status with the Accreditation Council for Education in Nutrition and Dietetics (ACEND) of the American Dietetic Association (ADA) through 2015.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The University presents its financial statements in accordance with the Financial Accounting Standards Board (FASB)'s *Not for Profit* presentation and disclosure guidance. Under this guidance, the University is required to report information regarding its financial position and activities according to three categories of net assets: unrestricted net assets temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed restrictions and are used to account for resources available to carry out the purposes of the University in accordance with the limitations of its by-laws. Temporarily restricted net assets are subject to donor-imposed restrictions that may be met either by the actions of the University pursuant to those restrictions or the passage of time. Permanently restricted net assets are permanently subject to donor imposed restrictions that do not expire over time.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist primarily of bank demand deposits and other short-term highly-liquid investments. Cash and cash equivalents do not include cash restricted to long-term investment.

The University maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. At June 30, 2013, the University's uninsured cash balances were approximately S11,354,000.

Notes Receivable

Loans receivable are carried at unpaid principal balances, less an allowance for loan losses. The allowance for loan losses is increased by charges to expenses and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience and specific past due loans. Loans are considered past due if full principal or interest payments are not anticipated to be received in accordance with the contractual terms. The University's practice is to charge-off any loan when the loan is determined by management to be uncollectible.

Interest on International Student Loans is recognized over the life of the loan and is calculated using the simple-interest method on principal amounts outstanding. No interest income is recognized on Federal Perkins Loans.

Investments

The University's investments include various types of investments including equity and fixed income securities and mutual funds. The University records all investments at fair value, with realized and unrealized gains and losses being reported in the statement of activities and changes in net assets. Investment earnings, including dividends and interest, are recognized as income when earned.

The estimated fair value of publicly traded investments is based on quoted market prices. Investments which are not publicly traded consist of investments in fixed income securities are reflected at fair value. Depending on the underlying asset, the fair value for these investments is determined through national exchange price for securities with a readily determinable value or valuations and estimates typically determined by external pricing sources.

Investment securities are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the University's statement of financial position and statement of activities and changes in net assets.

Net gains and losses on the sale of investments are reported in the statement of activities and changes in net assets in the appropriate net asset classification. Investment income and appreciation (depreciation) of market value is recorded as change in unrestricted net assets, temporality restricted net assets, or permanently restricted net assets depending on any donor stipulations on the use of income.

Property and Equipment

Property and equipment are stated at cost at the acquisition date or fair market value at the date of donation in the case of gifts. Property and equipment donations are reported as unrestricted support unless the donor has restricted the use of the asset for a specific purpose. Contributions of cash, other assets, and unconditional promises to give that are restricted for the purpose of acquiring property and equipment are reported as restricted support. When there are no explicit donor stipulations about how long those long lived assets must be maintained, the University reports expirations of donor restrictions when the acquired long-lived assets are placed in service. Such expirations of donor restrictions are reported as reclassifications to unrestricted net assets.

Depreciation is computed on the straight-line method over the following estimated useful lives:

	Useful Lives
Buildings	40 years
Equipment and furnishings	3-7 years
Library books	7 years
Land improvements	15 years

Impairment of Long-Lived Assets

The University evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the assets to the future cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Pledges Receivable

Contributions of cash, other assets, and unconditional promises to give are recognized when received from the donor. Classification of these contributions as unrestricted, temporarily restricted, or permanently restricted is based upon any donor-imposed stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in the future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using an appropriate discount rate applicable to the year in which the promise is received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not recorded as pledges receivable until such time as the conditions are substantially met.

Debt Issuance Cost

The University amortizes certain capitalized financing costs using the effective interest method over the terms of the respective notes payable.

Revenue Recognition

Student tuition and fees is reported net of scholarship discounts and allowance in the statements of activities and changes in net assets.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation expense is allocated among educational and general, and auxiliary expenses based on a combination of specific allocation and estimated departmental usage of the underlying facilities.

Income Tax Status

The University is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"). Any unrelated business income, as defined by Section 512(a)(1) of the Code is subject to income taxes. U.S. generally accepted accounting principles require the University's management to evaluate tax positions taken by the University and recognize a tax liability if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The University recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other institutional expenses. There were no Interest or penalties recognized in either of the years ended June 30, 2013 or 2012.

