



Liberty University, Inc.

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

Table of Contents

| | |
|--|----|
| Independent Auditors' Report | 1 |
| Consolidated Financial Statements: | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 7 |
| Supplementary Information: | |
| Schedules of Financial Position – Excluding Subsidiaries | 23 |

Independent Auditors' Report

Board of Trustees
Liberty University, Inc.
Lynchburg, Virginia

We have audited the accompanying consolidated financial statements of Liberty University, Inc., a nonprofit corporation, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities and cash flows, for the years then ended, and the 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 did not audit the financial statements of a certain subsidiary acquired during 2017 which statements reflect total assets of \$15,401,285 as of June 30, 2017 and total support and revenues of \$7,093,126 for the five months then ended. Those statements were audited by a component auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the component auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 consolidated 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 financial position of Liberty University, Inc. as of June 30, 2017 and 2016, and the 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The unconsolidated schedules of financial position for Liberty University on page 23 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 related 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 consolidated financial statements or to the consolidated 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.

Dixon Hughes Goodman LLP

**Richmond, Virginia
October 20, 2017**

Liberty University, Inc.
Consolidated Statements of Financial Position
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 131,395,575 | \$ 139,841,852 |
| Accounts receivable, less allowance for doubtful accounts accounts of \$43,665,000 and \$48,704,000, respectively | 84,564,226 | 73,404,966 |
| Account receivable, sale of television spectrum | 23,182,528 | - |
| Accounts receivable from related organizations | 89,766 | 3,634,819 |
| Notes receivable, less allowance for bad debt of \$230,158 and \$0, respectively | 2,112,679 | 2,491,834 |
| Other prepaid expenses and other assets | 20,164,286 | 19,316,329 |
| Investments, at fair value | 1,124,231,138 | 1,038,474,813 |
| Investment in joint venture | 43,035,819 | 41,028,757 |
| Property, plant, and equipment, net | 1,153,720,555 | 948,036,124 |
| Total assets | <u><u>\$ 2,582,496,572</u></u> | <u><u>\$ 2,266,229,494</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable - vendors | \$ 46,924,794 | \$ 29,972,247 |
| Accounts payable - other | 8,093,132 | 8,666,904 |
| Accrued liabilities | 12,592,623 | 11,269,846 |
| Accrued interest payable | 3,485,203 | 3,510,986 |
| Deferred revenue and deposits | 166,483,377 | 151,337,067 |
| Gift annuities payable | 31,093,447 | 34,402,273 |
| Liability under split interest agreements | 1,634,476 | 1,921,426 |
| Long-term debt, net of unamortized debt issuance costs | 208,179,677 | 210,406,089 |
| Total liabilities | <u>478,486,729</u> | <u>451,486,838</u> |
| Net assets | | |
| Unrestricted: | | |
| Quasi endowment | 1,276,317,851 | 1,069,369,505 |
| Other unrestricted | 810,740,116 | 729,286,394 |
| Temporarily restricted | 3,338,088 | 2,585,845 |
| Permanently restricted: | | |
| Permanent endowment | 13,564,044 | 13,497,900 |
| Other permanently restricted | 49,744 | 3,012 |
| Total net assets | <u>2,104,009,843</u> | <u>1,814,742,656</u> |
| Total liabilities and net assets | <u><u>\$ 2,582,496,572</u></u> | <u><u>\$ 2,266,229,494</u></u> |

See accompanying notes.

