



SHORTER UNIVERSITY

Financial Statements
With Independent Auditors' Report

May 31, 2015 and 2014

SHORTER UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Shorter University
Rome, Georgia

We have audited the accompanying financial statements of Shorter University (University), which comprise the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Shorter University
Rome, Georgia

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shorter University as of May 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in Note 19, the University determined that student accounts receivable, accounts payable, deferred revenue, and tuition income, were misstated as of May 31, 2014 and 2013. As a result, the University has restated its 2014 financial statements to record adjustments to tuition revenue, student accounts receivable, accounts payable, deferred revenue, and unrestricted net assets. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Atlanta, Georgia
February 25, 2016

SHORTER UNIVERSITY

Statements of Financial Position

	May 31,	
	2015	(As restated) 2014
ASSETS:		
Cash and cash equivalents	\$ 1,669,504	\$ 1,048,078
Student accounts receivable–net	1,197,092	1,953,910
Contributions and bequest receivables–net	792,757	1,215,211
Prepaid expenses and other assets	584,459	622,055
Student/other loans receivable–net	1,155,689	1,121,432
Investments	17,061,160	16,615,124
Funds held in trust by others	1,672,442	6,345,945
Property and equipment–net	39,789,031	41,158,545
Capitalized collection items	319,669	319,669
	<u>\$ 64,241,803</u>	<u>\$ 70,399,969</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 2,556,723	\$ 2,676,207
Accrued expenses and other liabilities	2,556,470	2,586,007
Deferred revenue	1,482,411	1,927,324
Interest rate swap agreement	186,577	250,655
Long-term debt and capital lease obligation–net	15,526,109	14,963,727
Funds held in federal loan programs	891,199	890,072
	<u>23,199,489</u>	<u>23,293,992</u>
Net assets:		
Unrestricted	20,387,217	26,662,759
Temporarily restricted	7,172,612	7,022,889
Permanently restricted	13,482,485	13,420,329
	<u>41,042,314</u>	<u>47,105,977</u>
Total Liabilities and Net Assets	<u>\$ 64,241,803</u>	<u>\$ 70,399,969</u>

See notes to financial statements

SHORTER UNIVERSITY

Statement of Activities

Year Ended May 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT:				
Tuition and fees	\$ 33,553,341	\$ -	\$ -	\$ 33,553,341
Less financial assistance	(12,709,951)	-	-	(12,709,951)
Net tuition and fees	<u>20,843,390</u>	<u>-</u>	<u>-</u>	<u>20,843,390</u>
Private gifts and grants	2,640,214	372,725	48,493	3,061,432
Investment return designated for operating activities	3,562	629,900	-	633,462
Government grants and contracts	266,745	-	-	266,745
Sales and services of auxiliary enterprises	5,967,492	-	-	5,967,492
Other income	99,626	-	-	99,626
	<u>29,821,029</u>	<u>1,002,625</u>	<u>48,493</u>	<u>30,872,147</u>
Net assets Released from Restrictions:				
Satisfaction of purpose restriction	<u>1,152,492</u>	<u>(1,152,492)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues and Other Support	<u>30,973,521</u>	<u>(149,867)</u>	<u>48,493</u>	<u>30,872,147</u>
OPERATING EXPENSES:				
Program services:				
Instructional	11,834,004	-	-	11,834,004
Academic services	3,585,888	-	-	3,585,888
Student services	7,922,905	-	-	7,922,905
Auxiliary enterprises	4,217,073	-	-	4,217,073
Institutional support	9,371,708	-	-	9,371,708
Advancement	549,026	-	-	549,026
Total Operating Expenses	<u>37,480,604</u>	<u>-</u>	<u>-</u>	<u>37,480,604</u>
Change in Net Assets from Operating Activities	<u>(6,507,083)</u>			
NON-OPERATING REVENUES (EXPENSES):				
Non-cash contribution of land and building	-	-	-	-
Insurance proceeds	9,972	-	-	9,972
Investment return net of amount designated for current operations	154,635	313,702	10,239	478,576
Change in value of split interest agreements	(6,783)	(4,473)	3,424	(7,832)
Change in value of interest rate swap	64,078	-	-	64,078
Net assets released from restriction for capital acquisition	9,639	(9,639)	-	-
Total Non-Operating Income (Expenses)	<u>231,541</u>	<u>299,590</u>	<u>13,663</u>	<u>544,794</u>
Change in Net Assets	(6,275,542)	149,723	62,156	(6,063,663)
Net Assets, Beginning of Year	<u>26,662,759</u>	<u>7,022,889</u>	<u>13,420,329</u>	<u>47,105,977</u>
Net Assets, End of Year	<u>\$ 20,387,217</u>	<u>\$ 7,172,612</u>	<u>\$ 13,482,485</u>	<u>\$ 41,042,314</u>