The University's federal Return of Organization Exempt from Income Tax (Form 990) for the years ended June 30, 2012, 2011 and 2010 are subject to examination by the IRS.

Advertising Costs

Advertising costs are expensed when incurred and totaled approximately $236,874 and $69,000 for the years ended June 30, 2013 and 2012, respectively.

Fair Value Measurements

The University has established processes and methodologies for determining the fair values of the investments measured on a recurring basis in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The estimated fair values of the University's financial assets and liabilities are as follows as of June 30, 2013:

	Carrying Amount	*Fair Value*
Cash and cash equivalents	**$ 15,193,548**	$ 15,193,548
Pledges receivable	**3,640,581**	3,640,581
Federal Perkins and other federal student loans (included in notes receivable)	**1,877,085**	Not determinable
International student loans (included in notes receivable)	**609,360**	609,360
Investments	**202,126**	202,126
Deposits with trustee	**6,544,219**	6,544,219
Assets restricted for endowment	**1,565,100**	1,565,100
Notes payable	**67,797,590**	71,797,218

The following methods and assumptions were used by the University in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value due to the short maturities of these instruments.

Investments and deposits with trustee - As disclosed in Note 5, the fair value of these assets has been measured in accordance with ASC 820.

Pledges receivable - The fair value of pledges receivable is estimated based upon the amount of future cash flows as disclosed in Note 3.

Federal Perkins and other federal student loans - It is not practical to estimate the fair value given restrictions imposed on these federal student financial aid loans. Schools participating in the Federal Perkins Loan Program may assign unpaid loans to the Department of Education with certain conditions being met.

Notes payable - The fair value of notes payable are based on quoted prices for the same or similar liabilities when traded as assets.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation with no impact on net assets.

2. Restricted Cash

The University maintains, as required by the Department of Education, separate bank accounts containing federally funded financial aid and federally subsidized student loans. The use of these funds is restricted to student financial aid. The University also maintains other accounts whose funds are restricted for specific purposes. The restricted cash amounts as of June 30, 2013 and 2012 were $2,325,108 and $1,948,649, respectively, and are included in cash and cash equivalents.

3. Pledges Receivables

Unconditional promises to give, consisting primarily of capital project fundraising campaigns as of June 30, 2013 and 2012, have been recorded at the net present value of estimated future cash flows using a discount rate ranging from 3% to 3.25% for each of the years ended June 30, 2013 and 2012. The discount rate was determined based such factors as when the promise is expected to be collected, the donor's creditworthiness, past collection experience, the University's policy on enforcing promises to give, uncertainty inherent in the cash flows, and other relevant factors. Unconditional promises to give consist of the following:

June 30,	**2013**	2012
Promises collectible within one year	**$ 670,141**	$ 628,078
Promises collectible in one to five years	**2,560,055**	2,275,443
Promises collectible after five years	**1,062,500**	1,706,400
	4,292,696	4,609,921
Less discount on promises to give	**(401,699)**	(552,075)
Less allowance for uncollectible promises to give	**(250,416)**	(224,604)
	$ 3,640,581	$ 3,833,242

4. Notes Receivable

Notes receivable consists primarily of Federal Perkins loans, which are available to both undergraduate and graduate students based on need, and international student loans, which are designed to assist students from abroad. At June 30, 2013 and 2012, the amounts outstanding and related allowances for doubtful accounts are as follows:

	2013	2012
Federal Perkins loans	**$ 7,903,863**	$ 7,833,684
Other federal student loans	**760,716**	49,381
Less refundable grant advances from the U.S. Department of Education	**(6,123,591)**	(6,321,037)
Federal Perkins and other federal student loans	**2,540,988**	1,562,028
Allowance for doubtful accounts	**(663,903)**	(434,497)
Federal Perkins and other federal student loans, net	**1,877,085**	1,127,531
International student loans	**781,564**	795,114
Allowance for doubtful accounts	**(172,204)**	(57,237)
International student loans, net	**609,360**	737,877
Total notes receivable	**3,322,552**	2,357,142
Less allowance for doubtful accounts	**(836,107)**	(491,734)
Notes receivable, net	**$ 2,486,445**	$ 1,865,408

