



LIBERTY UNIVERSITY

Annual Disclosure Report

Fiscal Year Ended June 30, 2014

October 28, 2014



Liberty University

Annual Disclosure Report for the Fiscal Year Ended June 30, 2014

10/28/2014

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I. INTRODUCTION

Pursuant to the Continuing Disclosure Agreements dated December 21, 2010 and January 19, 2012 (collectively, the "Disclosure Agreement") executed and delivered in connection with the issuance by the Virginia College Building Authority of Educational Facilities Revenue Bonds (Liberty University Projects) Series 2010 (the "Series 2010 Bonds") and the \$100,000,000 Liberty University 5.1000% Taxable Bonds Series 2012 (the "Series 2012 Bonds"), Liberty University (the "University") hereby provides its annual disclosure report for the fiscal year ended June 30, 2014 (the "Annual Disclosure Report").

A. CUSIP Numbers

Each maturity of the Series 2010 Bonds is identified by the corresponding CUSIP Number set forth below:

<u>Maturity Date</u>	<u>Series</u>	<u>CUSIP</u>
03-01-2012	Series 2010	927781WR1
03-01-2013	Series 2010	927781WS9
03-01-2014	Series 2010	927781WT7
03-01-2015	Series 2010	927781WU4
03-01-2016	Series 2010	927781WV2
03-01-2017	Series 2010	927781WW0
03-01-2018	Series 2010	927781WX8
03-01-2019	Series 2010	927781WY6
03-01-2019	Series 2010	927781XG4
03-01-2020	Series 2010	927781WZ3
03-01-2021	Series 2010	927781XA7
03-01-2021	Series 2010	927781XH2
03-01-2022	Series 2010	927781XB5
03-01-2023	Series 2010	927781XC3
03-01-2024	Series 2010	927781XD1
03-01-2024	Series 2010	927781XJ8
03-01-2025	Series 2010	927781XE9
03-01-2029	Series 2010	927781XL3
03-01-2029	Series 2010	927781XM1
03-01-2034	Series 2010	927781XK5
03-01-2041	Series 2010	927781XE9

The CUSPI Number set forth for the Series 2012 Bonds is 531543AC0 with a maturity date on March 1, 2042

Note: The CUSIP Numbers above are provided for the convenience of the Bondholders. The University is not responsible for the accuracy of such numbers.

B. Annual Disclosure Report

The University's Annual Disclosure Report includes this Introduction, the information required by section 4 of the Disclosure Agreement as set forth in Appendix D to the Official Statement dated December 8, 2010 ("Series 2010 Bonds"), the information required by section 4 of the Continuing Disclosure Agreement set forth in the Official Statement dated January 11, 2012 ("Series 2012 Bonds") and the University's consolidated financial statements for the fiscal years ended June 30, 2014 and 2013 (the "University's Fiscal Year 2014 Audited Financial Statements"). A copy of the University's Fiscal Year 2014 Audited Financial Statements is available in Appendix A of this document and has been posted on

been posted on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>. Final Fiscal Year 2014 Audited Financial Statements will be provided once the audit had the completed. Please note that this Annual Disclosure Report is intended to be read in conjunction with the University's Fiscal Year 2014 Audited Financial Statements.

C. Other Matters

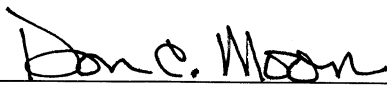
This Annual Disclosure Report is provided solely pursuant to the Disclosure Agreement. The filing of the Annual Disclosure Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the University or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this Annual Disclosure Report relates (other than as contained in this Annual Disclosure Report), or that no other information exists, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell or hold the Bonds. The information contained in this Annual Disclosure Report has been obtained from sources which are believed to be reliable. No statement in this Annual Disclosure Report should be construed as a prediction or representation about future financial performance of the University.

This Annual Disclosure Report, which includes the University's Fiscal Year 2014 Draft Audited Financial Statements, contains certain forward-looking statements that involve risks and uncertainties. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as "will result," "expect to," "will continue," "anticipates," "plans," "intends," "estimated," "projects," and "outlook") are not historical and may be forward-looking. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Although the University believes that the expectations reflected in the forward-looking statements are reasonable, the University cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the University nor any other person assumes responsibility for the accuracy or completeness of these statements. Accordingly, investors should not rely on forward-looking statements in this Annual Disclosure Report. The University undertakes no obligation to publicly update or revise any forward-looking statements in this Annual Disclosure Report, whether as a result of new information, future events or otherwise.

Dated: 10/28/2014

THE BOARD OF TRUSTEES OF LIBERTY UNIVERSITY

By: _____



Chief Financial Officer

II. MANAGEMENT'S DISCUSSION OF CONSOLIDATED OPERATIONS

A. Fiscal Year Ended June 30, 2014

Fiscal year 2014 was highlighted with the completion of the first major academic facility of the campus construction plan. The Jerry Falwell Library was opened on January 15, 2013, providing the university with its first free-standing library and the center-piece of the academic commons facilities. This library provides Liberty University with the necessary capacity to continue to grow residential and online enrollment while improving the quality of the campus experience. Fiscal year 2014 was also highlighted by the Liberty University College of Osteopathic Medicine receiving provisional accreditation status from its program accreditor, the American Osteopathic Association's Commission on Osteopathic College Accreditation (AOA-COCA), granting it permission to recruit and enroll students and offer the educational curriculum that leads to the degree of Doctor of Osteopathic Medicine (D.O.). The Liberty University College of Osteopathic Medicine is prepared for its inaugural class to begin July of 2014.

Residential enrollment increased 2.3% from 12,644 in fiscal year 2013 to 12,932 in fiscal year 2014. Together with continued growth in LU Online enrollment, total enrollment increased by 3.1% from 105,844 students in fiscal year 2013 to 109,085 students in fiscal year 2014. Total revenues increased 18.8% from \$724.1.9 million in fiscal year 2013 to \$860.6 million in fiscal year 2014. The institutional discount rate was 21.0% during fiscal year 2013 and 21.5% during fiscal year 2014. Total expenditures increased 14.9% from \$469.5 million in fiscal year 2013 to \$539.2 million in fiscal year 2014. Long term debt decreased from \$220.7 million in fiscal year 2013 to \$217.9 million in fiscal year 2014. Expendable Financial Resources improved from \$814.1 million in fiscal year 2013 to \$973.9 million in fiscal year 2014. Total net assets increased by 29.1% from \$1.1 billion in fiscal year 2013 to \$1.4 billion in fiscal year 2014. More importantly, net assets continue to become increasingly unrestricted. Unrestricted net assets comprise 98.9% of total net assets in fiscal year 2014. During fiscal year 2013, unrestricted net assets comprised 98.6% of total net assets.

III. ACADEMICS

A. Residential Academic Schools and Programs

The University offers 155 undergraduate programs and specializations, 130 graduate programs and specializations and three doctoral programs of study. Listed below is a short description of the various schools and colleges of the University:

College of General Studies. The College of General Studies oversees the general education curriculum and introductory courses across all of the University's undergraduate programs. The College of General Studies provides undergraduate students, particularly during their first two years of study, with the academic preparation to help them succeed when pursuing a degree from one of the University's schools and colleges listed below.

Center for Academic Support & Advising Services. The Center for Academic Support & Advising Services offers a Bachelor of Science in Interdisciplinary Studies, a Bachelor of Science and Bachelor of Arts in Individualized Programs of Study, and an Associate of Applied Science in the trades of Welding, Electrical, Plumbing, HVAC, and Carpentry. The Associate of Applied Science programs are certified by the National Center for Construction Education and Research.

College of Arts and Sciences. The College of Arts and Sciences is comprised of the Departments of the Center for Creation Studies, English and Modern Languages, Family and Consumer Sciences, History, Mathematics, Philosophy, and Army ROTC. The Department of English and Modern Languages offers the Bachelor of Arts in American Sign Language and Interpreting, English, Spanish, and Teaching English as a Second Language; and a Master of Arts in English. The Department of Family and Consumer Sciences offers the Bachelor of Science in Family & Child Development, Family & Consumer Sciences, Teachers Licensure, and Fashion & Interiors with concentrations in Fashion Merchandising, Interior Design, and Fashion Design. The Department of History offers a Bachelor Arts and Sciences degree in History, a Bachelor of Science in Social Sciences, and a Master of Arts in History. The Department of Mathematics offers the Bachelor of Science in Mathematics. The Department of Philosophy offers the Bachelor of Arts in Philosophy and the Master of Arts in Philosophical Studies. The Army ROTC Department offers minors in Army ROTC and Military Leadership.

Helms School of Government. The Helms School of Government offers the Associate of Arts in Government, Associate of Arts in Criminal Justice. The Bachelor of Arts is offered in International Relations and Government with specializations in International Relations, Politics & Policy, and Western Legal Traditions. The school also offers the Bachelor of Science in Government with specializations International Relations and Pre-Law as well as the Bachelor of Science in Criminal Justice with specializations in Business Administration & Management, Criminal Psychology, Forensics, Homeland Security, Public Administration, Strategic Intelligence, and Youth Corrections.

Liberty University Baptist Theological Seminary. The Liberty University Baptist Theological Seminary offer the Master of Arts in Global Studies, Master of Arts in Pastoral Counseling, Master of Arts in Theological Studies with specializations in Biblical Studies, Church History, and Theology, and the Master of Arts in Christian Ministry with specializations in Discipleship & Church Ministry, Evangelism & Church Planting, Global Studies, Homiletics, Leadership, Marketplace Chaplaincy, Pastoral Counseling, Pastoral Ministries, and Worship. Other master level degree programs include the Master of Arts of Religion, Master of Religious Education, and Master of Divinity. A Master of Theological Studies is also

offered as a post-master degree. Doctorate programs include the Doctor of Ministry and the Doctor of Philosophy in Theology and Apologetics.

Liberty University College of Osteopathic Medicine. The Liberty University College of Osteopathic Medicine offers a Doctor of Osteopathic Medicine and is provisionally accredited by the American Osteopathic Association's Commission on Osteopathic College Accreditation (AOA-COCA). The inaugural class will begin July 2014.

Liberty University School of Law. The Liberty University School of Law offers the Juris Doctor degree and is fully accredited by the American Bar Association. Certificates are available in the concentrations of Advocacy, Trial Advocacy, Appellate Advocacy, Business Law, Constitutional Law, Criminal Justice, Family and Juvenile Justice, International Law, Planning, Property, and Taxation. An Associate of Arts and Bachelor of Science in Paralegal Studies are also offered. Dual Juris Doctorate degree programs are offered on conjunction with other graduate programs such as the Master of Arts in Human Services Counseling, Master of Arts in History, Master of Business Administration, Master of Education in Teaching and Learning, Education Specialist, Doctor of Education, Master of Arts in Public Policy, Master of Public Health, Master of Divinity, and Master of Religion.

School of Aeronautics. The School of Aeronautics is an accredited, FAA-certified program offering a Bachelor of Science in Aeronautics with specializations in Aviation Maintenance Technician, Commercial/Corporate Aviation, Missions Aviation, Military Aviation, and Unmanned Aerial Systems. The School of Aeronautics also offers an Associate of Arts in Aviation Maintenance Technician and Aviation Flight Attendant. A Certificate programs is also available for Aviation Maintenance Technician.

School of Business. The School of Business offers the Bachelor of Science in Business Administration with concentrations in Communications, Economics, Finance, Financial Planning, Human Resource Management, International Business, Marketing, and Project Management. The Bachelor of Science in Business Management Information Systems is offered with concentrations in Accounting Information Systems, Application Development, Data Networking, Database, Gaming Technologies, Global Studies, Information Assurance, Intelligence, and Web Development. The Master of Business Administration is offered with concentrations in Accounting, Criminal Justice, Healthcare Management, Human Resources, International Business, Leadership, Marketing, Project Management, Public Administration, and Public Relations. The School of Business is accredited by the Accreditation Council for Business Schools and Programs (ACBSP).