See notes to financial statements

SHORTER UNIVERSITY

Statement of Activities

Year Ended May 31, 2014

(As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT:				
Tuition and fees	\$ 37,075,168	\$ -	\$ -	\$ 37,075,168
Less financial assistance	(12,760,228)	-	-	(12,760,228)
Net tuition and fees	24,314,940	-	-	24,314,940
Private gifts and grants	2,365,413	1,173,992	181,123	3,720,528
Investment return designated for operating activities	13,492	592,920	-	606,412
Government grants and contracts	259,396	-	-	259,396
Sales and services of auxiliary enterprises	5,976,061	-	-	5,976,061
Other income	200,039	-	-	200,039
	33,129,341	1,766,912	181,123	35,077,376
Net assets Released from Restrictions:				
Satisfaction of purpose restriction	1,168,425	(1,168,425)	-	-
Total Operating Revenues and Other Support	34,297,766	598,487	181,123	35,077,376
OPERATING EXPENSES:				
Program services:				
Instructional	11,932,744	-	-	11,932,744
Academic services	4,020,038	-	-	4,020,038
Student services	8,066,416	-	-	8,066,416
Auxiliary enterprises	3,791,716	-	-	3,791,716
Institutional support	8,150,780	-	-	8,150,780
Advancement	533,287	-	-	533,287
Total Operating Expenses	36,494,981	-	-	36,494,981
Change in Net Assets from Operating Activities	(2,197,215)			
NON-OPERATING REVENUES (EXPENSES):				
Non-cash contribution of land and building	1,740,000	-	-	1,740,000
Insurance proceeds	111,867	-	-	111,867
Investment return net of amount designated for current operations	570,617	1,381,195	10,534	1,962,346
Change in value of split interest agreements	(6,667)	(6,415)	88,171	75,089
Change in value of interest rate swap	87,884	-	-	87,884
Net assets released from restriction for capital acquisition	92,952	(92,952)	-	-
Total Non-Operating Income (Expenses)	2,596,653	1,281,828	98,705	3,977,186
Change in Net Assets	399,438	1,880,315	279,828	2,559,581
Net Assets, Beginning of Year:				
As previously reported	27,411,248	5,142,574	13,140,501	45,694,323
Prior period adjustment	(1,147,927)	-	-	(1,147,927)
As restated	26,263,321	5,142,574	13,140,501	44,546,396
Net Assets, End of Year	\$ 26,662,759	\$ 7,022,889	\$ 13,420,329	\$ 47,105,977

See notes to financial statements

SHORTER UNIVERSITY

Statements of Cash Flows

	May 31,	
	2015	(As restated) 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,063,663)	\$ 2,559,581
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,910,917	1,899,963
Amortization and accretion	42,362	38,167
Adjustment to allowance for receivables	887,253	36,738
Donated stock	-	(5,587)
Loss on disposal of fixed assets	6,510	3,940
Contribution portion of asset purchase	-	(1,740,000)
Realized and unrealized gains on investments	(86,120)	(1,820,223)
Change in fair value of the interest rate swap	(64,078)	(87,884)
Contributions received for long-term purposes	(57,732)	(181,123)
Change in value of split interest agreements	4,474	94,090
Change in:		
Student accounts receivable	(69,715)	(874,780)
Contributions and bequest receivables- net	361,734	(915,405)
Prepaid expenses and other assets	37,596	143,611
Student loans receivable	(34,257)	(35,079)
Accounts payable	(119,484)	1,309,367
Accrued expenses and other liabilities	(29,537)	(99,418)
Deferred revenue	(444,913)	(756,986)
Funds held in federal loan programs	1,127	(7,001)
Net Cash Used by Operating Activities	(3,717,526)	(438,029)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(547,913)	(2,847,598)
Proceeds from sale of property and equipment	-	8,000
Purchase of investments	(12,365,796)	(9,097,571)
Proceeds from sale of investments	16,674,909	12,504,725
Net Cash Provided by Investing Activities	3,761,200	567,556

(continued)

SHORTER UNIVERSITY

Statements of Cash Flows (continued)

	May 31,	
	2015	(As restated) 2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for long-term purposes	57,732	181,123
Proceeds from line of credit	1,463,884	-
Proceeds from split interest agreements	-	1,133
Payments on long-term debt	(943,864)	(716,888)
Net Cash Provided (Used) by Financing Activities	577,752	(534,632)
Change in Cash and Cash Equivalents	621,426	(405,105)
Cash and Cash Equivalents, Beginning of Year	1,048,078	1,453,183
Cash and Cash Equivalents, End of Year	\$ 1,669,504	\$ 1,048,078
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest (includes \$0 and \$15,333 in capitalized interest for 2015 and 2014, respectively)	\$ 380,468	\$ 399,996
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated stock	\$ -	\$ 5,587
Property and equipment purchased through accounts payable and long-term debt	\$ -	\$ 3,045,682
Noncash contribution of land and building	\$ -	\$ 1,740,000
Conditional asset retirement obligations assumed in acquisition of land and building	\$ -	\$ 10,934

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

1. NATURE OF ORGANIZATION:

Shorter University (University), was founded in 1873, and is a co-educational senior university owned and operated under the direction of the Executive Committee of the Georgia Baptist Convention (Convention or GBC). The Convention elects a board of trustees, which is empowered to operate the University. Shorter University is committed to excellence in education. The Princeton Review annually includes Shorter on its lists of best value and best Southeastern colleges. Shorter University is accredited by the Southern Association of Colleges and Schools (SACS) and is a member of the Council of Christian Colleges and Universities (CCCU).

Through its campus in Rome, Georgia, as well as remote campuses in Atlanta, the University offers traditional bachelor's degrees as well as undergraduate and master's degrees in the working adult and online programs.

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code) and comparable state law and is not considered a private foundation under Section 509(a)(1) of the Code. Contributions to the University are deductible from income taxes within the limitations prescribed by the Code. The main sources of revenue are tuition and fee income as well as contributions from the public.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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.

RECLASSIFICATIONS

Certain amounts in the 2014 financial statements have been reclassified to conform with the 2015 presentation.

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. The University maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured limits. The University has not experienced any losses on such accounts.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

STUDENT ACCOUNTS RECEIVABLE

Student accounts receivables are reported net of any estimated losses due to uncollectible accounts. Tuition and fees are due in full at the beginning of each semester. Unpaid amounts from prior semesters are considered past due and students are not allowed to register for classes until those amounts are paid, or a payment plan is agreed to by the student. The University does not assess finance charges against student receivables that are past due.

The University provides an allowance for doubtful accounts equal to the estimated uncollectible receivables based upon historical trends and specific account analysis. Student receivables are written off on a case-by-case basis. Annually, all outstanding accounts are examined for age, payment activity, and enrollment status to determine which accounts should be written off. The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent from uncollectible receivables.