5. Investments and Deposits with Trustee

The following tables set forth the components, at fair value, of the University's investments and deposits with trustee including the level within the fair value hierarchy established by ASC 820 as of June 30, 2013 and 2012:

June 30, 2013	*Level 1*	*Level 2*	*Total*
Investments:			
Money market funds	$ 919,021	$ -	$ 919,021
Mutual funds	214,888	-	214,888
Fixed income securities:			
Corporate obligations	-	388,142	388,142
US government securities	245,175	-	245,175
Total investments	1,379,084	388,142	1,767,226
Less investments permanently restricted for endowment	-	-	1,565,100
Investments at fair value			$ 202,126
Deposits with trustee:			
Money market funds	$ 6,544,219	$ -	$ 6,544,219

June 30, 2012	*Level 1*	*Level 2*	*Total*
Investments			
Mutual funds	$ 1,314,528	$ -	$ 1,314,528
Fixed income securities			
Domestic bond funds	-	433,976	433,976
Certificates of deposits	30,896	-	30,896
Total investments	1,345,424	433,976	1,779,400
Less investments permanently restricted for endowment	-	-	835,508
Investments at fair value			$ 943,892
Deposits with trustee:			
Government money market fund	$ 3,432,461	$ -	$ 3,432,461
U.S. government securities	3,028,440	-	3,028,440
Deposits with trustee at fair value	$ 6,460,901	$ -	$ 6,460,901

The University does not hold any Level 3 investments as of June 30, 2013 and 2012.

In conjunction with the loan agreement between the University and the Development Authority of the City of Marietta described in Note 8, the University is required to maintain certain funds with a third-party trustee. The use of all funds required to be on deposit with the trustee is restricted in accordance with the loan agreement.

6. Debt Issuance Cost

Debt issuance costs, net, which relate to the University's notes payable consist of the following:

	2013	2012
Debt issuance costs	**$ 1,758,649**	$ 1,755,616
Less accumulated Amortization	**435,367**	223,890
	$ 1,323,282	$ 1,531,726

Amortization of debt issuance costs is included in interest expense in the statements of activities and change in net assets. Amortization expense recognized for the years ended June 30, 2013 and 2012 were $208,445 and $56,731, respectively. During 2013, the University recorded a cumulative catch-up entry to increase amortization expense of $151,714 to accurately reflect the effective interest method of amortization.

7. Property and Equipment

Property and equipment for the years ended June 30, 2013 and 2012 consisted of the following:

	2013	2012
Cost		
Buildings	**$ 105,010,359**	$ 104,903,203
Land	**3,442,320**	3,442,320
Land improvements	**9,681,022**	9,594,724
Equipment and furnishings	**19,501,544**	18,083,191
Library books	**3,669,304**	3,539,334
Construction in progress and assets yet to be placed in service	**903,579**	563,905
Total Cost	**142,208,128**	140,126,677
Less accumulated depreciation	**(59,844,937)**	(55,122,332)
Property and Equipment, Net	**$ 82,363,191**	$ 85,004,345

The aggregate depreciation charged to operations was $4,722,445 and $4,788,832 for the years ended June 30, 2013 and 2012, respectively.

8. Notes Payable, net

The balance of notes payable as of June 30, 2013 and 2012 consisted of the following:

	2013	2012
Promissory notes payable to the Development Authority of the City of Marietta, Georgia, Series 2008 with a face amount of $71,465,000	**$ 69,260,000**	$ 69,900,000
Less unamortized discount on notes payable	**1,462,410**	1,726,230
Notes Payable, net	**$ 67,797,590**	$ 68,173,770

On August 1, 2008, the University entered into a loan agreement with the Development Authority of the City of Marietta for the Development Authority to issue university facility and refunding bonds ("Series 2008 Bonds) and surrender the proceeds to the University.

The notes payable is secured by deposits with trustee, a first mortgage on all real and personal property owned by the University, a security interest in equipment owned by the University, and assignments of rents and leases, and all revenues. The aggregate carrying value of the University's assets used to secure the loan is approximately $91,500,000 as of June 30, 2013.

The Series 2008 Bonds were issued under three separate CUSIP numbers which have stated interest rates of 6.25%, 7.00%, and 7.00% and effective interest rates of 6.75%, 7.125%, and 7.25%, respectively. The Bonds mature on June 15, 2020, 2030, and 2039.