School of Communication and Creative Arts. The School of Communication and Creative Arts is comprised of the Department of Digital Media & Communication Arts, Department of Studio & Digital Arts, Department of Theatre Arts, and the Zaki Gordon Center for Cinematic Arts. The Department of Digital Media & Communication Arts offers the Bachelors of Science degrees in Journalism, Digital Media with specializations in Audio, Performance, Social Networking & Interactive Media, Transmedia Writing, and Video; Speech Communication with specializations in Professional Communication and Speech Communication; and Strategic Communications with specializations in Social Media Management and Strategic Communications. A Master of Arts in Strategic Communication is also offered. The Department of Studio & Digital Arts offers the Bachelor of Science in Studio & Digital Arts with specializations in Graphic Design, Studio Art, and Teacher Licensure. A Bachelor of Fine Arts and a Master of Fine Arts in Studio and Digital Arts is also offered. The Zaki Gordon Center for Cinematic Arts offers a Bachelor of Science in Cinematic Arts. The Department of Theatre Arts offers the Bachelor of Arts in Theater Arts with specializations in Performance, Production, and Education.

School of Education. The School of Education provides programs designed to produce teachers and administrative educators to work at the pre-school through high school level. The School of Education is comprised of the Departments of Teacher Education and Sport Management. The School of Education's Teacher Licensure Program is accredited by the National Council for Accreditation of Teacher Education and approved by the Virginia Department of Education. The Department of Teacher Education offers the Bachelor of Science in Elementary Education Integrated Studies with specializations in English, Mathematics, Science, Social Science, and Spanish. A Bachelor of Science in Special Education Integrated Studies is also available. The Department of Sport Management offers the Bachelor of Science in Sport Management and the Master of Science in Sport Management with specializations in Outdoor Adventure Sports, Sports Administration, and Tourism.

School of Engineering and Computational Sciences. The School of Engineering and Computational Sciences offers the Bachelor of Science in Applied Internet Technologies, Computer Engineering, Computer Science, Electrical Engineering, Industrial Engineering, and Mechanical Engineering. The Accrediting Board of Engineering and Technology (ABET) accredits the Electrical Engineering, Computer Science, Computer Engineering, and Industrial Engineering programs.

School of Health Sciences. The School of Health Sciences is comprised of the Department of Biology & Chemistry, the Center for Counseling & Family Studies, Department of Health Professions, Department of Nursing and the Department of Psychology. The Department of Biology & Chemistry offers the Bachelor of Science degrees in Biochemistry & Molecular Biology, Biomedical Sciences, Cell & Molecular Biology, Chemistry, Environmental Biology, Forensic Science, General Biology, Zoo & Wildlife Biology, and Zoology. A Master of Science in Biomedical Sciences is also offered. The Center for Counseling & Family Studies offers the Master of Arts in Clinical Mental Health Counseling, Marriage & Family Therapy, and Human Services Counseling with specializations in Addiction & Recovery, Business, Christian Ministries, Crisis Response & Trauma, Executive Leadership, Health & Wellness, Life Coaching, and Marriage & Family. The Department of Health Professions offers the Bachelor of Science in Athletic Training, Exercise Sciences with specializations in Fitness and Pre-Professional, Health Promotion with specializations in CHES and Clinical, and Kinesiology. The Master of Public Health is offered with specializations in Health Promotion, Global Nutrition, and Health. The Department of Nursing offers the Bachelor of Science in Nursing and the Doctor of Nursing Practice. The Department of Psychology offers the Bachelor of Science in Psychology with specializations in Counseling & Human Development, Counseling & Clinical Research, and Human Services. The Department of Nursing is accredited by the Commission on Collegiate Nursing Education (CCNE). The School of Health Sciences also has accreditations from the Commission on Accreditation on Allied Health Education Programs (CAAHEP) and the Commission on Accreditation of Athletic Training Education (CAATE).

School of Music and Worship Studies. The School of Music and Worship is comprised of the Center for Music and the Performing Arts and the Center for Music and Worship. The School of Music offers a Bachelor of Music in the areas of Artist Development, Guitar Performance, Instrument Music, Leadership Communication, Music Vocal, Music in World Cultures, Piano Performance, Songwriting, String Performance, Vocal Music, Vocal Performance, Woodwind, Brass, and Percussion Performance, and Worship Studies. The School of Music and Worship Studies also offers as a Bachelor of Arts or a Bachelor of Sciences in the areas of Music Instrumental, Music Vocal, Music and Worship Studies with concentrations in Biblical Studies, Business, Cinematic Arts, Pastoral Leadership, Theatre Ministries, Women's Ministries, Worship Technology, and Youth Ministry. The School of Music and Worship Studies also offers the Master of Arts in Music and Worship, Master of Arts in Music Education, and the Master of Arts in Worship Studies.

School of Religion. The School of Religion offers the Bachelor of Arts in Biblical Studies, and Bachelor of Science degrees in Global Studies, Pastoral Leadership, Church Ministries with specializations in Adventure Leadership and Outdoor Ministry, Women's Ministries, Worship, and Youth Ministries; and Religious Studies with specializations in Biblical Languages, Global Studies, Jewish Studies, New Testament, Old Testament, and Theology & Apologetics.

The following table provides information on the distribution of resident undergraduate, graduate and doctoral students among the academic programs offered by the University for fiscal year 2014:

<u>Academic Program</u>	<u>Number of Students</u>	<u>Percent¹</u>
Health Sciences/Nursing	2,044	15%
General Arts & Sciences	1,577	12%
Business	1,561	12%
Communications	1,475	11%
Religion	1,464	11%
Counseling/Psychology	1,380	10%
Education	1,210	9%
Government	953	7%
Pre Med & Biology	637	5%
Engineering/Computational	464	3%
Aeronautics	399	3%
Law	209	2%

Notes:

1. The numbers in each column may not equal 100% due to rounding.

B. Liberty University Online Academic Schools and Programs

In 1985, the University established its off-campus distance learning program to provide educational course offerings to students around the world. Prior to the Internet, all distance learning courses used videotaped lectures and other accompanying course materials.

The University's on-line distance learning program has grown to be a significant part of the University's operations. In June 2007, the program became known as Liberty University Online; and in January 2008, LU Online was ranked third nationally by the Online Education Database based on quality factors such as retention, graduation rate, student-faculty ratio and the number of years accredited and in operation. On August 2, 2013, Liberty University was ranked first nationally by TheBestSchools.org among online Christian schools based on Christian character, academic prestige, and extent and quality of online degree programs. The number of full-time and part-time students participating in LU Online undergraduate and graduate programs at the University grew from 51,478 in fiscal year 2010 to 95,479 in fiscal year 2014.

Although LU Online courses differ from residential course offerings due to methodologies of instruction, LU Online courses are comparable to residential courses in content. LU Online utilizes the

online software platform Blackboard so that students can have Internet access to reading materials, other online resources and interaction with professors and other students. The focus of courses offered by LU Online is primarily business, education, psychology, religion, counseling and nursing. LU Online offers 70 undergraduate programs and specializations, 140 masters and post masters programs and specializations, and 22 doctorate programs and specializations.

Liberty University Online Academy offers courses for elementary, middle, and high school students (grades 3 – 12) and is accredited by the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS-CASI). High School Juniors and Seniors may also dual enroll in Liberty University college courses.

Undergraduate certificate programs are offered in Application Development, Accounting, Biblical Studies, Business Administration, Christian Ministry, Criminal Justice, Database, Data Networking, Global Studies, Healthcare Management, Health Sciences, Information Assurance, International Business, Military Resilience, Paralegal Studies, Preschool Studies, Public Administration, and Web Development.

Associate degree programs are offered in Accounting, Business, Business Management Information Systems, Criminal Justice, Early Childhood Education in Interdisciplinary Studies, non-licensure Education, Interdisciplinary Studies, Medical Office Assistant, Paralegal Studies, Psychology, Psychology-Christian Studies, and Religion.

Bachelor degree programs are offered in the following colleges and schools:

College of Arts & Sciences: Bachelor of Science in History.

Liberty University School of Law: Bachelor of Science in Paralegal Studies.

School of Aeronautics: Bachelor of Science in Aeronautics, Aviation Maintenance Management, and Commercial Pilot.

School of Business: Bachelor of Science in Accounting, Business Administration with specializations in Communications, Economics, Entrepreneurship, Finance, Financial Planning, Green & Sustainable Management, Healthcare Management, Human Resource Management, International Business, Leadership, Marketing, Project Management, and Public Administration. Bachelor of Science in Business Management Information Systems with specializations in Accounting Information Systems, Application Development, Data Networking, Database, Gaming Technologies, Information Assurance, Intelligence, and Web Development. Bachelor of Science in Informatics with Healthcare specialization. Bachelor of Science in Information Technology with specialization in Application and Database Development, Data Network and Security, Gaming Design, and Web Development.

School of Government: Bachelor of Science in Criminal Justice with specializations in Business Administration and Management, Criminal Psychology, Forensics, Homeland Security, Public Administration, Strategic Intelligence, and Youth Corrections. Bachelor of Science in Government with specializations in Politics & Policy, Public Administration, and Pre-Law.

School of Education: Bachelor of Science in Early Childhood Education Interdisciplinary Studies, Elementary Education Interdisciplinary Studies, and Special Education Interdisciplinary Studies.

School of Engineering & Computational Sciences: Bachelor of Science in Applied Web Technologies.

School of Health Sciences: Registered Nurse to Bachelor of Science of Nursing. Bachelor of Psychology with specializations in Addiction & Recovery, Christian Counseling, Crisis Counseling, Life Coaching, and Military Resilience.

School of Religion: Bachelor of Science in Biblical and Educational Studies, Christian Leadership and Management, and Religion with specializations in Biblical and Theological Studies, Christian Counseling, Christian Ministries, and Evangelism.

Graduate certificate programs are offered in Autism Education, Biblical Studies, Christian Ministry, Applied Communication Studies, Communications and Business Administration, Communications and Human Services, Organizational Communication Studies, Criminal Justice, Educational Technologies and Online Instruction, Executive Leadership, General Business, Gifted Education, Global Studies, Healthcare Management, Management and Leadership, Marketing, Middle Grades, Military Resilience, Music in World Cultures, Outdoor and Adventure Sport, Pastoral Counseling, Public Administration, Public Policy, Preschool, School Leadership, Sport Management, Theological Studies, and Worship Studies.

Master degree programs are offered from the following colleges and schools:

Liberty University Baptist Theological Seminary: Master of Arts in Christian Ministry with specializations in Discipleship & Church Ministry, Evangelism and Church Planting, Global Studies, Homiletics, Leadership, Marketplace Chaplaincy, Pastoral Counseling, Pastoral Ministries, and Worship. Master of Arts in Pastoral Counseling, Master of Arts in Global Studies, Master of Arts in Religion, Master of Arts in Theological Studies, Master of Divinity, and Master of Religious Education.

School of Business: Master of Sciences in Accounting, Master of Sciences in Information Systems, Master of Arts in Executive Leadership, Master of Science in Marketing with specializations in Digital Marketing & Advertising, Project Management, Public Relations, and Sports Marketing & Media. Master of Business Administration with specializations in Accounting, Criminal Justice, Healthcare Management, Human Resources, International Business, Leadership, Marketing, Project Management, Public Administration, and Public Relations.

School of Communications & Creative Arts: Master of Arts in Strategic Communication.

School of Government: Master of Science in Criminal Justice with specializations in Command College and Public Administration. Master of Arts in Public Policy with specializations in Campaigns & Elections, International Affairs, Middle East Affairs, and Public Administration.