CONTRIBUTIONS RECEIVABLE

When a donor has unconditionally promised to contribute funds to the University in future periods, the University recognizes a pledge receivable. Pledges expected to be collected within one year are recorded as support and a receivable at net realizable value. Pledges expected to be collected in future years are recorded as support and a receivable at the present value of the expected future cash flows. Discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. For pledges received during the years ended May 31, 2015 and 2014, the discount rates used were 2.54% and 3.46%, respectively. Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

STUDENT/OTHER LOANS RECEIVABLE

Student loans receivable consist of amounts due from the Federal Perkins Loan Program administered by the University. Student loans are recorded net of estimated uncollectible amounts. For student loans, the University only recognizes the income after the interest is received. Any associated fees and costs are expensed as they occur. Loans receivable are considered past due if full principal payments are not received in accordance with the contractual terms.

Other loans receivable consist of amounts due from faculty and/or staff as a part of participating in a continuing education program funded from an estate gift. Participants apply to the University and are awarded/approved for a loan to be forgiven over a five year period as long as the participant continues employment at the University. The amortized forgiveness is recorded as bad debt expense and is reported as institutional support on the statements of activities.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

The University's investments consist of cash and money market funds and various marketable securities held at financial institutions. Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value with gains and losses reported in the statements of activities. Other investments are reported at cost. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

Investment earnings, including interest and dividend income and unrealized gains and losses, are recorded in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation.

FUNDS HELD IN TRUST BY OTHERS

Beneficial interest in charitable remainder trusts

The University is the beneficiary under several split-interest agreements, primarily charitable remainder annuity trusts and charitable remainder unitrusts. Under these agreements, the University will receive the remaining assets of the trusts upon their expirations, normally coinciding with the death of the donor or other life income beneficiaries. Until that time, the donor or other life income beneficiaries receive income from the trust. Beneficial interests in charitable remainder trusts are recorded at their fair values upon the establishment of the trusts, or when the University is notified that they are a beneficiary of a trust. The University recognizes contribution revenue in an amount equal to the fair value in the initial reporting year. Fair value is determined using discount rates and actuarial assumptions which consider the donor's life expectancy and measure present value of the future distributions expected to be received over the term of the agreement. Subsequent measurement uses the same present value calculation at each measurement date recording the change in value of the split interest agreements on the statements of activities. Discount rate at May 31, 2013, was 4.8%. The trust was settled during the year ended May 31, 2014.

Perpetual trusts held by others

The University is also the beneficiary of various perpetual trusts created by donors, held and administered by independent trustees. Under the terms of the trusts, the University has a legally enforceable right to receive income earned on the trust assets in perpetuity. The fair value of the beneficial interest in the perpetual trust is recognized as an asset and as a permanently restricted contribution at the date the trust is established or the University is notified. The University's estimate of fair value is based on fair value information received from the trustees. The trust assets consist of, but are not limited to, cash and cash equivalents, proprietary funds, mutual funds, and equity securities. These assets are not subject to the control or direction by the University. Gains and losses, which are not distributed by the trusts, are reflected as change in value of perpetual trusts held by others in the statements of activities and reported as permanently restricted changes in net assets. Distributions from the trust are reported as investment income.

Other funds held in trust

The University has funds held in trust at the Georgia Baptist Foundation. These funds are unrestricted and the University's board can withdraw these funds from the Foundation upon request.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT

Property and equipment purchased since June 30, 1969, are recorded by the University at cost at date of acquisition or fair market value at date of donation, if acquired as gifts. Plant assets acquired prior to June 30, 1969, were valued at an appraised value at that time which was designed to closely approximate historical valuation for the plant as of that date. Purchases and gifts of property and equipment valued at \$1,500 or more are capitalized. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

A summary of depreciable lives follows:

Buildings	50 years
Improvements other than buildings	20 years
Furniture, fixtures and equipment	5-10 years

CAPITALIZED COLLECTION ITEMS

Capitalized collection items consist of artwork, artifacts, and exotic stuffed animals donated to the University, which are on display in various locations on the campus and is carried at the fair value at the date of the gift.

DEFERRED REVENUE

The University recognizes tuition and related fee revenue as it is earned by prorating the revenues on a monthly basis within the semester. The amount of revenue that is unearned at year-end is recorded as deferred revenue.

CLASSES OF NET ASSETS

The financial statements report amounts by class of net assets:

Unrestricted net assets are currently available at the direction of the board for use in the University's operations, designated as quasi-endowment funds for long-term investment, designated for certain capital projects/improvements, or invested in property and equipment.

Temporarily restricted net assets are subject to donor imposed stipulations for specific operating purposes or for the acquisition of property and equipment or are time restricted.

Permanently restricted net assets are contributed with donor restrictions requiring that they be held in perpetuity with income used for operations and scholarships.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the University. Student tuition and fees are recorded as revenue during the year the related academic services are rendered.

The University reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated net assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts-in-kind consist of property and securities recognized at fair value on the date of the gift.

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Operating results in the statements of activities reflect all transactions increasing or decreasing net assets except those defined as non-operating. The University has defined non-operating activities principally to include endowment investment activity, net of amounts appropriated by the board for expenditure to support operations in accordance with the endowment spending policy, permanently restricted contributions and bequests added to the endowment or supporting major capital acquisition, net assets released from restrictions designated for capital expenditures, gains or losses on financial instruments, and activity related to split interest agreements. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of non-operating activities.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the University have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Costs related to the operation and maintenance of the physical plant, including depreciation of plant assets and interest expense, are allocated to program and supporting activities based upon the use of the facilities.