The proceeds from the Series 2008 Bonds were used for the refunding of previously issued bonds, financing the acquisition, construction, renovation, and equipping of various facilities located on the University's campus, funding various reserve funds, and paying all or a portion of the costs associated with issuance of the notes.

Amortization of the discount of $263,820 and S61,232 for the years ended June 30, 2013 and 2012, respectively, is recorded as interest expense in the statements of activities and changes in net assets. During 2013, the University recorded a cumulative catch-up entry to increase discount on notes payable amortization of $166,510 to accurately reflect the effective interest rate method of amortization.

The University has made all payments required under the loan agreement through June 30, 2013.

The loan agreement requires the University to meet certain financial covenants which include a debt service coverage ratio and a day's cash calculation. As of June 30, 2013, the University has a Debt Service Coverage Ratio of 1.68 and 95 days of cash, as defined in the applicable agreements, which are in compliance with the financial covenants.

The loan agreement requires the University to make payments to a sinking fund in an annual cumulative amount equal to the principal and interest payable each June 15 and December 15.

The following is a summary of maturities and sinking fund requirements of this note payable:

	Principal	*Interest*	*Sinking Fund Requirement*
2014	$ 715,000	$ 4,798,175	$ 5,513,175
2015	780,000	4,753,488	5,533,488
2016	855,000	4,704,738	5,559,738
2017	940,000	4,651,300	5,591,300
2018	1,030,000	4,592,550	5,622,550
Thereafter	60,940,000	64,741,737	125,681,737
Total	$ 65,260,000	$ 88,241,988	$ 153,501,988

Interest expense on notes payable recognized for the years ended June 30, 2013 and 2012 was $5,308,774 and $4,989,224, respectively.

9. Other Liabilities

Other liabilities presented in the statements of financial position consist primarily of deferred revenues, student pre-deposits and refunds and capital lease obligation.

10. Net Assets

At June 30, 2013 and 2012, temporarily restricted net assets consisted of cash and cash equivalents and pledge receivable:

Temporarily restricted net assets at June 30, 2013 and 2012 consist of the following:

	2013	2012
Scholarships	**$ 804,482**	$ 896,442
Capital projects	**5,066,286**	4,446,839
	$ 5,870,768	$ 5,343,281

Permanently restricted net assets consist of endowment funds, the earned income from which is available for scholarships. Below is a summary of endowment funds at June 30, 2013 and 2012:

	2013	2012
Scholarships	**$ 1,565,100**	$ 835,508

On July 1, 2008, the State of Georgia enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) the University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the portion of investment return added in accordance with the gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standards of prudence prescribed by UPMIFA.

The University has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of income for funding institutional scholarships while seeking to maintain the principal portion of the endowment assets. Under this policy, the endowment assets are invested primarily in mutual funds and fixed income securities.

The endowments annual appropriations are based on criterion for the individual scholarships as established by the donor with student eligibility determined by the University.

The changes in endowment net assets for the year ended June 30, 2013 and 2012 are as follows:

June 30, 2013	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, July 1, 2012	$ 817,892	$ 835,508	$ 1,653,400
Contributions	-	60,488	60,488
Investment return:			
Investment income	13,827	14,905	28,732
Net realized and unrealized loss	-	77,719	77,719
Transfers	(278,943)	576,480	297,537
Appropriation for expenditures	(52,240)	-	(52,240)
Endowment net assets, June 30, 2013	$ 500,536	$ 1,565,100	$ 2,065,636

June 30, 2012	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, July 1, 2011	$ 812,040	$ 869,602	$ 1,681,642
Contributions	-	12,754	12,754
Investment return:			
Investment income	62,776	6,002	68,778
Net realized and unrealized loss	2,085	(70,515)	(68,430)
Transfers	-	17,665	17,665
Appropriation for expenditures	(59,009)	-	(59,009)
Endowment net assets, June 30, 2012	$ 817,892	$ 835,508	$ 1,653,400

11. Sales and Service of Auxiliary Enterprises

The University engages in revenue producing activities for the benefit of both faculty and students. The University offers post graduate continuing education for the faculty to allow for state requirements to be met and offers on-campus housing and other services for students. Income attributable to the sales and services of auxiliary enterprises for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Post graduate continuing education	**$ 245,651**	$ 211,637
Rental income and fees	**2,467,829**	2,354,975
	$ 2,713,480	$ 2,566,612

12. Retirement Plan

The University has a 401(k) retirement plan that covers substantially all eligible employees of the University who have completed at least one year of service in which they worked at least 1,000 hours. Employer contributions to this plan are discretionary subject to approval by the University's Board of Trustees. No employer contributions were made to the plan during the years ended June 30, 2013 and 2012.