School of Education: Master of Arts in Teaching with specializations in Elementary Education, Middle Grades, Secondary Education, and Special Education. Master of Education with specializations in Administration & Supervision, Math Specialist Endorsement, Reading Specialist Endorsement, School Counselor, Teaching & Learning Early Childhood Education, Teaching & Learning in Educational Technology & Online Instruction, Teaching & Learning Elementary Education, Teaching & Learning English, Teaching & Learning General Education, Teaching & Learning Gifted, Teaching & Learning History, Teaching & Learning Leadership, Teaching & Learning Middle Grades, Teaching & Learning Special Education, and Teaching & Learning Student Services. Master of Science in Sport Management with specializations in Outdoor Adventure Sports, Sports Administration, and Tourism. Master of Public Health with specializations in Global Health, Nutrition, and Health Promotions. Master of Science in Biomedical Sciences.

School of Engineering & Computational Sciences: Master of Science in Cyber Security.

School of Health Sciences: Master of Arts in Marriage & Family Therapy, Master of Arts in Professional Counseling, and Master of Arts in Human Services Counseling with specializations in Addiction & Recovery, Business, Christian Ministries, Criminal Justice, Crisis Response & Trauma, Executive Leadership, Health & Wellness, Life Coaching, Marriage & Family, and Military Resilience. Master of Science in Nursing with specializations in Nursing Administration and Nurse Educator.

School of Music and Worship Studies: Master of Arts in Ethnomusicology, Master of Arts in Music Education, Master of Arts in Music & Worship, and Master of Arts in Worship Studies with specializations in Church Planting, Ethnomusicology, and Leadership.

Post Masters and Doctoral programs of study include the Doctor of Business Administration with specializations in Accounting, Human Resources, International Business, Leadership, Marketing, Project Management; Doctor of Philosophy Counseling with specializations in Advanced Clinical Skills and Counseling Education & Supervision; Education Specialist with specializations in Curriculum & Instruction and Educational Leadership; Doctor of Education with specializations in Curriculum & Instruction and Educational Leadership; Doctor of Nursing Practice, Master of Theology with specializations in Biblical Studies, Church History, Global Studies, Homiletics, Theology; Doctor of Ministry with specializations in Discipleship, Evangelism & Church Planting, Expository Preaching, Pastoral Counseling, Pastoral Leadership, Worship; and the Doctor of Philosophy in Theology & Apologetics.

The LU Online curriculum is structured to encourage undergraduate and graduate degree completion and approximately 95% of the students are working toward a degree. The University believes that LU Online enhances student matriculation and retention by fostering academic and spiritual commitment and a sense of community unique to online and distance education. The University has operated its online and distance education programs for much of its existence, and its internal culture has been long geared to meet the needs of students who desire a Christian-based education but who are unable to attend classes in Lynchburg, Virginia.

The University's commitment to academic excellence through accreditation by the Southern Association of Colleges and Schools Commission on Colleges ("SACSCOC") has created rigorous course development and administration standards that require both online and residential courses to have the same outcome-oriented curriculum. While the online programs afford the flexibility of studying at one's own pace and shorter 8-week classes, academic progress of each student is closely monitored by a staff dedicated to ensuring that students are progressing through each course satisfactorily and to ensure the academic or administrative issues that may be impeding the students' progress are identified and resolved as quickly as possible. All student course work is available 24 hours a day, seven days a week online and a significant amount of the course work is being made available through mobile devices. A 360-degree support network of academic, administrative and spiritual services—from application to graduation—is available online and includes academic advisors, IT helpdesk, career center, library services and writing center, and an online ministry network offering counseling and prayer.

In addition, the University believes that the vibrant residential campus provides LU Online with the academic credibility usually afforded to "bricks and mortar" academic programs. As the largest Christian evangelical university in the United States and with a NCAA Division I athletics program, the University further allows LU Online students to establish a connection and affinity with the University that may be difficult to re-create solely with an online academic program, as many of the University's athletic and spiritual activities are available online. Finally, the University encourages degree completion by addressing student cost concerns by providing the lowest undergraduate tuition rate of any leading online university in the country with a large student headcount.

The following table provides information on the distribution of LU Online undergraduate, graduate and doctoral students among the academic programs offered by the University for fiscal year 2014:

<u>Academic Program</u>	<u>Number of Students</u>	<u>Percent¹</u>
Psychology/Counseling	25,265	26%
Business	20,047	21%
Religion	19,570	20%
Education	14,342	15%
General Arts & Sciences	5,673	6%
Government	4,810	5%
Health Sciences/Nursing	2,580	3%
Engineering/Computational	1,805	2%
Law	1,041	1%
Aeronautics	257	<1%
Communications	99	<1%

Notes:

1. The numbers in each column may not equal 100% due to rounding.

C. Student Enrollment and Retention

The following table provides resident program headcount information reflecting the total number of full-time and part-time students in resident undergraduate and graduate degree programs for Fall semesters of fiscal years 2010-2014:

Resident Program Fall Headcount¹

<u>Fall Semester:</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Undergraduate	10,945	11,141	11,548	11,581	11,930
Graduate ²	<u>973</u>	<u>1,014</u>	<u>1,024</u>	<u>1,063</u>	<u>1,002</u>
Total	11,918	12,155	12,572	12,644	12,932

Notes:

1. Resident Program reporting has been updated to reflect the fall-semester full-time and part-time students. Previous year continuing disclosure documents contained the annualized resident program headcount. Management believes that enrollment for full-time and part-time students for the fall semester better represents the Resident Program.
2. Includes all students enrolled in the Liberty University School of Law and the Liberty University Baptist Theological Seminary.

The following table provides LU Online annual student headcount information reflecting the total number of full-time and part-time students enrolled in LU Online programs during each of the past five fiscal years:

LU Online Annual Headcount

<u>Fiscal Year:</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Undergraduate	26,954	35,137	45,620	51,040	51,598
Graduate	<u>24,524</u>	<u>29,734</u>	<u>36,989</u>	<u>41,497</u>	<u>43,881</u>
Total	51,478	64,871	82,609	92,537	95,479

Approximately 43% of the University's resident student enrollment by headcount for the 2013-2014 academic year were Virginia residents; however, the University has resident students from all 50 states, the District of Columbia and numerous foreign countries.

The University maintains an active student retention program designed to assist the student body in adjusting to life at the University. Although the University believes its efforts are generally successful, students decide to leave the University for many different reasons. For the Fall periods 2009-2010 to 2013-2014, resident student retention rates for undergraduate students, graduate students and freshman to sophomore only were as follows:

Resident Undergraduate, Graduate and Freshman Fall-Fall Retention Rates

<u>Fall to Fall Periods</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Freshmen</u>
Fall 2013 to Fall 2014 (FY14)	81.7%	81.3%	79.7%
Fall 2012 to Fall 2013 (FY13)	81.3%	77.8%	81.5%
Fall 2011 to Fall 2012 (FY13)	78.9%	78.0%	81.0%
Fall 2010 to Fall 2011 (FY12)	82.1%	82.5%	80.6%
Fall 2009 to Fall 2010 (FY10)	81.7%	94.4%	77.0%

The six-year graduation rate for full-time, first-time undergraduate students who entered the University in Fall 2007 seeking an undergraduate degree was 48%.

D. Student Application and Academic Quality

Data on the number of residential applications, acceptances, and matriculants at the University for the Fall Semesters of fiscal years 2010-2014 are set forth in the following table:

Applicants, Acceptances, and Matriculants¹

<u>Fiscal Year</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Freshmen					
Total Applications Received	23,659	22,415	25,769	25,652	28,872
Accepted	5,048	5,507	5,762	5,032	6,143
Matriculated	2,511	2,636	2,784	2,369	2,717
% of students accepted from applications	21.3%	24.6%	22.4%	19.6%	21.3%
% of students matriculated from students accepted	49.7%	47.9%	48.3%	47.1%	44.2%
Transfer					
Total Applications Received	2,402	3,003	3,248	3,175	4,849
Accepted	1,051	1,388	1,368	1,576	2,391
Matriculated	646	745	844	1,107	1,476
% of students accepted from applications	44%	46%	42%	50%	49%
% of students matriculated from students accepted	61%	54%	62%	70%	62%
Graduate²					
Total Applications Received	191	322	559	562	1,042
Accepted	142	220	386	294	556
Matriculated	112	158	248	190	275
% of students accepted from applications	74%	68%	69%	52%	53%
% of students matriculated from students accepted	79%	72%	64%	65%	49%
Law³					
Applications Received	459	414	414	355	313
Accepted	241	200	200	178	200

Matriculated	135	99	85	71	85
% of students accepted from applications	53%	48%	48%	50%	64%
% of students matriculated from students accepted	56%	50%	43%	40%	43%

Seminary⁴

Total Applications Received	185	249	225	164	349
Accepted	127	159	167	103	236
Matriculated	107	143	129	78	115
% of students accepted from applications	69%	64%	74%	63%	68%
% of students matriculated from students accepted	84%	90%	77%	76%	49%

Notes:

1. An applicant is an individual who has fulfilled the institution's requirements to be considered for admission (including payment or waiving of application fee, if any) and who has been notified of one of the following actions: admission, non-admission, placement on waiting list, or application withdrawn by applicant or institution. The University began enforcing the payment of a \$40 application fee for students applying for admission for Fall 2010 which management believes contributed to the decline in applications from 2010 to 2011. In 2011, the University modified its criteria for determining when an individual has fulfilled the necessary requirements to be considered for admission. The purpose of the change was to more closely align the University's definition of an "applicant" with the definition provided by the U.S. Department of Education and with current practices of other colleges and universities. The applications reported in years 2008 through 2010 were not restated and are reported only for comparison purposes.
2. Excludes the Liberty University School of Law and Liberty University Baptist Theological Seminary.
3. Includes J.D graduate law program in the Liberty University School of Law.
4. Includes all professional and graduate programs in the Liberty University Baptist Theological Seminary.

The University continues to enroll students of increasingly high academic quality. The Educational Testing Service Scholastic Aptitude Test (SAT) scores, the American College Testing Program (ACT) scores, and the high school grade point averages for first-time incoming resident freshman students for the fall semesters of the past five fiscal years is set forth in the following table:

College Entrance Examinations

<u>Fiscal Year</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SAT Scores					
Average:					
Verbal	511	524	529	528	526
Math	497	514	516	515	515
Total	1,008	1,038	1,045	1,043	1,041
ACT Scores					
Average:					
English	21.9	22.7	22.9	22.9	23.0
Math	20.8	21.7	21.6	21.9	22.0
Reading	22.6	23.2	23.5	23.5	23.6
Science	21.2	22.0	22.0	22.1	22.2
Composite ACT	21.8	22.5	22.6	22.7	22.6

High School GPA	3.24	3.33	3.37	3.36	3.37
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E. Tuition and Fees

Undergraduate tuition and fees for full-time study for the past four academic years and the current academic year are set forth in the following table:

Undergraduate Student Tuition, Fees, and Charges

<u>Academic Year</u>	<u>Tuition¹</u>	<u>Fees²</u>	<u>Room and Board³</u>	<u>Total Cost</u>	<u>% Change</u>
2009-2010	15,992	1,210	5,996	23,198	4.30%
2010-2011	16,792	1,271	6,296	24,359	5.00%
2011-2012	17,806	1,348	6,680	25,834	6.06%
2012-2013	18,562	1,406	7,050	27,018	4.58%
2013-2014	19,486	1,282	7,050	27,818	2.96%

Notes:

1. Tuition is based on 18 credit hours maximum per semester. The charge for enrollment in more than 18 credit hours is \$700 per credit hour for the 2013-2014 academic year.
2. Reflects annual activity, technology and transportation fees. The transportation fee was discontinued in 2013-2014.
3. Reflects base room and board. Room and board rates can vary depending on the housing selection made by the student.