The University generally expenses advertising costs as they are incurred. The University expended \$564,266 and \$250,723 for advertising for the years ended May 31, 2015 and 2014, respectively.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in the delivery of student financial assistance programs under various programs administered by the Department of Education. The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties or the discontinuation of eligibility for participation.

INCOME TAX STATUS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of May 31, 2015, the University has analyzed its tax positions and believes that all more likely than not to be sustained upon examination.

The University files information tax returns in the U.S. and various states. The University is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2011.

3. STUDENT ACCOUNTS RECEIVABLES—NET:

Student accounts receivable consist of:

	May 31,	
	2015	2014, restated
Student accounts receivable - main campus	\$ 2,505,150	\$ 2,425,783
Student accounts receivable - professional programs	341,713	778,447
Other student accounts receivable	282,304	159,680
	<u>3,129,167</u>	<u>3,363,910</u>
Less allowance for doubtful accounts	(1,932,075)	(1,410,000)
	<u>\$ 1,197,092</u>	<u>\$ 1,953,910</u>

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

4. CONTRIBUTIONS AND BEQUEST RECEIVABLES—NET:

Contributions and bequest receivable consist of:

	May 31,	
	<u>2015</u>	<u>2014</u>
Unconditional promises to give	\$ 986,336	\$ 1,186,306
Bequest receivable	-	246,009
Less present value discount	(126,310)	(158,712)
Less allowance for doubtful accounts	<u>(67,269)</u>	<u>(58,392)</u>
Total	<u>\$ 792,757</u>	<u>\$ 1,215,211</u>
Amounts due in:		
Less than one year	\$ 156,400	\$ 453,009
One year to five years	529,936	579,306
More than five years	<u>300,000</u>	<u>400,000</u>
	<u>\$ 986,336</u>	<u>\$ 1,432,315</u>

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

5. STUDENT/OTHER LOANS RECEIVABLE—NET:

The University's financing receivables consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government and an Institutional Loan Fund created by the University to assist faculty/staff in funding their further education.

Student/other loans receivable:

	May 31, 2015	
	Institutional Loan Fund	Federal Perkins Loans
Loans receivable, ending balance (evaluated for impairment)	\$ 179,161	\$ 976,528
Allowance for credit losses	\$ -	\$ (169,916)
Recorded investment by credit quality indicator:		
Performing	\$ 179,161	\$ 976,528
Non-performing	\$ -	\$ 169,916

Student/other loans receivable:

	May 31, 2014	
	Institutional Loan Fund	Federal Perkins Loans
Loans receivable, ending balance (evaluated for impairment)	\$ 141,764	\$ 979,668
Allowance for credit losses	\$ -	\$ (160,274)
Recorded investment by credit quality indicator:		
Performing	\$ 141,764	\$ 979,668
Non-performing	\$ -	\$ 160,274

The University determined the allowance for estimated losses on these financing receivables by looking at historical default rates and analyzing the aging of the past due loans. All non-performing loans are included in the allowance for credit losses.

For Federal Perkins Loans, the credit quality indicator is performance determined by delinquency status, origination, and servicing of the loan. Delinquency status is updated monthly by the University's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

Additional disclosures required by the *Credit Quality of Financing Receivables* topic of the FASB Accounting Standards Codification (ASC) have not been included in these financial statements due to immateriality.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

6. INVESTMENTS:

The following is a summary of investments:

	May 31,	
	2015	2014
Cash and money market funds	\$ 206,251	\$ 64,532
Marketable securities:		
Equity securities	358,264	309,210
Domestic equity mutual funds	11,257,688	12,286,454
International equity mutual funds	897,145	1,544,356
Fixed income mutual funds	2,504,488	708,472
Alternative investments	1,837,324	1,702,100
Total marketable securities	16,854,909	16,550,592
Total investments	\$ 17,061,160	\$ 16,615,124

Certain of the investments are part of the University's endowment fund. The board appropriates a portion of the total return on those investments for expenditure in accordance with the University's spending policy. Appropriated endowment income and income earned on investments that are not included in endowment fund are included in operating revenues on the statements of activities.

The following schedule summarizes the investment returns and their classifications in the statements of activities:

	Years Ended May 31,	
	2015	2014
Dividend and interest income	\$ 521,491	\$ 625,603
Net realized and unrealized gains	590,547	1,943,155
Total investment return	1,112,038	2,568,758
Less investment return designated for current operations	(633,462)	(606,412)
Investment return net of amounts designated for current operations	\$ 478,576	\$ 1,962,346

Investment income is recorded net of management fees of \$55,777 and \$54,486 for the years ended May 31, 2015 and 2014, respectively.

SHORTER UNIVERSITY

Notes to Financial Statements

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7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS:

The following disclosure of the estimated fair value of financial instruments is made in accordance with the *Financial Instruments* topic of the FASB ASC. The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies.

The estimated fair values of the University's financial instruments are as follows:

	May 31, 2015	
	Carrying Amount	Fair Value
Assets:		
Cash and cash equivalents	\$ 1,669,504	\$ 1,669,504
Student accounts receivable–net	\$ 1,197,092	\$ 1,197,092
Contributions and bequest receivables–net	\$ 792,757	\$ 792,757
Student/other loans receivable–net	\$ 1,155,689	\$ 1,155,689
Investments	\$ 17,061,160	\$ 17,061,160
Funds held in trust by others	\$ 1,672,442	\$ 1,672,442
Liabilities:		
Interest rate swap agreement	\$ 186,577	\$ 186,577
Long-term debt and capital lease obligation–net	\$ 15,526,109	\$ 15,526,109
Funds held in federal loan programs	\$ 891,199	\$ 891,199