Certain key members of management participate in a defined contribution non-qualified pension plan. The University contributes a predetermined percentage of each member's annual compensation to the plan each year. The University's contributions to this plan amounted to $146,000 during the years ended June 30, 2013 and 2012, respectively.

13. Concentrations

The University participates in various federal and state programs that provide financial assistance to its students. These programs are subject to specific regulatory requirements including program audits and reviews.

14. Related Party Transactions

On February 18, 2010, the Board of Trustees (the "Board") approved a consulting agreement entered into with a former board member. Under the terms of the agreement, the consultant is to provide various services to the University and Board and is to be paid annual consulting fees. The agreement is renewable annually. Total compensation and expense allowance under this agreement during the years ended June 30, 2013 and 2012 amounted to approximately $120,000 each year.

15. Legal Contingencies and Subsequent Event

The University is party to various legal proceedings arising in the ordinary course of business. Management believes, after consultation with legal counsel, the outcome of such actions will not have a material adverse impact on the financial statements of the University.

16. Commitments

The University has leasing services agreement with a third party property manager for its student housing project. Beginning January 1, 2009 through September 25, 2009 (Commencement Date), the property manager was paid $5,000 per month for marketing and leasing the facilities. Beginning September 25, 2009, the property manager receives reimbursement of monthly expenses and a monthly management fee equal to the sum of $5,570 plus 2.5% of the monthly gross collection. The management fee may not exceed 5% of monthly gross collections. The leasing agreement is for a five year term beginning on September 25, 2009. Management fees paid under this agreement for the years ended June 30, 2013 and 2012 totaled approximately $106,000 and $104,000, respectively.

The University has a management services agreement with a third party related to the development and management of the childcare center located on campus. The University pays an annual management fee of $55,000, in equal monthly installments, adjusted annually on April 1 based on the consumer price index. The University is also required to pay all operating expenses of the childcare center in excess of revenues earned including facility related expenses, equipment, and supplies. The agreement is for a five year term terminating on the last day of the month in which the fifth anniversary of the opening date (April 1, 2010) falls. The agreement can be renewed for additional five year terms. Fees and expense reimbursements paid for the years ended June 30, 2013 and 2012 totaled approximately $163,000 and $195,000, respectively.

The University outsources to a third party the management of the University’s on campus food service program. The University is required to pay an annual management fee of $85,000, payable in monthly installments. In addition, the University is also required to pay an administrative/overhead fee equal to 5.5% or 8% of net revenues of the food service program and to pay for all operating expenses including labor, actual costs of products, and supplies. Fees paid for the years ended June 30, 2013 and 2012 totaled approximately $229,449 and $284,000, respectively.

17. Subsequent Events

The University has evaluated subsequent events and their potential effects on the financial statements through September 26, 2013, which is the date the financial statements were available to be issued.

On August 28, 2013, the University entered into a credit agreement with a federally insured financial institution whereby the University issued an interest bearing promissory note with principal amount of $500,000 (“Term Note”) and bears interest at 3.97% per annum. The Term Note is payable in monthly installments of $9,215 commencing on September 27, 2013 through July 27, 2016 with the remaining unpaid principal and accrued interest due and payable in full at maturity on August 27, 2016. The proceeds of the Term Note will be used for the University’s HVAC replacements and controls upgrade project.

Tel: 404-688-6841
Fax: 404-688-1075
www.bdo.com

1100 Peachtree Street NE, Suite 700
Atlanta, GA 30309-4516

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*

The Board of Trustees
Life University, Inc.

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 Life University, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Life University, Inc.'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 the Life University, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Life University, Inc.'s internal control.