Professional school tuition for full-time resident students for the past four academic years and the current year is shown in the following table:

Tuition for Full-time Study at Professional Schools

<u>Academic Year</u>	<u>Law</u>	<u>Seminary</u>
2009-2010	26,637	3,400
2010-2011	27,839	3,600
2011-2012	29,088	3,800
2012-2013	30,396	4,100
2013-2014	30,396	4,400

Undergraduate students enrolled full-time or part-time in programs offered through LU Online pay tuition on a credit hour basis plus applicable fees. For Fall 2012 (Fiscal Year 2013), the rate for full-time and part-time students was \$325 and \$365 per credit hour, respectively. Students in the University's graduate programs (full-time or part-time, resident or online) also pay tuition on a credit hour basis plus applicable fees based on the degree program. For

example, the tuition for Fall 2013 (Fiscal Year 2014) for non-seminary master's and doctorate programs ranged from \$490 to \$535 per credit hour. Full-time students enrolled in certain master's programs at the seminary pay tuition at a block rate, plus applicable fees. The block rate for Fall 2013 (Fiscal Year 2014) was \$2,200 for resident students and \$2,350 for online students.

The University expects that tuition, fees and room and board charges will increase on an annual basis to keep pace with rising costs.

F. Financial Aid

The University participates in certain federal and state student financial aid programs and offers certain scholarships funded principally through institutional resources. The various types of aid available to students of the University are summarized as follows:

Federal Student Aid. The federal student aid programs available to students of the University include Pell Grants, Supplemental Educational Opportunity Grants, Academic Competitiveness Grants, National SMART Grants, TEACH Grants, Perkins Loans, Direct Stafford Loans, PLUS Loans, and the Work-Study Program. Effective Fall 2010, the University is using the William D. Ford Federal Direct Loan Program for all loans made directly from the U.S. Department of Education as lender.

State Student Aid. Students of the University who are domiciliary residents of the Commonwealth of Virginia may be eligible for state student aid made available through the Virginia Guaranteed Assistance Program, the Tuition Assistance Grant Program, and the College Scholarship Assistance Program.

Institutional Student Aid. The scholarship programs offered by the university are made available to students with financial need or with abilities in athletics, music and academics, to students whom the University believes are compatible with the general philosophy of the University and to employees of the University and their dependents. A goal of such programs is to attract and retain a student body that will enhance the philosophical purpose of the University.

For the year ended June 30, 2014, financial aid was awarded and paid to approximately 90% of all students totaling approximately \$1.1 billion. Financial aid awards are typically packaged as a combination of federal, state and university-funded loans, grants and scholarships. Awards from institutional sources (non-federal and non-state) equated to approximately 21.5% of the University's gross tuition and fees revenue for fiscal year 2014. These awards were approximately 18% of the total amount of financial aid distributed in fiscal year 2014.

The total amount of financial aid awarded and paid by the University to students during a fiscal year may exceed the University's total revenues for that fiscal year. This occurs when a portion of the financial aid award is distributed or refunded to students, parents and third parties after the students' direct expenses (such as tuition, fees and on campus room and board) are fully paid. A large portion of these refunds is then used by the students to pay for other

educationally related expenses such as travel, books, supplies, rent (for off- campus students) and miscellaneous purchases. For fiscal year 2014, approximately \$385 million was refunded to students, parents or third parties by the University.

The financial assistance provided to the University's students from University and non-University sources for the five financial aid award years ended June 30, 2014 is described in the following table:

Financial Aid to Students (in thousands)^{1, 2}					
<u>Award Year</u>	2010	2011	2012	2013	2014
<u>University Sources:</u>					
Unrestricted Funds	\$107,610	\$124,682	\$148,519	\$169,768	\$193,079
Restricted Funds	439	89	118	76	67
Total Scholarships	\$108,050	\$124,771	\$148,637	\$169,844	\$193,146
<u>Loans to Students:</u>					
Federal Loan Funds	\$370,685	\$486,648	\$613,622	\$663,387	\$677,479
Private Loan Funds	\$12,908	\$13,254	\$16,499	\$19,085	\$20,422
Total Student Loans	\$383,594	\$499,901	\$630,121	\$682,462	\$697,901
<u>Other Funds:</u>					
VA Tuition Asst. Grant	\$11,891	\$11,389	\$12,264	\$12,478	\$14,549
PELL Grant	\$57,339	\$82,499	\$98,692	\$107,086	\$107,687
Other	\$28,446	\$29,915	\$38,799	\$51,767	\$62,551
Total Other Funds	\$97,676	\$123,803	\$149,756	\$171,321	\$184,787
<u>Total Financial Aid</u>	<u>\$589,319</u>	<u>\$748,476</u>	<u>\$928,514</u>	<u>\$1,023,627</u>	<u>\$1,075,834</u>

Notes:

1. The numbers in each column may not equal totals due to rounding.
2. Amounts for financial aid award years include adjustments that may have been made after the end of the applicable fiscal year and therefore are not necessarily the same as amounts recorded for financial statement purposes at June 30 of each year.

The University and its students rely on a substantial amount of support from the federal and state student financial aid assistance programs. If a significant reduction on the level of federal and state assistance were to occur, such reduction could have a material adverse effect on the University and its operations. Amounts received and expended by the University under various federal and state financial aid assistance programs are subject to audit by various federal and state agencies and therefore subject to adjustment. Non-compliance with federal or state requirements relating to student assistance programs could result in the University's loss of eligibility to participate in those programs.

IV. FINANCES

A. Financial Condition

1. Accounting and Financial Statements

The table below provides information from the University's consolidated statements of financial position and statements of activities for the four years ended June 30, 2010-2014, derived from the audited consolidated financial statements of the University, and for the fiscal year ending June 30, 2013, derived from the consolidated financial statements of the University. The financial information below for fiscal years 2014 and 2013 should be read in conjunction with the University's consolidated financial statements as of June 30, 2014 set forth in Appendix A. For a description of the University's significant accounting policies, see Note 2 of the Notes to the Consolidated Financial Statements. Except as disclosed herein, since June 30, 2013, there has been no material adverse change in the consolidated financial condition or consolidated changes in net assets of the University.

The University will post on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>.

2. *Summary of Consolidated Financial Statements*

Consolidated Statements of Financial Position

(in thousands)¹

For Fiscal Years Ended June 30,

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Assets:					
Cash and cash equivalents	\$ 207,355	\$ 403,620	\$ 384,417	\$ 297,031	\$ 202,733
Restricted cash and cash equivalents	250	-	-	-	-
Accounts receivable, less allowances for doubtful accounts	24,466	95,234	27,097	25,326	88,063
Accounts receivable from related organizations	1,611	1,344	1,580	1,941	2,471
Notes receivable	493	604	825	2,420	3,420
Contributions receivable, net	360	560	428	419	148
Prepaid lease payments	6,607	-	-	-	-
Other prepaid expenses and other assets	6,189	9,425	9,739	10,405	14,601
Investments, at fair value	87,784	120,840	492,352	725,159	877,627
Property, plant, and equipment, net	<u>278,607</u>	<u>310,559</u>	<u>361,214</u>	<u>502,492</u>	<u>659,956</u>
Total assets	<u>\$ 613,722</u>	<u>\$ 942,186</u>	<u>\$ 1,277,653</u>	<u>\$ 1,565,194</u>	<u>\$ 1,849,060</u>
Liabilities:					
Accounts Payable:					
Vendors	\$ 8,597	\$ 8,194	\$ 17,971	\$ 23,860	\$ 36,027
Other	5,912	6,367	7,452	8,409	9,128
Accrued liabilities	6,214	7,337	12,933	12,962	11,295
Accrued interest payable	180	3,049	3,818	3,592	3,568
Deferred revenue and deposits	71,603	131,135	136,189	161,469	116,579
Gift annuity payable	14,709	15,650	17,696	24,465	24,730
Liability under split interest agreements	2,863	2,265	2,285	2,869	2,285
Obligations under capital leases	3,524	2,385	1,667	951	195
Long-term debt	64,816	128,337	226,344	220,679	217,919
Total liabilities	<u>\$ 178,418</u>	<u>\$ 304,719</u>	<u>\$ 426,356</u>	<u>\$ 459,257</u>	<u>\$ 421,717</u>
Net Assets:					
Unrestricted	\$ 426,575	\$ 627,798	\$ 837,925	\$ 1,090,894	\$ 1,411,694
Temporarily restricted	1,749	2,442	4,839	5,001	4,298
Permanently restricted	6,980	7,227	8,532	10,042	11,340
Total net assets	<u>\$ 435,304</u>	<u>\$ 637,467</u>	<u>\$ 851,297</u>	<u>\$ 1,105,937</u>	<u>\$ 1,427,332</u>
Total liabilities and net assets	<u>\$ 613,722</u>	<u>\$ 942,186</u>	<u>\$ 1,277,653</u>	<u>\$ 1,565,192</u>	<u>\$ 1,849,058</u>

Notes:

1. The numbers in each column may not equal totals due to rounding

Consolidated Statements of Activities

(in thousands)¹

For Fiscal Years Ended June 30,

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues:					
Tuition and fees:					
Gross tuition and fees	\$ 434,629	\$ 535,484	\$ 660,220	\$ 748,777	\$ 829,231
Institutional scholarships	<u>(99,413)</u>	<u>(111,035)</u>	<u>(136,787)</u>	<u>(156,956)</u>	<u>(178,218)</u>
Tuition and fees, net	\$ 335,216	\$ 424,449	\$ 523,433	\$ 591,821	\$ 651,013
Contributions	\$ 10,029	\$ 12,904	\$ 14,160	\$ 15,361	\$ 9,056
Grants and contracts	1,792	1,578	2,080	2,129	17,756
Investment income, net	5,255	7,581	6,974	28,509	21,632
Realized and unrealized gains (losses), net	685	(4,750)	(3,894)	(1,867)	56,672
Auxiliary services	50,803	53,146	56,896	58,008	60,809
Athletic association	-	-	-	-	-
Proceeds from life insurance	-	-	-	-	-
Other sources	21,620	31,301	30,491	38,715	43,239
Change in split interest agreements	(417)	(874)	746	(8,531)	449
Net assets released from restrictions	=	=	=	=	=
Total revenues	<u>\$ 424,983</u>	<u>\$ 525,335</u>	<u>\$ 630,885</u>	<u>\$ 724,144</u>	<u>\$ 860,627</u>
Expenses:					
Program services:					
Instruction	\$ 82,239	\$ 94,712	\$ 114,973	\$ 134,072	\$ 151,281
Academic support	18,285	22,365	24,126	28,424	34,607
Student services	56,103	64,758	80,068	96,972	147,272
Auxiliary services	39,699	44,675	45,787	51,628	57,063
Public services	<u>4,841</u>	<u>4,545</u>	<u>5,538</u>	<u>6,245</u>	<u>9,518</u>
Total program services	\$ 201,166	\$ 231,056	\$ 270,493	\$ 317,342	\$ 399,741
Supporting services:					
Institutional support	\$ 78,895	\$ 92,096	\$ 146,538	\$ 152,159	139,446
Development and external relations	-	-	-	-	-
Research	<u>24</u>	<u>19</u>	<u>25</u>	<u>7</u>	<u>46</u>
Total supporting services	78,919	92,115	146,563	152,166	139,492
Total expenses	<u>\$ 280,085</u>	<u>\$ 323,171</u>	<u>\$ 417,056</u>	<u>\$ 469,508</u>	<u>\$ 539,232</u>
Change in net assets	\$ 144,898	\$ 202,164	\$ 213,829	\$ 254,636	\$ 321,398
Net Assets - beginning of year, as previously reported	290,406	435,304	637,467	851,297	1,105,937
Reclassification of net assets	-	-	-	-	-
Net Assets - beginning of year, as restated	290,406	435,304	637,467	851,297	1,105,937
Net assets at end of year	<u>\$ 435,304</u>	<u>\$ 637,467</u>	<u>\$ 851,297</u>	<u>\$ 1,105,937</u>	<u>\$ 1,147,332</u>

Notes:

1. The numbers in each column may not equal totals due to rounding.

3. *Indebtedness*

At June 30, 2014, the University had outstanding long-term indebtedness of approximately \$217.9 million (excluding capital lease obligations) consisting of various term notes, tax-exempt revenue bonds issued in December 2010 by the Virginia College Building Authority for the benefit of the University ("Series 2010 Bonds"), and taxable bonds issued in December 2012 by Liberty University ("Series 2012 Bonds"). In fiscal year 2011, the University refinanced approximately \$47.8 million of its long-term debt and repaid \$8.1 million in loans under its remaining term notes using a portion of the \$119.7 million in proceeds from the issuance of the Series 2010 Bonds. As part of the debt refinancing, the University closed its \$50.0 million bank credit line. Liens on University property associated with retired debt were released.