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

SHORTER UNIVERSITY

Notes to Financial Statements

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7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	Fair Value Measurements at			
	May 31, 2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Financial	\$ 296,651	\$ -	\$ -	\$ 296,651
Consumer goods	20,561	-	-	20,561
Services	41,052	-	-	41,052
	<u>358,264</u>	<u>-</u>	<u>-</u>	<u>358,264</u>
Domestic equity mutual funds:				
Diversified emerging markets	514,498	-	-	514,498
Large blend	1,018,408	-	-	1,018,408
Large growth	3,262,902	-	-	3,262,902
Large value	890,209	-	-	890,209
Mid-cap blend	1,780,277	-	-	1,780,277
Mid-cap growth	3,487,654	-	-	3,487,654
Mid-cap value	5,660	-	-	5,660
Small blend	298,080	-	-	298,080
	<u>11,257,688</u>	<u>-</u>	<u>-</u>	<u>11,257,688</u>
International equity mutual funds	<u>897,145</u>	<u>-</u>	<u>-</u>	<u>897,145</u>
Fixed income mutual funds:				
Intermediate term bond	-	2,504,488	-	2,504,488
	<u>-</u>	<u>2,504,488</u>	<u>-</u>	<u>2,504,488</u>
Alternative investments:				
Diversified hedge funds	-	1,837,324	-	1,837,324
	<u>\$ 12,513,097</u>	<u>\$ 4,341,812</u>	<u>\$ -</u>	<u>\$ 16,854,909</u>
Funds held in trusts by others	<u>\$ -</u>	<u>\$ 53,565</u>	<u>\$ 1,618,877</u>	<u>\$ 1,672,442</u>
Interest rate swap agreement	<u>\$ -</u>	<u>\$ (186,577)</u>	<u>\$ -</u>	<u>\$ (186,577)</u>

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

	Fair Value Measurements at May 31, 2014			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Financial	\$ 268,579	\$ -	\$ -	\$ 268,579
Services	40,631	-	-	40,631
	<u>309,210</u>	<u>-</u>	<u>-</u>	<u>309,210</u>
Domestic equity mutual funds:				
Bank loan	337,276	-	-	337,276
Diversified emerging markets	1,006,457	-	-	1,006,457
High yield bond	-	338,386	-	338,386
Intermediate term bond	-	1,434,930	-	1,434,930
Large blend	2,898,341	-	-	2,898,341
Large growth	2,193,978	-	-	2,193,978
Large value	3,066,501	-	-	3,066,501
Mid-cap growth	1,006,709	-	-	1,006,709
Small blend	2,448	-	-	2,448
World allocation	1,428	-	-	1,428
	<u>10,513,138</u>	<u>1,773,316</u>	<u>-</u>	<u>12,286,454</u>
International equity mutual funds	<u>1,544,356</u>	<u>-</u>	<u>-</u>	<u>1,544,356</u>
Fixed income mutual funds:				
Intermediate term bond	-	708,472	-	708,472
	<u>-</u>	<u>708,472</u>	<u>-</u>	<u>708,472</u>
Alternative investments:				
Diversified hedge funds	-	1,702,100	-	1,702,100
	<u>\$ 12,366,704</u>	<u>\$ 4,183,888</u>	<u>\$ -</u>	<u>\$ 16,550,592</u>
Funds held in trusts by others	<u>\$ -</u>	<u>\$ 4,726,767</u>	<u>\$ 1,619,178</u>	<u>\$ 6,345,945</u>
Interest rate swap agreement	<u>\$ -</u>	<u>\$ (250,655)</u>	<u>\$ -</u>	<u>\$ (250,655)</u>

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7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The following tables provide further details of the Level 3 fair value measurement:

	May 31, 2015	
	Beneficial Interest in Trusts	Perpetual Trusts Held by Others
Beginning balance, June 1, 2014	\$ 24,110	\$ 1,595,068
Change in value of split interest agreements	(4,473)	4,172
Ending balance, May 31, 2015	\$ 19,637	\$ 1,599,240
	May 31, 2014	
	Beneficial Interest in Trusts	Perpetual Trusts Held by Others
Beginning balance, June 1, 2013	\$ 111,533	\$ 1,506,065
Matured trust assets received	(90,039)	-
Change in value of split interest agreements	2,616	89,003
Ending balance, May 31, 2014	\$ 24,110	\$ 1,595,068

Valuation techniques: Fair values for stock are based on quoted market prices in an active market. The fair value of mutual funds is based on quoted net asset values of the shares held by the University at year-end. The fair value of funds held in trust by others is based on the value of the University's proportional share of the overall assets held by the other organizations. The fair value of the interest rate swap agreement is the estimated amount the financial institutions would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Changes in valuation techniques: None.

SHORTER UNIVERSITY

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May 31, 2015 and 2014

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Investments included as alternative investments are classified as Level 2 based on their valuation and redeemability at the measurement date. The following table discloses the nature and risks of these hedge funds:

	May 31, 2015		
	Total Market Value	Exit Frequency	Days Notice
Hedge funds disclosed as Level 2			
Lighthouse Investment Partners:			
Lighthouse Diversified Fund LTD	\$ 1,837,324	Monthly	90
	May 31, 2014		
	Total Market Value	Exit Frequency	Days Notice
Hedge funds disclosed as Level 2			
Lighthouse Investment Partners:			
Lighthouse Diversified Fund LTD	\$ 1,702,100	Monthly	90

This fund is an offshore hedge fund portfolio that utilizes a fund of funds approach by investing in various investment funds that hold private equity and debt funds. The fair values of the shares of this fund have been estimated using the net asset value of the underlying investments. At May 31, 2015, all shares could be redeemed in less than one year.