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 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 Life University, Inc.'s financial statements are free of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Atlanta, Georgia
September 26, 2013

Tel: 404-688-6841
Fax: 404-688-1075
www.bdo.com

1100 Peachtree Street NE, Suite 700
Atlanta, GA 30309-4516

Independent Auditor's Report on Compliance for each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Life University, Inc.
Marietta, Georgia

Report on Compliance for Each Major Federal Program

We have audited Life University, Inc.'s (the "University") 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 Life University, Inc.'s major federal programs for the year ended June 30, 2013. Life University, Inc.'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 Life University, Inc.'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 Life University, Inc.'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 Life University, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Life University, Inc. 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 June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to these matters.

Life University, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Life University, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Life University, Inc. 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 Life University, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Life University, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01 that we consider to be a significant deficiency.

Life University's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Life University, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

BDO USA, LLP

Atlanta, Georgia
September 26, 2013

Life University, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal/State Agency, Pass-through Entity Federal Program or Cluster Title/State Project	Federal CFDA Number	Student Financial Aid Cluster	Match	Total Expenditures
Federal Awards				
U.S. Department of Education				
Student Financial Aid - Cluster:				
Federal Supplemental Educational Opportunity Grant	84.007	$ 191,625	$ 63,875	$ 255,500
Federal Work-Study	84.033	373,044	124,348	497,392
Federal Perkins Loan	84.038	1,326,071	-	1,326,071
Federal Pell Grant	84.063	2,018,830	-	2,018,830
Federal Direct Loan	84.268	83,688,754	-	83,688,754
Total Expenditures of Federal Awards		$ 87,598,324	$ 188,223	$ 87,786,547

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") summarizes the federal grant activity of Life University, Inc. (the "University") under all federal awards received by the University for the year ended June 30, 2013, and has been prepared using the accrual basis of accounting. Title information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations.* Because the Schedule presents only a selected portion of the operations of Life University, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Life University, Inc.

For purposes of the Schedule, the University includes loans granted under Federal Perkins Loan Program and Direct Student Loans Program as expenditures of federal awards.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions,* wherein certain types of expenditures are not allowable or are limited to reimbursement.

Expenditures for federal student financial aid programs include the federal portion of students' Federal Supplemental Educational Opportunity Grants ("FSEOG") and Federal Work Study ("FWS") program grants, certain other federal financial aid for students, and administrative cost allowances, where applicable. Federal Pell Grant awards are recognized as agency transactions and are not recorded as expenditures in the financial statements, but are reflected in the schedule of expenditures of federal awards.

3. Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to this program are included in the University's basic financial statements. Loans made during the year and all prior years (the outstanding loan receivable balance) are included in the federal expenditures presented in the Schedule. The balance of loans outstanding under the Federal Perkins Loan Program was $7,903,863 as of June 30, 2013.

4. Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to the definition, we have determined the Federal Student Financial Assistance Programs of the University to be a cluster of programs.

5. Inter-Program Transfer

Federal Supplemental Educational Opportunity Grant expenditures include $135,578 transferred from the Federal Work Study program allocation.

Life University, Inc.

Schedule of Findings and Questioned Costs

Section I – Summary of Audit Results

Financial Statements

Type of audit report issued	Yes	No	Unqualified	None Reported
Internal control over financial reporting				
• Material weakness(es) identified?		X		
• Significant deficiencies identified?		X		
Noncompliance material to financial statements noted?		X		
Federal Awards				
Internal control over major programs:				
• Material weakness(es) identified?		X		
• Significant deficiencies identified?	X			
Type of auditor's report issued on compliance for major programs			X	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	X			
Identification of major programs:				
CFDA Number (s)	84.007, 84.003, 84.038, 84.063, 84.268			
Name of Federal Program or Cluster	Student Financial Aid Cluster			
Dollar threshold used to distinguish between type A and type B programs		$300,000		
Auditee qualified as low-risk auditee?	X			

Section II – Financial Statement Findings

None identified.