The outstanding long-term indebtedness and capital leases of the University as of June 30, 2013 and June 30, 2014 were as follows:

	June 30, 2013	June 30, 2014
	<i>(in thousands)</i>	
Term notes payable, collateralized by property	\$ -	\$ -
Series 2009 bonds	-	-
Capital lease obligations	951	195
Equipment loans	922	858
Other notes payable	2,669	2,123
Series 2010 bonds	117,988	115,807
Series 2012 bonds	99,099	99,131
Total	\$ 221,630	\$ 218,114

Interest on long-term debt amounted to approximately \$9.9 million and \$11.6 million for the years ended June 30, 2014 and 2013, respectively. The first interest payment on the Series 2010 Bonds was due September 1, 2011. The annual debt service (principal repayment and interest) on the Series 2010 Bonds is approximately \$7.8 million. The first interest payment on the Series 2012 Bonds was not due until September 1, 2012. The annual interest payment on the Series 2012 Bonds is \$5.1 million.

4. Net Assets

The following table shows the net assets available to the University, classified as unrestricted, temporarily restricted or permanently restricted, for the five fiscal years ended June 30, 2010-2014.

	<u>Net Assets</u>				
	<i>(in thousands)¹</i>				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Unrestricted:					
Board designated for long-term investment	\$ 44,100	\$ 46,934	\$ 50,014	\$ 91,668	\$ 114,802
Board designated for investment in plant	-	-	-	-	-
Invested in plant facilities	278,607	310,559	361,214	502,492	659,956
Undesignated	104,262	270,305	426,696	496,734	636,936
Total	\$ 426,969	\$ 627,798	\$ 837,925	\$ 1,090,894	\$ 1,411,694
Temporarily Restricted:					
Scholarships	\$ 58	\$ 259	\$ 96	\$ 493	\$ 2,448
Split interest agreement funds	1,199	1,607	3,318	1,204	1,368
Construction and improvement to buildings and facilities	422	576	1,425	3,305	14
Total	\$ 1,679	\$ 2,442	\$ 4,839	\$ 5,001	\$ 3,830
Permanently Restricted²	\$ 6,656	\$ 7,227	\$ 8,532	\$ 10,042	\$ 11,070

Notes:

1. The numbers in each column may not equal totals due to rounding.
2. The amounts included as permanently restricted net assets consist of endowment funds to be held in perpetuity. The related income, based on donor-imposed restrictions, is to be used for certain purposes. As of June 30, 2014, the amount of permanently restricted net assets designated for specified purposes (in thousands) was as follows:

Scholarships	\$ 8,351
Business/government department	-
Religion department	-
Endowment for Church planning	-
Grounds improvements	4
Endowments	2,715

Permanently restricted net assets \$ 11,070

B. Contributions and Gifts

Net contributions and gifts to the university for the five fiscal years ended June 30, 2010-2014 are set forth in the following table:

Contributions, Net, and Donated Gifts in Kind (in thousands)¹

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Unrestricted	\$ 9,429	\$ 11,535	\$ 11,511	\$ 10,852	\$ 5,504
Temporarily restricted	570	1,178	1,337	2,734	2,299
Permanently restricted	<u>31</u>	<u>192</u>	<u>1,312</u>	<u>1,775</u>	<u>1,253</u>
Total Contributions, Net, and Donated Gifts in Kind	\$ 10,029	\$ 12,904	\$ 14,159	\$ 15,361	\$ 9,056

Notes:

1. The numbers in each column may not equal totals due to rounding.

For the year ended June 30, 2014, approximately 9% and 0% of contributions were made by one major donations and related organizations, respectively. For the year ended June 30, 2013, approximately 16% and 0% of contributions were made by two major donations of the same amount and related organizations, respectively.

C. Investments

On June 30, 2011, the Board of Trustees of Liberty University and the Chancellor/President's Office adopted an Investment Policy Statement (IPS) declaring that the fundamental objective of the Board and the Chancellor is to strengthen Liberty's financial position in order to fulfill its primary function as an educational institution. Specifically, the ultimate goal is to provide a framework for the continuation of core University operations in the event of a major downturn while maintaining essential planned capital projects. The IPS will provide a structure that will allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, while setting reasonable parameters to provide prudence and care in the execution of the investment program. The Executive Committee will direct any drawdown of Endowment funds.

As of June 30, 2014, the University's investment plus cash and cash equivalents totaled approximately \$1.1 billion and investments were diversified among a variety of asset classes as set forth in the table below:

Asset Allocation
(in thousands)

<u>Investment</u>	<u>Market Value at June 30, 2013</u>	<u>Market Value at June 30, 2014</u>
Investment Portfolio: ¹		
Cash Equivalents ²	\$ 80,546	\$ 65,233
Real Estate	778	547
Certificates of deposit	7,583	7,770
Corporate bonds & term loans	216,237	329,508
Municipal bonds	45	40
Mutual funds	157,442	185,496
Common stocks	70,568	57,215
Hedge funds	191,959	231,818
Total	\$ 725,159	\$ 877,627
 Cash and cash equivalents	 <u>\$ 297,031</u>	 <u>\$ 202,773</u>
Total	\$ 1,022,190	\$ 1,080,400

Notes:

1. Investments are recorded at fair value based on quoted market prices or estimated fair value pursuant to ASC 820.
2. Cash equivalents utilized within a managed portfolio are accounted for as investments.

The University maintains cash balances at several financial institutions. Total cash balances at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for interest bearing accounts and unlimited on non-interest bearing accounts. At June 30, 2014 and 2013, the University had uninsured cash and cash equivalents balances totaling approximately \$204.6 and \$297.5 million, respectively.

D. Endowment Assets

The university's endowment includes both donor-restricted endowment funds and quasi-endowment funds. While quasi-endowment assets can be utilized by the University, if necessary, for operating expenditures at the discretion of the Board of Trustees, the assets contributed to the University as donor-restricted endowments generally cannot be so utilized.

The market values of the University's endowment assets for the five years ending June 30, 2010-2014 are summarized below:

	Endowed Assets (in thousands)				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Endowment	\$ 6,559	\$ 7,199	\$ 8,632	\$ 10,160	\$ 11,619
Quasi-Endowment	<u>44,100</u>	<u>46,934</u>	<u>50,014</u>	<u>91,678</u>	<u>114,802</u>
Total	<u>\$ 50,659</u>	<u>\$ 54,132</u>	<u>\$ 58,647</u>	<u>\$ 101,837</u>	<u>\$ 126,422</u>

APPENDIX A: Financial Statements for Fiscal Year Ending June 30, 2014

***Consolidated
Financial Statements and
Supplementary Information
Years Ended
June 30, 2014 and 2013***



***Liberty University, Inc.
Audit Performed Under
Government Auditing Standards***



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

Liberty University, Inc.

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Independent Auditors' Report

To the Board of Trustees
Liberty University, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Liberty University, Inc.***, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows, for the years then ended, and related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Liberty University, Inc.*** as of June 30, 2014 and 2013, and the respective changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Other Information

Our audit was conducted for the purpose of forming an opinion on ***Liberty University, Inc.***'s consolidated financial statements as a whole. The accompanying unconsolidated schedules of financial position of ***Liberty University, Inc.*** on page 25 is presented for purposes of compliance with various states' code for charitable gift annuity certificate holders and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated 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 October 29, 2014 on our consideration of ***Liberty 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 the 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 ***Liberty University, Inc.***'s internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Richmond, Virginia
October 29, 2014

Liberty University, Inc.

Consolidated Statements of Financial Position

June 30,	2014	2013
Assets		
Cash and cash equivalents	\$ 202,773,179	\$ 297,030,565
Accounts receivable - less allowance for doubtful accounts of approximately \$35,595,000 and \$27,351,000, respectively	88,062,624	25,326,011
Accounts receivable from related organizations	2,470,734	1,940,979
Notes receivable	3,419,632	2,419,871
Contributions receivable	148,138	419,249
Other prepaid expenses and other assets	14,600,797	10,404,883
Investments, at fair value	877,626,691	725,158,999
Property, plant and equipment, net	659,956,077	502,491,921
Total assets	\$ 1,849,057,872	\$ 1,565,192,478
Liabilities and Net Assets		
Liabilities		
Accounts payable - vendors	\$ 36,027,081	\$ 23,859,983
Accounts payable - other	9,127,732	8,408,835
Accrued liabilities	11,295,008	12,961,760
Accrued interest payable	3,568,358	3,592,036
Deferred revenue and deposits	116,578,602	161,469,230
Gift annuities payable	24,729,998	24,464,813
Liability under split interest agreements	2,285,343	2,868,886
Obligations under capital leases	195,249	950,815
Long-term debt	217,918,692	220,679,051
Total liabilities	421,726,063	459,255,410
Net assets		
Unrestricted	1,411,694,423	1,090,894,092
Temporarily restricted	4,297,602	5,001,199
Permanently restricted	11,339,784	10,041,777
Total net assets	1,427,331,809	1,105,937,068
Total liabilities and net assets	\$ 1,849,057,872	\$ 1,565,192,478

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

Liberty University, Inc.

Consolidated Statements of Activities

Years Ended June 30,

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support								
Tuition and fees:								
Gross tuition and fees	\$ 829,231,325	\$ -	\$ -	\$ 829,231,325	\$ 748,777,390	\$ -	\$ -	\$ 748,777,390
Institutional scholarships	(178,218,092)	-	-	(178,218,092)	(156,955,706)	-	-	(156,955,706)
Tuition and fees, net	651,013,233	-	-	651,013,233	591,821,684	-	-	591,821,684
Contributions	5,503,933	2,299,278	1,252,553	9,055,764	10,852,159	2,734,184	1,774,858	15,361,201
Grants and contracts	17,756,200	-	-	17,756,200	2,113,964	15,000	-	2,128,964
Investment income	21,497,487	135,590	(1,517)	21,631,560	28,364,655	270,291	(126,244)	28,508,702
Realized and unrealized gains (losses), net	56,342,173	324,369	5,951	56,672,493	(1,445,006)	(419,971)	(1,541)	(1,866,518)
Auxiliary services	60,809,396	-	-	60,809,396	58,007,455	672	-	58,008,127
Other sources	43,222,536	16,689	-	43,239,225	38,690,906	24,534	-	38,715,440
Change in split interest agreements	182,971	224,800	41,020	448,791	(6,278,824)	(2,114,176)	(137,770)	(8,530,770)
Net assets released from restrictions	3,704,323	(3,704,323)	-	-	348,617	(348,617)	-	-
Total revenues and support	\$ 860,032,252	\$ (703,597)	\$ 1,298,007	\$ 860,626,662	\$ 722,475,610	\$ 161,917	\$ 1,509,303	\$ 724,146,830

(Continued on next page)

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

Liberty University, Inc.