8. ENDOWMENT FUNDS:

The University's endowment consists of approximately 145 individual funds established for a variety of purposes as a result of donor contributions and board designation. As required by GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted Georgia's adoption of the Uniform Prudent Management of Institutional Funds Act (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.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

8. ENDOWMENT FUNDS, continued:

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) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund in excess of the original fair value that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

The University has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity as well as board designated funds. Under this policy, as approved by the board the endowment assets are invested in a manner that is intended to seek a total return of five percent plus the growth in the Consumer Price Index over a market cycle of three to five years. Actual returns in any given year may vary from this amounts.

To satisfy its long-term rate-of-returns objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long term objectives with prudent risk restraints.

The University has a policy of appropriating for distribution each year up to five percent of its endowment fund's average fair value for the 20 quarters proceeding the year in which the expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

8. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund:

	May 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 3,354,889	\$ 11,906,393	\$ 15,261,282
Board-designated funds	-	-	-	-
Total funds	\$ -	\$ 3,354,889	\$ 11,906,393	\$ 15,261,282

	May 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 3,084,835	\$ 11,847,661	\$ 14,932,496
Board-designated funds	54,550	-	-	54,550
Total funds	\$ 54,550	\$ 3,084,835	\$ 11,847,661	\$ 14,987,046

Changes in endowment net assets:

	For the Year Ended May 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 1, 2014	\$ 54,550	\$ 3,084,835	\$ 11,847,661	\$ 14,987,046
Investment return:				
Investment income	-	328,923	11,077	340,000
Net gains (realized and unrealized)	-	571,031	-	571,031
Total investment return	-	899,954	11,077	911,031
Contributions	-	-	47,655	47,655
Amounts appropriated for expenditure	(54,550)	(629,900)	-	(684,450)
Endowment net asset, May 31, 2015	\$ -	\$ 3,354,889	\$ 11,906,393	\$ 15,261,282

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

8. ENDOWMENT FUNDS, continued:

	For the Year Ended May 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 1, 2013	\$ 49,242	\$ 1,906,171	\$ 11,656,003	\$ 13,611,416
Investment return:				
Investment income	1,495	330,707	10,534	342,736
Net gains (realized and unrealized)	6,493	1,440,877	-	1,447,370
Total investment return	7,988	1,771,584	10,534	1,790,106
Contributions	-	-	181,124	181,124
Amounts appropriated for expenditure	(2,680)	(592,920)	-	(595,600)
Endowment net asset, May 31, 2014	\$ 54,550	\$ 3,084,835	\$ 11,847,661	\$ 14,987,046

9. FUNDS HELD IN TRUST BY OTHERS:

Funds held in trust by others consist of:

	May 31,	
	2015	2014
Beneficial interest in charitable remainder trusts	\$ 19,607	\$ 24,110
Perpetual trusts held by others	1,599,270	1,595,068
Other funds held in trust	53,565	4,726,767
	\$ 1,672,442	\$ 6,345,945

SHORTER UNIVERSITY

Notes to Financial Statements

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10. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	May 31,	
	2015	2014
Land	\$ 3,190,293	\$ 3,190,293
Buildings	44,751,196	43,902,050
Improvements other than buildings	1,796,124	1,796,124
Furniture, fixtures, and equipment	16,262,035	16,532,773
Construction in progress	109,321	567,158
	<u>66,108,969</u>	<u>65,988,398</u>
Less accumulated depreciation	(26,319,938)	(24,829,853)
Net book value of property and equipment	<u>39,789,031</u>	<u>41,158,545</u>
Less listed debt	<u>(15,526,109)</u>	<u>(14,963,727)</u>
Investment in property and equipment	<u>\$ 24,262,922</u>	<u>\$ 26,194,818</u>

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

11. INTEREST RATE SWAP:

In December 2011, the University executed an interest rate swap which fixes the variable rate exposure associated with the note payable with Fifth Third Bank to effective synthetic rates of 1.8%. The interest rate swap agreement matures on December 20, 2016. In the event of default by the counterparty, a large regional bank, the University may be exposed to increased interest rates. The University does not anticipate nonperformance by the counterparty. Terminating the swap while keeping the loan in place would result in paying off the recognized swap liability, and the interest rate would revert back to the 1.75 percent plus 30-day LIBOR rate.

	May 31,	
	2015	2014
December 2011 interest rate swap, maturing December 20, 2016:		
Fixed rate	1.81%	1.81%
Variable rate	2.00%	2.00%
Remaining term of contract in years	2	3
Original note payable balance covered by agreement (notional amount)	\$ 10,986,637	\$ 10,986,637
Notional amount outstanding at May 31	\$ 9,210,757	\$ 9,804,620

In December 2014, the University converted an existing revolving credit facility into a \$3,000,000 term loan. The University executed an interest rate swap which fixes the variable rate exposure associated with the note payable with Fifth Third Bank to effective synthetic rates of 1.445%. The interest rate swap agreement matures on December 18, 2019. In the event of default by the counterparty, a large regional bank, the University may be exposed to increased interest rates. The University does not anticipate nonperformance by the counterparty. Terminating the swap while keeping the loan in place would result in paying off the recognized swap liability.

	May 31,	
	2015	2014
December 2011 interest rate swap, maturing December 20, 2016:		
Fixed rate	1.445%	0.00%
Variable rate	2.00%	0.00%
Remaining term of contract in years	5	NA
Original note payable balance covered by agreement (notional amount)	\$ 3,000,000	\$ -
Notional amount outstanding at May 31	\$ 2,750,000	\$ -

The unrealized gains on these agreements are included in the statements of activities and the corresponding fair value liability is included in interest rate swap in the statements of financial position.

