Appendix 7 –

Audited Financial Statement June 30, 2012 and 2011

LUTHER RICE UNIVERSITY, INC•

Financial Statements

June 30, 2012 and 2011

With Independent Auditor's Report Thereon

James Dykhouse, CPA

330 Amherst Court, N.E.
Atlanta, Georgia 30328
770•393•1364 Phone

Independent Auditor's Report

The Board of Trustees
Luther Rice University, Inc.:

I have audited the accompanying statements of financial position of Luther Rice University, Inc. (the "University") as of June 30, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2012 and 2011, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

James Dykhouse, CPA

July 31, 2012

LUTHER RICE UNIVERSITY, INC.

Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	$ 1,498,355	1,957,923
Student accounts receivable and other, net of allowance of $103,069 in 2012 and $79,275 in 2011	133,216	203,653
Investments (note 2)	1,788,725	1,077,283
Prepaid expenses and other assets	203,985	208,322
Educational plant (note 4)	1,615,906	1,595,883
Total assets	$ 5,240,187	5,043,064
Liabilities		
Accounts payable	$ 47,821	50,908
Accrued expenses	13,353	97,967
Student deposits and prepayments	859,025	983,335
Notes payable (note 6)	-	298,981
Total liabilities	920,199	1,431,191
Net assets		
Unrestricted	3,756,713	3,065,292
Temporarily restricted (note 7)	87,059	74,515
Permanently restricted (note 7)	476,216	472,066
Total net assets	4,319,988	3,611,873
Commitments (notes 6 and 8)		
Total liabilities and net assets	$ 5,240,187	5,043,064

See accompanying notes to financial statements.

LUTHER RICE UNIVERSITY, INC.

Statement of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2011
Revenue, gains, and other support:				
Tuition	$ 4,011,028	-	-	4,011,028
Fees	497,382	-	-	497,382
Less student assistance	(300,573)	-	-	(300,573)
Tuition and fees, net of student assistance	4,207,837	-	-	4,207,837
Private gifts	163,541	121,514	26,500	311,555
Government grants	15,566	-	-	15,566
Income on investments	22,196	-	-	22,196
Other additions	38,698	-	-	38,698
Net assets released from restrictions	109,357	(109,357)	-	-
Total revenue, gains, and other support	4,557,195	12,157	26,500	4,595,852
Expenses and losses:				
Instruction	1,602,008	-	-	1,602,008
Academic support	852,425	-	-	852,425
Student services	674,148	-	-	674,148
Institutional support	1,104,865	-	-	1,104,865
International missions	141,755	-	-	141,755
Total expenses and losses	4,375,201	-	-	4,375,201
Change in net assets	181,994	12,157	26,500	220,651
Net assets at beginning of year	2,883,298	62,358	445,566	3,391,222
Net assets at end of year	$ 3,065,292	74,515	472,066	3,611,873

See accompanying notes to financial statements.

LUTHER RICE UNIVERSITY, INC.

Statement of Functional Expenses

Year Ended June 30, 2012

		Instruction	Academic Support	Student Services	Institutional Support	International Missions	Total
Personnel:							
Salaries	$	1,220,290	572,436	412,070	495,555	62,400	2,762,751
Payroll taxes		23,089	29,051	24,427	23,495	-	100,062
Benefits		63,266	40,034	25,929	40,930	922	171,081
Professional development		17,397	27,944	-	6,647	-	51,988
Other expenses:							
Computer related costs		94,236	72,813	28,561	14,280	7,141	217,031
Operation and maintenance		109,088	84,291	33,063	16,531	8,266	251,239
Depreciation		82,211	63,524	24,917	12,458	6,230	189,340
Miscellaneous		51,820	40,040	15,706	7,853	3,927	119,346
Retirement payments		19,674	8,439	5,650	20,321	1,560	55,644
Advertising		-	-	-	182,682	-	182,682
Accrediting and license costs		-	-	-	77,427	-	77,427
Professional and consulting fees		-	-	-	130,636	-	130,636
Supplies		40,877	31,586	12,389	25,915	3,098	113,865
Travel and conference		10,960	6,835	21,148	19,452	-	58,395
International extension center		-	-	-	-	28,718	28,718
Graduation expenses		-	-	145,594	-	-	145,594
Security		-	-	-	47,707	-	47,707
Merchant fees		-	-	-	37,164	-	37,164
Postage and shipping		14,757	11,403	4,473	2,236	1,118	33,987
Bad debts		-	-	-	23,265	-	23,265
Interest		-	-	-	5,693	-	5,693
Insurance		-	-	-	13,279	-	13,279
Printing and copying expenses		3,747	2,895	1,135	568	284	8,629
	$	1,751,412	991,291	755,062	1,204,094	123,664	4,825,523

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Business

Luther Rice University (the "University") is an educational institution, which provides ministerial training through both on-campus and distance learning programs.

(b) Accrual Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(c) Basis of Presentation of Financial Statements

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions

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

Temporarily restricted net assets are those net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Permanently restricted net assets 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 related investments for general or specific purposes.

Revenues 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 reclassification between the applicable classes of net assets.

(d) Investments

Investments are recorded at fair values. Real estate investments are stated at appraised value. Securities are carried at market value, as quoted on major stock exchanges. Net realized and unrealized gains or losses on sales of investments are reflected in the statements of activities.

(e) Cash Equivalents

For purposes of the statement of cash flows, the University considers highly liquid investments with maturities of three months or less to be cash equivalents.

(k) Federal Taxes

The University is exempt from Federal income taxes under the provisions of Section 501 (c)(3) of the United States Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. The University did not have any unrelated business income tax liability for the years ended June 30, 2012 and 2011. The University is not classified as a private foundation.

(2) Investments

Investments are recorded at fair value and consist of the following at June 30:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Fixed short-term investments	$ 1,788,725	1,788,725	1,077,283	1,077,283

(3) Fair Value Measurements

The University follows the provisions of Statement of Financial Accounting Standards Board (FASB) Accounting Standards Codification ASC 820, *Fair Value Measurement and Disclosures*, for financial assets and liabilities. Under ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Unobservable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3: Inputs are unobservable inputs for the asset that are supported by little or no market activity and that are significant to the fair value of the underlying asset.

The following table summarized the University's financial instruments measured at fair value on a recurring basis in accordance with ASC 820 as of June 30, 2012 and 2011:

As of June 30, 2012:		Total	Level 1	Level 2	Level 3
Fixed short-term investments	$	1,788,725	1,788,725	-	-
	$	1,788725	1,788,725	-	-

(7) Net Assets

Temporarily restricted net assets consisted of the following at June 30:

		2012	2011
Remainder trust funds	$	86,959	74,515
New building fund		100	-
	$	87,059	74,515

Permanently restricted net assets totaling $476,216 and $472,066 at June 30, 2012 and 2011, respectively, consist of endowment funds whose income is restricted for scholarships.

(8) Pension Plan

The University has adopted a defined contribution pension plan covering substantially all full-time and some part-time employees, under which contributions are made to the Annuity Board of the Southern Baptist Convention. The University contributes an amount equal to 50% of the employees' contributions, up to 2.5% of compensation. Pension expense under the plan was approximately $46,251 and $42,472 for the years ended June 30, 2012 and 2011, respectively.

(9) Subsequent Events

Subsequent events have been evaluated through July 31, 2012, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

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