Consolidated Statements of Activities (continued)

Years Ended June 30,

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Program services:								
Instruction	\$ 151,280,910	-	\$ -	\$ 151,280,910	\$ 134,072,155	\$ -	\$ -	\$ 134,072,155
Academic support	34,607,419	-	-	34,607,419	28,424,049	-	-	28,424,049
Student services	147,271,649	-	-	147,271,649	96,971,895	-	-	96,971,895
Auxiliary services	57,062,865	-	-	57,062,865	51,627,755	-	-	51,627,755
Public services	9,517,720	-	-	9,517,720	6,244,809	-	-	6,244,809
Total program services	399,740,564	-	-	399,740,563	317,340,662	-	-	317,340,663
Supporting services								
Institutional support	139,445,515	-	-	139,445,515	152,159,081	-	-	152,159,081
Research	45,842	-	-	45,842	6,812	-	-	6,812
Total supporting services	139,491,357	-	-	139,491,357	152,165,893	-	-	152,165,893
Total expenses	539,231,921	-	-	539,231,920	469,506,555	-	-	469,506,556
Changes in net assets	320,800,331	(703,597)	1,298,007	321,394,741	252,969,055	161,917	1,509,303	254,640,275
Net assets - beginning of year	1,090,894,092	5,001,199	10,041,777	1,105,937,068	837,925,037	4,839,282	8,532,474	851,296,793
Net assets at end of year	\$ 1,411,694,423	\$ 4,297,602	\$ 11,339,784	\$ 1,427,331,809	\$ 1,090,894,092	\$ 5,001,199	\$ 10,041,777	\$ 1,105,937,068

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

Liberty University, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30,	2014	2013
Cash flows from operating activities		
Changes in net assets	\$ 321,394,741	\$ 254,640,275
Adjustments to reconcile changes in net assets to net cash:		
Depreciation of property, plant and equipment	28,255,725	22,496,242
Change in value of split-interest agreements	(448,791)	8,530,770
Bad debt expense on accounts receivable	21,466,504	23,816,821
Donations of property, plant and equipment	(267,000)	(2,790,459)
Non cash donation of investment	(115,008)	(167,756)
Other non cash donation	-	(3,310)
Donation of accounts receivable from a related party	102,328	-
Forgiveness of related party debt	-	78,631
Cash received for permanently restricted contributions	(1,252,553)	(1,774,858)
Realized/unrealized (gains) losses on investments, net	(56,672,493)	1,866,518
Gain on disposal of property, plant, and equipment	(1,380,446)	(113,809)
Permanently restricted earnings	1,517	126,244
Net (increase) decrease in:		
Accounts receivable	(84,203,117)	(22,045,594)
Accounts receivable from related organizations	(529,755)	(360,698)
Notes receivable	(999,761)	(1,594,736)
Contributions receivable	271,111	8,951
Other prepaid expenses and other assets	(4,195,914)	(665,961)
Net increase (decrease) in:		
Accounts payable	12,885,995	3,657,381
Accrued liabilities	(1,666,752)	28,700
Accrued interest payable	(23,678)	(225,734)
Gift annuities payable	2,957,262	9,186,867
Liability under split interest agreements	(175,388)	820,719
Deferred revenue and deposits	(44,890,628)	25,280,482
Net cash from operating activities	190,513,899	320,795,685
Cash flows from investing activities		
Purchases of property, plant, and equipment	(183,397,648)	(160,492,584)
Proceeds from sale of property, plant, and equipment	824,271	-
Purchases of investments	(840,730,179)	(1,605,779,437)
Proceeds from sales and maturities of investments	743,898,402	1,365,478,038
Net cash used in investing activities	(279,405,155)	(400,793,983)

(Continued on next page)

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

Liberty University, Inc.

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30,	2014	2013
Cash flows from financing activities		
Payments on gift annuities	\$ (2,692,077)	\$ (2,418,169)
Payments on split interest agreements	(408,155)	(237,281)
Permanently restricted losses	(1,517)	(126,244)
Payments on obligations under capital leases	(755,566)	(716,462)
Proceeds from issuance of long-term debt	140,614	1,606,604
Payments on long-term debt	(2,901,982)	(7,271,288)
Cash received for permanently restricted contributions	1,252,553	1,774,858
Net cash used in financing activities	(5,366,130)	(7,387,981)
Net change in cash and cash equivalents	(94,257,386)	(87,386,279)
Cash and cash equivalents at beginning of year	297,030,565	384,416,844
Cash and cash equivalents at end of year	\$ 202,773,179	\$ 297,030,565
Supplemental disclosures of cash flows information:		
Cash paid during the year for interest	\$ 9,881,517	\$ 11,598,004

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

June 30, 2014 and 2013

1. Organization and Nature of Activities

Liberty University, Inc. (the University) is a non-stock, nonprofit institution of higher education, initially established in 1971. The University is a Christian academic community in the tradition of evangelical institutions of higher education, with the primary mission of providing quality collegiate education. The University provides associate, baccalaureate, master, and doctoral programs for both liberal arts and professional disciplines in resident and external formats. These programs seek to transmit and expand knowledge, as well as provide opportunities for research and service. The University is accredited by the Southern Association of Colleges and Schools. The affairs of the University are governed by the Board of Trustees.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Liberty University, Inc. and its wholly-owned subsidiaries, C&C Jetting, LLC, LU Plaza Holdings, LLC, LU Candler Station Holdings, LLC, Liberty Mountain Capital, Inc., Liberty Mountain Conference Center, LLC, LU Racquet Sports, LLC, G & J Thomas, Inc., Ivy Hill Recreation, LLC, Morning Star, LLC, and Falwell Aviation, Inc. (collectively the “University”). C&C Jetting, LLC provides charter air service to the University. LU Plaza Holdings, LLC and Candler Station Holdings, LLC are retail shopping centers held by the University and classified as quasi-endowments. Liberty Mountain Capital, Inc. is a C-corporation owned by the University for investment purposes. Liberty Mountain Conference Center operates as a conference center for the University and community. LU Racquet Sports operates as an indoor tennis facility. G & J Thomas is an S-corporation that holds property for student housing and is classified as a quasi-endowment. Ivy Hill Recreation is a LLC that owns a lake donated for various student activities and is also classified as a quasi-endowment. Falwell Aviation, Inc. is a C-corporation that provides charter air and repair and maintenance services to the public. Morning Star, LLC provides broadcasting of Liberty University and other athletics, weather and news to the Lynchburg community. All significant intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting. These financial statements have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met by actions of the University and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of 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 and these restrictions are not met within the current reporting period. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets (see Note 10). Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service.

Cash and Cash Equivalents

The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents utilized within a managed portfolio are accounted for as investments. All depository accounts of the University are with institutions insured by the Federal Deposit Insurance Corporation (FDIC). Certain accounts are required to be segregated. At times during the year, the University maintains balances in banks which exceed the federally insured limits. The University minimizes this risk by periodically evaluating the stability of the financial institutions. Amounts reported as cash and cash equivalents which exceeded the FDIC limits were \$204,597,343 and \$297,508,427 at June 30, 2014 and 2013. Other interest-bearing cash and cash equivalents were held in accounts with brokerage firms to reduce the University's risk. While not an agency of the United States government like the FDIC, the Securities Investor Protection Corporation insures accounts (not the underlying investments) up to a maximum of \$500,000.

Accounts Receivable

Accounts receivable represent the amount receivable for tuition and other student fees and expenses. The University provides for uncollectible accounts annually based on a percentage of collections within 90 days of year-end. Bad debt expense totaled \$21,466,504 and \$23,816,821 for the years ended June 30, 2014 and 2013, respectively. When accounts are deemed uncollectible they are charged against the allowance for doubtful accounts. During the past fiscal year, management delayed the federal draw down for student financial aid and subsequent disbursements to students thus resulting in increased accounts receivable compared to the prior year.

Contributions Receivable and Contributions Revenue

Contributions, including unconditional promises to give, are recognized as revenue by the University in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Investments

Investments are recorded at fair value. The fair values of investments are determined based on quoted market prices or estimated fair values. Earnings on investments are recorded as earned and shown in investment income on the consolidated statements of activities. Related investment fees in the amount of \$3,977,283 and \$4,765,062 for the years ended June 30, 2014 and 2013, respectively, are included in institutional support expense on the consolidated statements of activities.

Property, Plant and Equipment

Property, plant and equipment consisting of land and land improvements, buildings, and furniture and equipment are stated at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation and amortization. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets, which range from 3 years for furniture and equipment to 45 years

for buildings. Property and equipment held under capital leases are amortized straight-line over the shorter of the lease term or estimated useful life of the asset.

Deferred Revenue and Deposits

Student deposits consist primarily of student payments received for University summer and fall sessions received during the current year. These payments are designated to be used in future periods and will be recognized as revenue within one year. Revenues are recognized as instruction takes place and the related expenses are incurred. During the past fiscal year, management delayed the federal draw down for student financial aid and subsequent disbursement to students thus resulting in decreased deferred revenue and deposits compared to the prior year.

Functional Expenses

The University allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Internal Revenue Service has ruled that the University qualifies under Section 501(c) (3) of the Internal Revenue Code and is, therefore, not generally subject to income taxes under present tax laws. Management believes that any income tax liability resulting from unrelated business income for the years ended June 30, 2014 and 2013 would not have a significant impact on the University's results of activities. Certain subsidiaries of the University are taxed as separate entities. The University has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2014. Fiscal years ending on or after June 30, 2011, remain subject to examination by federal and state tax authorities.

Concentration of Credit Risk

Financial instruments that potentially subject the University to concentration of credit risk consist of interest-bearing transaction accounts and accounts receivable. The University places its interest-bearing transaction accounts with high credit quality financial institutions.

Student receivables are limited in risk due to the large number of students, those that pay in advance and receive grants and loans to cover tuition and related expenses.

For the year ended June 30, 2014, approximately 9% of contributions were made by one major donor. For the year ended June 30, 2013, approximately 16% of contributions were made by two major donors.

Advertising Expenses

The University expenses advertising costs as incurred. Advertising expense was \$9,282,443 and \$6,471,899 for 2014 and 2013, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Reclassifications

Certain reclassifications have been made to the June 30, 2013 financial statements to conform to the June 30, 2014 presentation. Such reclassifications did not impact the prior year change in net assets.

Subsequent Events

In preparing these consolidated financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 29, 2014, the date the consolidated financial statements were issued.

3. Contributions Receivable

Contributions receivable are expected to be received are as follows at June 30:

	2014	2013
Less than one year	\$ 48,332	\$ 116,500
One to five years	99,806	302,749
	<u>\$ 148,138</u>	<u>\$ 419,249</u>

Management has evaluated the contributions receivable and based on historical collection rates and experience with the specified donors, has determined that an allowance for uncollectible pledges is not necessary.

4. Investments

Investments at June 30 consist of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
General investments	\$ 778,611,654	\$ 811,739,427	\$ 670,438,077	\$ 672,009,838
Split-interest agreements	51,109,789	53,782,741	43,245,433	43,072,433
Scholarships	904,615	902,776	132,980	131,968
Endowments	11,291,087	11,201,747	10,055,354	9,944,760
	<u>\$ 841,917,145</u>	<u>\$ 877,626,691</u>	<u>\$ 723,871,844</u>	<u>\$ 725,158,999</u>

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk. Management does not anticipate that losses resulting from market or credit risks would materially affect the financial position of the University.

5. Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. ASC Topic 820 emphasizes the fair value is a market-based measurement, not an entity-specific measurement. The framework for measuring fair value under the guidance is based on a fair value hierarchy that distinguishes between observable inputs (i.e., inputs that are based on market data obtained from independent sources) and unobservable inputs (i.e., inputs that require the University to make its own assumptions about market participant assumptions because little or no market data exists). The three levels of the fair value hierarchy are described below:

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

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual funds and common stocks are valued at the closing price reported on the active market on which the individual securities are traded. Corporate bonds are valued at amortized cost and real estate is recorded at the appraised value. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. All assets have been valued using a market approach, except for Level 3 assets. For Level 3 assets, the University's management, with the help of its investment committee and a third-party investment advisory firm, determine fair value measurement valuation policies and procedures. The University uses the net asset value (NAV) or capital balances of its interest in Level 3 investments as a practical expedient to determine the fair value of Level 3 investment funds. These funds do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the Level 3 investments existed, and the difference could be material. At least annually, management and the investment committee determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts unobservable inputs used in the fair value measurements based on current market conditions and third-party information. There were no changes in the valuations techniques during the current year.

Fair Value as of June 30, 2014				
	Level 1	Level 2	Level 3	Total
Assets				
Cash - money market funds	\$ 65,233,198	\$ -	\$ -	\$ 65,233,198
Certificates of deposit	-	7,769,598	-	7,769,598
Government and agency bonds	-	1,668,305	-	1,668,305
Municipal bonds	-	40,038	-	40,038
Term loans	-	-	239,435,361	239,435,361
Corporate bonds	-	89,410,950	-	89,410,950
Common stock	57,278,901	-	-	57,278,901
Mutual funds	188,207,876	-	-	188,207,876
	<u>310,719,975</u>	<u>98,888,891</u>	<u>239,435,361</u>	<u>649,044,227</u>
Other	-	546,624	-	546,624
Hedge funds:				
Long/short equity funds	-	-	150,772,503	150,772,503
Collateralized mortgage obligations	-	35,770,098	-	35,770,098
Master Limited Partnerships	-	-	35,469,095	35,469,095
Other asset backed securities	-	6,024,144	-	6,024,144
Total assets	<u>\$ 310,719,975</u>	<u>\$ 141,229,757</u>	<u>\$ 425,676,959</u>	<u>\$ 877,626,691</u>
Liabilities				
Gift annuities payable	\$ -	\$ -	\$ 24,729,998	\$ 24,729,998
Liability under split interest agreements	-	-	2,285,343	2,285,343
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,015,341</u>	<u>\$ 27,015,341</u>

Fair Value as of June 30, 2013				
	Level 1	Level 2	Level 3	Total
Assets				
Cash – money market funds	\$ 80,546,255	\$ -	\$ -	\$ 80,546,255
Certificates of deposit	-	7,582,864	-	7,582,864
Government and agency bonds	-	2,012,070	-	2,012,070
Municipal bonds	-	45,400	-	45,400
Term loans	-	101,044,754	-	101,044,754
Corporate bonds	-	113,180,140	-	113,180,140
Mutual funds	-	157,442,229	-	157,442,229
	80,546,255	381,307,457	-	461,853,712
Stocks:				
Gold trusts	29,814,466	-	-	29,814,466
Financial institutions	15,495,289	7,104,748	-	22,600,037
Communications	1,356,024	2,918,135	-	4,274,159
Energy and utilities	1,040,400	1,774,632	-	2,815,032
Oil and gas exploration	4,019,400	-	-	4,019,400
Global energy and materials	5,298,400	-	-	5,298,400
Other	486,891	1,259,725	-	1,746,616
	57,510,870	13,057,240	-	70,568,110
Other	-	777,886	-	777,886
Hedge funds:				
Long/short equity funds	-	-	81,027,330	81,027,330
Collateralized mortgage obligations	-	88,712,660	-	88,712,660
Master Limited Partnerships	-	-	14,650,090	14,650,090
Other asset backed securities	-	5,960,981	1,608,230	7,569,211
Total assets	\$ 138,057,125	\$ 489,816,224	\$ 97,285,650	\$ 725,158,999
Liabilities				
Gift annuities payable	\$ -	\$ -	\$ 24,464,813	\$ 24,464,813
Liability under split interest agreements	-	-	2,868,886	2,868,886
Total liabilities	\$ -	\$ -	\$ 27,333,699	\$ 27,333,699

The University invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. These funds have investments in assets located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuations are based on significant unobservable inputs. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the hedge fund managers as a practical expedient. Redemptions are generally permitted after some period of time after initial investment, either on a quarterly, semi-annual, or annual basis, subject to certain restrictions, which include a notice period of 30 to 90 days.

The following table illustrates the activity of Level 3 assets and liabilities:

	Hedge funds	Annuities payable	Liability Under Split-interest Agreements
Balance - June 30, 2012	\$ 30,439,110	\$ 17,696,115	\$ 2,285,448
Additions/purchases	67,411,059	4,426,483	-
Payouts	-	(3,936,609)	(1,668,508)
Realized gains (losses)	(119,287)	-	-
Unrealized gains (losses)	(445,232)	-	-
Change in value of split-interest agreements	-	6,278,824	2,251,946
Balance - June 30, 2013	97,285,650	24,464,813	2,868,886
Additions/purchases	296,917,788	3,226,500	-
Payouts	-	(2,678,241)	(408,155)
Realized gains (losses)	546,761	-	166,442
Unrealized gains (losses)	30,926,760	-	305,049
Change in value of split-interest agreements	-	(283,074)	(646,879)
Balance - June 30, 2014	\$ 425,676,959	\$ 24,729,998	\$ 2,285,343

6. Property, Plant and Equipment and Leases

Property, plant and equipment, consist of the following at June 30:

	2014	2013
Buildings	\$ 459,355,486	\$ 328,044,881
Furniture and equipment	151,447,703	119,055,119
Land and land improvements	126,566,467	114,748,575
Construction in progress	119,982,212	113,214,539
Total property, plant and equipment	857,351,868	675,063,114
Less accumulated depreciation and amortization	(197,395,791)	(172,571,193)
Property, plant and equipment	<u>\$ 659,956,077</u>	<u>\$ 502,491,921</u>

The University is obligated under various capital and operating leases for certain property, plant, and equipment. The following schedule analyzes property, plant, and equipment under leases that have been accounted for as capital leases in the accompanying statements of financial position and included above in buildings and furniture and equipment:

	2014	2013
Property, plant, and equipment under capital leases	\$ 3,452,078	\$ 3,452,078
Less accumulated amortization	(3,452,078)	(2,827,078)
Property, plant and equipment under capital leases, net	<u>\$ -</u>	<u>\$ 625,000</u>

At June 30, 2014, minimum rental payments due under capital and operating leases with original terms in excess of one year are as follows:

	Capital Leases	Operating Leases
Years ending June 30:		
2015	\$ 197,860	\$ 438,010
2016	-	444,724
2017	-	451,659
2018	-	458,822
2019	-	466,221
Thereafter	-	1,051,496
Total minimum lease payments	197,860	<u>\$ 3,310,932</u>
Less imputed interest (rates ranging from 5% through 9%)	<u>(2,611)</u>	
Obligations under capital leases	<u>\$ 195,249</u>	

Total interest expense on capital leases for the years ended June 30, 2014 and 2013 was \$35,876 and \$38,487, respectively. Total rent expense under operating leases was \$893,174 and \$807,139 for the years ended June 30, 2014 and 2013, respectively. Taxes, insurance and maintenance expenses relating to all leases are obligations of the University.

7. Deferred Revenue and Deposits

Deferred revenue and deposits consists primarily of student related charges including tuition and fees which are deferred until earned. The deferral is calculated based on number of class days used or unused. The deposits are primarily monies deposited with the university, toward a term for which charges have not been recorded to the individual. Deferred revenue and deposits consist of the following at June 30:

	2014	2013
Deferred Other	\$ 2,381,621	\$ 1,653,896
Deferred Student – Fall	34,021,045	33,042,807
Deferred Student – Summer	55,720,858	50,084,776
Deferred Student – Liberty University Online Academy	633,964	438,241
Deposits	<u>23,821,114</u>	<u>76,249,510</u>
Total	<u>\$ 116,578,602</u>	<u>\$ 161,469,230</u>

8. Liabilities under Split-Interest Agreements

The University receives gifts from donors who receive income from the assets until their deaths. These split-interest agreements consist primarily of charitable gift annuities and charitable remainder unitrusts. These agreements provide either fixed annual payments or fixed annual returns to the original donor or a designated beneficiary. The assets received from the donor are recorded at fair market value upon receipt of the gift and the liability is recorded using a discount rate reflecting expected rates of return in the marketplace and the expected lives of the donors. Fixed payout percentages range from 3.9% to 12.5%.

The Annuity 2000 Mortality Table is used to calculate life expectancy of the annuitant. Discount rates used in the fair value calculation reflect the rate of return on the underlying assets. The discount rate used was 4.35% and 3.36% for fiscal years 2014 and 2013, respectively.

The University received contributions under split-interest agreements of approximately \$1,737,201 and \$1,527,693 for the years ended June 30, 2014 and 2013, respectively.

9. Long-Term Debt

Long-term debt consists of the following at June 30:

	2014	2013
Term loan with a bank collateralized by aircraft with an interest rate of 3.75%, payable in monthly principal and interest payments of \$14,882 through September 2018.	\$ 716,060	\$ 876,438
Term note payable, due July 2017, with monthly principal and interest at a rate of 7.75%. The uncollateralized loan is repaid as part of the fees collected by Sodexo for dining services. Liberty University agrees to pay \$0.33 per meal towards repayment of the loan.	1,575,482	2,081,159
Bond issue 2010, unsecured and issued at a premium of approximately \$2 million, with various principal and interest payments due each March 1 st and September 1 st in amounts ranging from \$464,000 to \$1,800,000 through 2025. Semi-annual sinking fund payments will be due from March 2026 through March 2041 in amounts ranging from \$3,500,000 to \$52,725,000. Interest rates range from 2.00% to 5.25%.	115,807,355	117,987,884
Uncollateralized term loan with a bank with an interest rate of prime less 0.25% (3.00% at June 30, 2012), payable in monthly principal and interest payments of \$5,535 through September 2013 with a balloon payment of approximately \$576,000 due October 2013. The University intends to refinance this note in FY2015.	547,339	588,104
Term loan with a bank collateralized by one aircraft with an interest Rate of 5.75%, payable in monthly installments of \$2,703 through June 2016 with a balloon payment of approximately \$91,326 due July 2016.	141,623	-
Bond issue 2012, unsecured and issued at a discount of approximately \$950,000, with interest only payments due each March 1 st and September 1 st at a fixed rate of 5.1%. Principal is due in full in 2042.	99,130,833	99,099,418
Notes payable secured by vehicles with monthly principal and interest payments of \$788 with a fixed rate of 4.92%. This balance was paid in full during FY 2014.	-	46,048
Total long-term debt	\$ 217,918,692	\$ 220,679,051

There are bond covenants regarding the tax exempt usage of the facility associated with the bond issue. Management believes they are in compliance with all financial bond covenants at June 30, 2014 and 2013, respectively.

There are six certificates of deposit from Carter Bank and Trust in an amount totaling \$4,437,903 which are pledged as collateral to secure a performance bond with the City of Lynchburg and Campbell County for various campus construction projects.

Between June 2013 and June 2014, 25 letters of credit totaling \$2,463,650 have been issued on behalf of the University to local municipalities (City of Lynchburg and Campbell County) for various construction projects. The expiration dates occur between July 2014 and June 2015.