The effects of derivative instruments on the financial statements were as follows as of May 31, 2015 and 2014, and for the years then ended:

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

11. INTEREST RATE SWAP, continued:

Fair Value of Derivative Instruments in statements of financial position:

		Fair Value	
		2015	2014
Statement Location			
Economic hedge:			
Interest rate swap	Interest rate swap agreement	<u>\$ 186,577</u>	<u>\$ 250,655</u>

Effects of Derivative Instruments in statements of activities:

		Gain	
		2015	2014
Statement Location			
Economic hedge:			
Interest rate swap	Change in value of interest rate swap	<u>\$ 64,078</u>	<u>\$ 87,884</u>

SHORTER UNIVERSITY

Notes to Financial Statements

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12. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION -NET:

Long-term debt consists of:

	May 31,	
	2015	2014
Term loan payable to Fifth Third Bank. Principal payments began January 20, 2012, with interest at a base rate of 1.75 percent plus one month LIBOR rate (which totaled 2 percent at May 31, 2015). This loan matures December 20, 2016, with a balloon payment due. This note is secured by real estate and certain revenues of the University.	\$ 6,720,641	\$ 7,114,505
Term loan payable to Fifth Third Bank. This is used to refinance the University's existing revolving credit loan. This term loan carries an interest rate of 2 percent plus one month LIBOR rate (which totaled 2.25 percent at May 31, 2015). The loan matures December 2019, and is secured by real estate and certain revenues of the University.	2,633,544	2,883,544
Construction loan payable to Fifth Third Bank. Monthly principal payments of \$16,667 begin September 2013, with interest at a base rate of 1.75 percent plus one month LIBOR rate (which totaled 2 percent at May 31, 2015). This loan matures December 20, 2016, with a balloon payment due. This note is secured by real estate and certain revenues of the University.	2,500,000	2,700,000
Revolving line of credit payable to Fifth Third Bank. This is used to finance operating needs and other general purposes. The line of credit carries an interest rate of 1.75 percent plus one month LIBOR rate (which totaled 2.25 percent at May 31, 2015). The loan matures December 2016, and is secured by real estate and certain revenues of the University.	1,500,000	-
Noninterest bearing note issued in connection with the acquisition of property. Note matures in July 2020, with annual payments ranging from \$100,000 to \$650,000. The note also carries a forgiveness option whereby 1/10th of the face value of the note is forgiven if the University makes the first 6 annual payments in accordance with the agreement. Discount on the note is imputed based on an assumed interest rate of 1.9%. Note is secured by real estate and certain revenues of the University.	2,400,000	2,500,000
	15,754,185	15,198,049
Less unamortized discount (net with noninterest bearing note)	(228,076)	(270,438)
Plus capital lease obligation	-	36,116
Total	\$ 15,526,109	\$ 14,963,727

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Notes to Financial Statements

May 31, 2015 and 2014

12. LONG-TERM DEBT, continued:

Maturities of long-term debt are as follows:

<u>Years Ending May 31,</u>	<u>Amounts</u>
2016	\$ 2,940,348
2017	9,563,837
2018	950,000
2019	950,000
2020	700,000
Thereafter	<u>650,000</u>
	<u>\$ 15,754,185</u>

The University is subject to certain financial and non-financial covenants as set forth in their loan agreements. Management believes the University is not in compliance with all covenants as of May 31, 2015. The University, as a result of its non-compliance, has entered into a forbearance agreement with Fifth Third bank. That agreement requires the University to assign a first mortgage on all real estate owned to Fifth Third bank, to provide the bank with monthly financial statements and a cash flow projection, and to complete an all business UCC filing. The agreement also extends the maturity of the University's line of credit until August 31, 2016.

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Notes to Financial Statements

May 31, 2015 and 2014

13. NET ASSETS:

Net assets consist of:

	May 31,	
	2015	(As restated) 2014
Unrestricted:		
Undesignated	\$ (3,974,728)	\$ 314,494
Board designated for quasi endowment	-	54,550
Student loans	99,023	98,897
Investment in property, plant and equipment	24,262,922	26,194,818
	20,387,217	26,662,759
Temporarily restricted:		
Student financial assistance—unexpended earnings	3,365,057	3,084,835
Property acquisition and construction	750,580	847,693
Instruction and other support	2,851,630	3,043,856
Beneficial interest in charitable trusts	182,171	24,110
Perpetual trusts held by others—undistributed earnings	23,174	22,395
	7,172,612	7,022,889
Permanently restricted:		
Student financial assistance	9,734,582	9,592,983
Instruction and academic support	413,080	479,443
General support	1,758,727	1,775,230
Perpetual trusts held by others	1,576,096	1,572,673
	13,482,485	13,420,329
	\$ 41,042,314	\$ 47,105,977

SHORTER UNIVERSITY

Notes to Financial Statements

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14. OPERATING EXPENSES:

Operating expenses, by natural classification, consist of:

	Year Ended May 31, 2015			
	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 14,153,321	\$ 1,741,863	\$ 326,560	\$ 16,221,744
Payroll taxes and benefits	1,359,209	1,628,766	36,665	3,024,640
Travel and conferences	1,251,405	18,969	40,568	1,310,942
Interest expense	322,408	135,084	-	457,492
Repairs and maintenance	236,343	287,734	101	524,178
Office expenses	229,486	83,168	19,510	332,164
Occupancy	1,379,142	2,059,077	15,717	3,453,936
Professional and legal fees	23,653	195,387	46	219,086
Contract services	3,954,838	294,690	-	4,249,528
Depreciation and amortization	1,671,649	281,630	-	1,953,279
Other operating expenses	2,978,416	1,758,087	109,859	4,846,362
Bad debt expense	-	887,253	-	887,253
	<u>\$ 27,559,870</u>	<u>\$ 9,371,708</u>	<u>\$ 549,026</u>	<u>\$ 37,480,604</u>
	Year Ended May 31, 2014			
	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 14,602,441	\$ 1,666,651	\$ 346,618	\$ 16,615,710
Payroll taxes and benefits	1,469,071	1,602,938	34,947	3,106,956
Travel and conferences	1,288,796	30,635	19,218	1,338,649
Interest expense	328,388	85,901	-	414,289
Repairs and maintenance	56,011	321,354	526	377,891
Office expenses	398,987	26,749	2,940	428,676
Occupancy	1,536,308	2,042,117	5,071	3,583,496
Professional and legal fees	383,060	597,518	47,857	1,028,435
Contract services	3,253,127	301,827	1,600	3,556,554
Depreciation and amortization	1,641,978	263,784	-	1,905,762
Other operating expenses	2,852,747	1,149,396	74,510	4,076,653
Bad debt expense	-	61,910	-	61,910
	<u>\$ 27,810,914</u>	<u>\$ 8,150,780</u>	<u>\$ 533,287</u>	<u>\$ 36,494,981</u>