Section III – Federal Award Findings and Questioned Costs

FINDING 2013-01

Federal program information:	Student Financial Aid Cluster (various CFDA #s)
Criteria or specific requirement (including statutory, regulatory or other citation):	Institutions that implement an affirmative confirmation process (as described in 34 CFR section 668.165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan, FPL funds, or TEACH Grants. Institutions that do not implement an affirmative confirmation process must notify a student no earlier than 30 days before, but no later than 7 days after, crediting the student's account and must give the student 30 days to cancel all or part of the loan. (Requirement Special Tests and Provisions pg 5-3-29 (g))
Condition:	The University had inadvertently not notified a number of students required to be notified during the required timeframes.
Questioned costs:	None.
Context:	Nine of the total 25 students with disbursements selected for testing were not notified during the required timeframes.
Effect:	The University was not in compliance with awards notification requirements of its Student Financial Aid Cluster
Cause:	The related database query being used to generate a listing of students requiring notification was not capturing all relevant students requiring notification.
Recommendation:	We recommend that the University establish a review process over completeness of students with disbursements requiring notification and regularly update relevant system/database queries being used.
Views of responsible officials and planned corrective actions:	Within 48 hours of communicating this finding, management revised/corrected the related database query. The University has also implemented a review process to ensure complete and timely awards notification.

Schedule of Prior Year Audit Findings and Questioned Costs

This section identifies the resolution of prior year findings related to the audit of major federal programs, as required to be reported by Circular A-133 section 315 (b).

FINDING 2012-01

Condition:

In February 2012, the University management discovered irregularities in the disbursement of federal student financial aid. Certain individuals associated with the University allegedly colluded among them and conspired with several individuals posing as students to disburse financial aid to these individuals posing as students who were determined to be ineligible for financial aid. The University reported the event to the Department of Education Office of Inspector General in a letter dated May 2, 2012.

Status of Finding as of June 30, 2013:

Finding 2012-01 was remediated by the University as of June 30, 2013.

FINDING 2012-02

Condition:

During the fiscal year ended June 30, 2012, the University obtained evidence that fifteen students submitted false receipts to the University's financial aid office during the 2009-2012 award years. The false receipts were submitted in an effort to improperly increase the individual student's cost-of-attendance calculation, thus obtaining additional Title IV program funds. The receipts appeared to document expenses directly related to the student's education. The University reported the event to the U.S. Department of Education Office of Inspector General in a letter dated December 14, 2011.

Status of Finding as of June 30, 2013:

Finding 2012-01 was remediated by the University as of June 30, 2013.

Life University, Inc.

Debt Service Coverage Ratio Calculation

Revenues Available for Debt Service		
Operating Revenues		
Receipts, revenues, income, rent and other money received by or on behalf of the University from or in connection with the Facilities	$	54,341,428
Exclude proceeds of any refunding bonds or other refinancing proceeds		-
Exclude insurance proceeds and condemnation proceeds		-
Total Operating Revenues		54,341,428 (1)
Operating Expenses		
All expenses incurred in the operation and maintenance of the Facilities		55,190,889
Add payments into operational reserves for liabilities into a repair and replacement fund in connection with the Bonds		52,501
Exclude Debt Service Requirements		-
Exclude any losses or expense resulting from or related to any extraordinary and nonrecurring items		-
Exclude any losses or expense related to the sale of assets, the proceeds which sale are not included in Revenues		-
Less interest on long-term indebtedness		(4,836,508)
Less the amortization of financing charges attributable to long-term indebtedness		(472,265)
Less depreciation and other non-cash charges attributable to the disposition of capital assets or to the extinguishment of debt		(4,722,445)
Less expenses incurred pursuant to an escrow trust agreement which is required to be used to decease the lien of Bonds		-
Total Operating Expenses		45,212,172
Revenues Available for Debt Service	$	9,129,256
Debt Service Requirements		
Aggregate of the payments to be made in respect of principal of and interest on outstanding long-term indebtedness	$	5,426,613
Long-term indebtedness guaranteed by Life University		-
Variable rate long-term indebtedness		-
Exclude principal of long-term indebtedness incurred to finance the the construction of capital improvements		-
Exclude deposits with escrow agents which will be sufficient to pay such indebtedness as when the same becomes due		-
Exclude sinking fund balances for current year payments		-
Debt Service Requirements	$	5,426,613
Calculated Debt Service Coverage Ratio		1.68
Required Minimum Debt Service Coverage Ratio		1.20

(1) Under Life University Inc.'s interpretation of the debt service coverage ratio, "Operating Expenses" are expressed solely on the accrual basis of accounting which is consistent with the basis of accounting used to prepare Life University, Inc.'s annual audited financial statements.