The aggregate annual maturities of long-term debt are as follows:

Years ending June 30:	
2015	\$ 2,964,171
2016	3,065,932
2017	3,165,860
2018	2,706,964
2019	2,912,576
Thereafter	<u>203,103,189</u>
Total	<u>\$ 217,918,692</u>

Interest expense on long-term debt amounted to \$9,865,451 and \$11,614,162 for the years ended June 30, 2014 and 2013, respectively. Interest capitalized into construction in progress was \$1,886,699 for the year ended June 30, 2013. There was no interest capitalized for the year ended June 30, 2014.

10. Net Assets Released from Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Net assets restricted for the construction of a building are released when the building is placed in service. Total net assets released or reclassified were \$3,704,323 and \$348,617 for the years ended June 30, 2014 and 2013, respectively.

11. Net Assets

The amounts included as temporarily restricted net assets consist of the following at June 30:

	2014	2013
Scholarships	\$ 2,447,506	\$ 492,592
Split interest agreement funds	1,368,414	1,203,870
Flames Club	467,457	-
Construction and improvements	<u>14,225</u>	<u>3,304,737</u>
Temporarily restricted net assets	<u>\$ 4,297,602</u>	<u>\$ 5,001,199</u>

The amounts included as permanently restricted net assets at June 30 consist of endowment funds to be held in perpetuity and amounts which have been permanently restricted by the donor under charitable remainder unitrust agreements. The related income, based on donor-imposed restrictions, is to be used as follows:

	2014	2013
Scholarships	\$ 8,350,920	\$ 7,112,154
General University use	2,714,677	2,772,668
Split interest agreements	138,036	-
Chairs	132,207	-
Grounds improvement	3,944	3,944
Religion department	-	32,075
Endowment for church planting	<u>-</u>	<u>120,936</u>
Permanently restricted net assets	<u>\$ 11,339,784</u>	<u>\$ 10,041,777</u>

12. Liberty University Endowments

The University's permanent endowment consists of 80 individual funds. The endowment includes both donor-restricted endowment funds and quasi-endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

At June 30, 2014, the endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 417,648	\$ 11,201,747	\$ 11,619,395
Quasi-endowments	114,802,326	-	-	114,802,326
	<u>\$ 114,802,326</u>	<u>\$ 417,648</u>	<u>\$ 11,201,747</u>	<u>\$ 126,421,721</u>

At June 30, 2013, the endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 214,836	\$ 9,944,760	\$ 10,159,596
Quasi-endowments	91,677,712	-	-	91,677,712
	<u>\$ 91,677,712</u>	<u>\$ 214,836</u>	<u>\$ 9,944,760</u>	<u>\$ 101,837,308</u>

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Virginia state legislature in 2008. The law gives guidance for investment and spending practices, giving consideration for donor-intent and the organization's overall resources and charitable purpose. Based on its interpretation of the law and in compliance with donor intent, 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 the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the donor-restricted endowment that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The University appropriates amounts for expenditure based upon accumulated earnings in the funds and donor requirements. The primary objective is to maximize total return. The University utilizes diversified investment classes that provide the opportunity to achieve the return objectives without exposing the funds to unnecessary risk.

The University has one endowment whose fair value at June 30, 2014 was \$122,351 less than the fair value at the date of the gift. Two endowments were \$365,562 less than the fair value at June 30, 2013.

A summary of the activity in endowment funds for the year ended June 30, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 91,677,712	\$ 214,836	\$ 9,944,760	\$ 101,837,308
Investment return:				
Investment income (loss)	2,500,110	3,657	(1,517)	2,502,249
Net realized and unrealized gain (loss)	893,165	204,170	5,951	1,103,286
Total investment return	3,393,275	207,827	4,434	3,605,535
Contributions	1,419,937	-	1,252,553	2,672,490
Net change in quasi- endowment property	18,311,403	-	-	18,311,403
Other changes:				
Scholarship awards	-	(5,015)	-	(5,015)
Endowment net assets, end of year	\$ 114,802,326	\$ 417,648	\$ 11,201,747	\$ 126,421,721

All of the above temporarily restricted net assets are from purpose-restricted endowments.

A summary of the activity in endowment funds for the year ended June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 50,014,451	\$ 334,476	\$ 8,297,687	\$ 58,646,614
Investment return:				
Investment income (loss)	2,912,305	3,657	(126,244)	2,789,718
Net realized and unrealized loss	(736,514)	(92,263)	(1,541)	(830,318)
Total investment return	2,175,791	(88,606)	(127,785)	1,959,400
Contributions/net change	39,496,107	-	1,774,858	41,270,965
Other changes:				
Scholarship awards	(8,637)	(31,034)	-	(39,671)
Endowment net assets, end of year	\$ 91,677,712	\$ 214,836	\$ 9,944,760	\$ 101,837,308

All of the above temporarily restricted net assets are from purpose-restricted endowments.

13. Employee Benefit Plans

The University participates in defined contribution retirement annuity plans with TIAA-CREF, Fidelity Investments, Guidestone for all faculty, staff, and hourly employees. Before January 1, 2012, the University matched 5% of a plan participant's contributions. In order to receive the match, a participant had to contribute at least 5% of gross pay to the plan. Participants could make contributions in excess of 5%, but these contributions were not matched by the University. As of January 1, 2012, the University began matching plan participants' contributions up to 5% of gross pay. Effective January 1, 2012, the University further amended the plan to include a five year vesting schedule for new eligible staff employees. Eligible faculty employees and all participating employees prior to January 1, 2012 are fully vested at enrollment. The University contributed \$4,206,666 and \$3,848,919 under these plans during the years ended June 30, 2014 and 2013, respectively.

The University is self-insured for employee health care claims up to the lesser of \$200,000 per covered individual or an aggregate amount of approximately \$23,700,000 per year. The University has purchased coverage from a commercial insurance carrier to provide for any claims in excess of these amounts. At June 30, 2014 and 2013, the University had provided an accrual of \$2,285,164 and \$1,940,074, respectively, for claims incurred but not paid based on management's estimate of the University's self-insured liability. Participants are fully vested at enrollment. For the years ended June 30, 2014 and 2013, the University incurred claims, premium expenses, and administrative fees related to its health care plan totaling \$16,429,098 and \$14,507,279, respectively.

14. Compensated Absences

The University provides paid personal/sick days to all benefited full-time employees at a rate of five days per year. The policy does not allow for the accumulation of sick leave. Unused personal sick day benefits are not paid to employees while employed or upon termination.

The University provides for vacation days accrued based on years of employment and paid at the employee's base pay rate at the time of vacation. The policy does not allow for carryover or payment of unused days into the next calendar year and unused days are not paid to employees while employed or upon termination. Accrued vacation was \$1,182,966 and \$988,480 at June 30, 2014 and 2013, respectively, and is included in accrued liabilities on the consolidated statement of financial position.

15. Related Party Transactions

The University provides printing, postal, telephone, custodial and security services to related parties. The University has recorded receivables in connection with these services in its statements of financial position for the years ended June 30 as follows:

	2014	2013
Liberty Christian Academy	\$ 1,548,426	\$ 1,125,866
Thomas Road Baptist Church	922,308	741,847
Liberty Godparent Home	-	73,266
	<u>\$ 2,470,734</u>	<u>\$ 1,940,979</u>

Management believes the fees received from, and paid to, related parties during 2014 and 2013 approximated market rates and, accordingly, were consistent with those that would be paid in an arm's-length transaction. Management anticipates that similar transactions with related parties will occur in 2015.

During the year ended June 30, 2014, the University made donations to Liberty Godparent Home in the amount of \$102,328. The University made no related party donations during the year ended June 30, 2013.

16. Commitments and Contingencies

The University is subject to certain claims that arise in the ordinary course of operations. Many of these claims are in the early stages of the evaluation process. Accordingly, it is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain lawsuits. In the opinion of management, after consultation with counsel, adequate insurance exists, so the eventual outcome of such claims is not expected to have a material adverse effect on the University's financial position. However, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

The University's students receive a substantial amount of support from federal and state student financial assistance programs. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the University's programs and activities. Amounts received and expended by the University under various federal and state programs are subject to audit by various federal and state agencies and therefore subject to adjustment.

In September 2011 the University was awarded a grant by the Virginia Tobacco Commission for \$12 million. This grant is to be matched by the University and is for the purpose of establishing a School of Osteopathic Medicine and to expand the existing School of Health Sciences. The school has been built in Campbell County adjacent to the University's main campus. Phase one has been completed as of May, 2014. The University has applied and received \$11,642,874 of the grant monies.

In October 2012, the University was awarded a grant by the Virginia Tobacco Commission for \$8.5 million. This grant is used for Phase II of the Liberty University Center for Medical and Health Sciences and is to be used for the purchase of equipment. The University will apply for reimbursement of \$3,407,497 of grant money.

There are several commitments and contingencies related to the University's construction projects, which are listed below. Listed by project is the contract amount in place, contract costs completed, and remainder of a contract costs to be completed at June 30, 2014.

Project	Contract Amount	Costs to date	Costs to Complete
Commons Housing Building 1	\$ 53,912,403	\$ 47,031,020	\$ 6,881,383
School of Music	47,947,251	2,713,682	45,233,569
Science Hall Facility	35,632,177	15,922,544	19,709,633
Parking Garage	18,495,000	12,694,127	5,800,873
LaHaye Student Center	11,827,653	10,078,786	1,748,867
Women's Softball Stadium	8,500,000	5,840,363	2,659,637

17. Other Sources

For the years ended June 30, 2014 and 2013, the University had other sources income of \$43,239,225 and \$38,715,440, respectively. These amounts include various non-mandatory student fees, fines, vehicle registration fees, sales and commissions, rental income, advertising income, and various sporting event related income.

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Liberty University, Inc.

June 30, 2014

Compliance Report

***Independent Auditors' 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***

To the Board of Trustees
Liberty 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 consolidated financial statements of ***Liberty University, Inc.*** (a nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ***Liberty 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Liberty University, Inc.***'s internal control. Accordingly, we do not express an opinion on the effectiveness of ***Liberty 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 a 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 over financial reporting 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 ***Liberty University, Inc.***'s consolidated 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 ***Liberty University, Inc.***'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Richmond, Virginia
October 29, 2014

Liberty University, Inc.

For the Years Ended June 30, 2014

Supplemental Information

Liberty University

Schedules of Financial Position - Excluding Subsidiaries

June 30,	2014	2013
Assets		
Cash and cash equivalents	\$ 202,111,817	\$ 296,304,476
Accounts receivable - less allowance for doubtful accounts of approximately \$35,587,000 and \$27,344,000, respectively	92,572,670	29,178,657
Accounts receivable from related organizations	2,470,734	1,940,979
Notes receivable	4,384,117	3,341,601
Contributions receivable	148,138	419,249
Other prepaid expenses and other assets	9,901,086	9,587,137
Investments, at fair value	933,318,885	776,558,878
Property, plant, and equipment, net	617,162,662	459,727,663
Total assets	\$ 1,862,070,109	\$ 1,577,058,640
Liabilities and Net Assets		
Liabilities		
Accounts payable - vendors	\$ 50,507,235	\$ 36,874,767
Accounts payable - other	8,705,216	8,090,412
Accrued liabilities	11,210,600	12,884,983
Accrued interest payable	3,568,358	3,592,036
Deferred revenue and deposits	116,306,570	161,303,913
Gift annuities payable	24,729,998	24,464,813
Liability under split interest agreements	2,285,343	2,868,886
Obligations under capital leases	195,249	950,815
Long-term debt	217,229,730	220,090,947
Total liabilities	434,738,301	471,121,573
Net assets		
Unrestricted	1,411,694,423	1,090,894,092
Temporarily restricted	4,297,602	5,001,199
Permanently restricted	11,339,784	10,041,777
Total net assets	1,427,331,809	1,105,937,068
Total liabilities and net assets	\$ 1,862,070,109	\$ 1,577,058,640

See Independent Auditors' Report