SHORTER UNIVERSITY

Notes to Financial Statements

May 31, 2015 and 2014

15. FEDERAL FINANCIAL ASSISTANCE:

The federal government awards the University various monies restricted for student financial aid. The monies are awarded through five federal programs: Pell Grant (Pell), Federal Direct Student Loans (FDL), Federal Work Study (FWS), Federal Supplemental Educational Opportunity Grant (FSEOG), and TEACH grants (TEACH).

Pell provides eligible students a foundation of financial aid to assist with defraying the costs of post-secondary education. Because the grants are classified as pass-through grants in the amount of \$4,975,237 and \$5,733,204 for the 2015 and 2014 academic years, respectively, they are excluded from income and expense on these statements. Similarly, the University passed-through FDL in the amount of \$16,019,795 and \$18,482,907 for the 2015 and 2014 academic years.

The FWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students. The University received and disbursed \$146,957 and \$127,520 of FWS awards during fiscal years 2015 and 2014, respectively.

Furthermore, the University received \$119,788 and \$131,876 in FSEOG awards during fiscal years 2015 and 2014, respectively, as well as \$13,618 in TEACH grants during fiscal year 2015.

16. POST-RETIREMENT BENEFITS:

The University has a matching contributory retirement plan covering all full time employees. The University matches the employee contribution up to a maximum of five percent of earnings. Pension expense incurred during the years ended May 31, 2015 and 2014, was \$443,122 and \$434,556.

17. RELATED PARTIES AND COMMON CONTROL:

The University is organized under the auspices of the Baptist Convention of the State of Georgia (Convention). The Convention, a related party, elects the University's board of trustees as well as provides significant funding for operations. During the years ended May 31, 2015 and 2014, the Convention made cash donations to the University in the amount of \$1,994,116 and \$1,833,656, respectively.

The Georgia Baptist Foundation (Foundation), another related party, provides investment services for the University. At May 31, 2015 and 2014, the Foundation held in trust for the benefit of the University \$1,222,493 and \$5,868,632, respectively. During the years ended May 31, 2015 and 2014, the Foundation made distributions to the University of \$277,355 and \$382,895, respectively.

ADE Builders (Company) provided construction and project management services to the University in relation to campus development projects. The owner of the Company is a close relative of a member of the University's board of trustees. At May 31, 2015 and 2014, the University had outstanding payables due to the Company of \$0 and \$30,418, respectively. During the years ended May 31, 2015 and 2014, the University made distributions to the Company of \$330,889 and \$1,821,063, respectively.

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18. LEASES:

The University leases multiple satellite campus locations, office equipment and vehicles under operating leases. These leases expire between October 2013 thru June 2021. Rent expense for these operating leases for the years ended May 31, 2015 and 2014, totaled \$1,798,618 and \$2,038,310, respectively.

Future minimum operating lease payments are as follows:

<u>Years Ending May 31,</u>	
2016	\$ 1,992,215
2017	2,153,893
2018	1,669,327
2019	1,326,951
2020	1,213,354
Thereafter	<u>1,562,395</u>
	<u><u>\$ 9,918,135</u></u>

19. CORRECTION OF ERRORS:

During the current year, the University determined that student accounts receivable, accounts payable, deferred revenue, and tuition income were improperly reported in the prior year financial statements. As a result, the 2014 financial statements have been restated. The restatements had the following effect on the financial statements for the year ending May 31, 2014:

	<u>As Previously Stated</u>	<u>Adjustment</u>	<u>As Restated</u>
Student accounts receivable, June 1, 2013	\$ 2,786,294	\$ (1,725,403)	\$ 1,060,891
Student accounts receivable, May 31, 2014	\$ 2,836,381	\$ (882,471)	\$ 1,953,910
Accounts payable, June 1, 2013	\$ 1,134,804	\$ 1,746	\$ 1,136,550
Accounts payable, May 31, 2014	\$ 2,414,065	\$ 262,142	\$ 2,676,207
Deferred revenue, June 1, 2013	\$ 3,263,532	\$ (579,222)	\$ 2,684,310
Deferred revenue, May 31, 2014	\$ 2,439,170	\$ (511,846)	\$ 1,927,324
Unrestricted net assets, June 1, 2013	\$ 27,411,248	\$ (1,147,927)	\$ 26,263,321
Unrestricted net assets, May 31, 2014	\$ 27,295,526	\$ (632,767)	\$ 26,662,759
Tuition income	\$ 36,560,008	\$ 515,160	\$ 37,075,168
Change in net assets, unrestricted	\$ (115,722)	\$ 515,160	\$ 399,438

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20. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

As outlined in footnote 12, the University was not in compliance with its required debt covenants as of May 31, 2015. As a result, the University entered into a forbearance agreement with their lender. The agreement requires the University to assign the lender a first mortgage on all real estate owned as well as increases the frequency with which the University must report its financial health to the lender. The agreement also extends the maturity of the University's line of credit until August 31, 2016.