Liberty University, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

| | 2017 | | | | 2016 | | | |
|---|-------------------------|---------------------|----------------------|-------------------------|-------------------------|---------------------|----------------------|-------------------------|
| | Unrestricted | Restricted | Restricted | Total | Unrestricted | Restricted | Restricted | Total |
| Revenues and support: | | | | | | | | |
| Tuition and fees: | | | | | | | | |
| Gross tuition and fees | \$ 920,105,541 | \$ - | \$ - | \$ 920,105,541 | \$ 901,853,764 | \$ - | \$ - | \$ 901,853,764 |
| Institutional scholarships | (220,879,707) | - | - | (220,879,707) | (214,550,820) | - | - | (214,550,820) |
| Tuition and fees, net | 699,225,834 | - | - | 699,225,834 | 687,302,944 | - | - | 687,302,944 |
| Contributions | 11,228,280 | 1,242,677 | 302,119 | 12,773,076 | 14,865,697 | 1,696,001 | 1,190,353 | 17,752,051 |
| Grants and contracts | 3,244,388 | 24,400 | - | 3,268,788 | 3,890,886 | 88,769 | - | 3,979,655 |
| Investment income, net | 15,081,819 | 145,069 | 6,060 | 15,232,948 | 15,557,453 | 239,392 | - | 15,796,845 |
| Realized and unrealized gains (losses), net | 59,839,356 | 627,494 | - | 60,466,850 | (41,160,871) | (346,859) | 19,647 | (41,488,083) |
| Auxiliary services | 78,109,174 | - | - | 78,109,174 | 68,750,438 | - | - | 68,750,438 |
| Gain on Sale of Television Spectrum | 23,182,528 | - | - | 23,182,528 | - | - | - | - |
| Loss on Transfer of Asset to Joint Venture | - | - | - | - | (6,908,347) | - | - | (6,908,347) |
| Other sources | 63,482,136 | 8,223 | - | 63,490,359 | 57,411,384 | (279,682) | (2,000) | 57,129,702 |
| Other Income - life insurance proceeds | - | - | - | - | 24,438,124 | - | - | 24,438,124 |
| Change in split interest agreements | 5,252,098 | 246,337 | 46,732 | 5,545,167 | (6,056,203) | (952,258) | 54,414 | (6,954,047) |
| Net assets released from restrictions | 1,783,992 | (1,541,957) | (242,035) | - | 2,184,047 | (2,082,156) | (101,891) | - |
| Total revenues and support | 960,429,605 | 752,243 | 112,876 | 961,294,724 | 820,275,552 | (1,636,793) | 1,160,523 | 819,799,282 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Instruction | 174,403,736 | - | - | 174,403,736 | 170,324,636 | - | - | 170,324,636 |
| Academic support | 51,406,886 | - | - | 51,406,886 | 43,738,276 | - | - | 43,738,276 |
| Student services | 179,684,989 | - | - | 179,684,989 | 175,860,993 | - | - | 175,860,993 |
| Auxiliary services | 74,497,672 | - | - | 74,497,672 | 63,124,432 | - | - | 63,124,432 |
| Public services | 8,377,191 | - | - | 8,377,191 | 8,935,990 | - | - | 8,935,990 |
| Total program services | 488,370,474 | - | - | 488,370,474 | 461,984,326 | - | - | 461,984,326 |
| Supporting services | | | | | | | | |
| Institutional support | 182,973,261 | - | - | 182,973,261 | 168,973,108 | - | - | 168,973,108 |
| Research | 683,802 | - | - | 683,802 | 329,354 | - | - | 329,354 |
| Total supporting services | 183,657,063 | - | - | 183,657,063 | 169,302,462 | - | - | 169,302,462 |
| Total expenses | 672,027,537 | - | - | 672,027,537 | 631,286,788 | - | - | 631,286,788 |
| Changes in net assets | 288,402,068 | 752,243 | 112,876 | 289,267,187 | 188,988,764 | (1,636,793) | 1,160,523 | 188,512,494 |
| Net assets, beginning of year | 1,798,655,899 | 2,585,845 | 13,500,912 | 1,814,742,656 | 1,609,667,135 | 4,222,638 | 12,340,389 | 1,626,230,162 |
| Net assets, end of year | \$ 2,087,057,967 | \$ 3,338,088 | \$ 13,613,788 | \$ 2,104,009,843 | \$ 1,798,655,899 | \$ 2,585,845 | \$ 13,500,912 | \$ 1,814,742,656 |

See accompanying notes.

Liberty University, Inc.
Consolidated Statements of Cash Flows
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Changes in net assets | \$ 289,267,187 | \$ 188,512,494 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation of property, plant and equipment | 46,381,174 | 42,188,232 |
| Change in value of split-interest agreements | (5,545,167) | 6,954,047 |
| Bad debt expense on accounts receivable | 12,881,692 | 20,546,999 |
| Donations of property, plant and equipment | (239,500) | - |
| Other non cash donation | (54,533) | (29,873) |
| Realized/unrealized (gains) losses on investments, net | (60,466,850) | 41,488,082 |
| (Gain) loss on disposal of property, plant, and equipment | (24,239,837) | 515,354 |
| Loss on transfer to joint venture | - | 6,908,347 |
| Contribution of building to joint venture | - | (7,000,000) |
| Change in value of equity method investment | (2,007,062) | (528,757) |
| Permanently restricted earnings | (6,059) | - |
| Net (increase) decrease in: | | |
| Accounts receivable | (24,040,952) | (13,665,694) |
| Accounts receivable - sale of television spectrum | (23,182,528) | - |
| Accounts receivable from related organizations | 3,545,053 | (352,225) |
| Notes receivable | 379,156 | 252,325 |
| Contributions receivable | - | 34,480 |
| Other prepaid expenses and other assets | (847,957) | 1,490,705 |
| Net increase (decrease) in: | | |
| Accounts payable - vendor and other | 16,378,774 | (8,229,293) |
| Accrued liabilities | 1,322,777 | (1,662,866) |
| Accrued interest payable | (25,783) | (37,750) |
| Deferred revenue and deposits | 15,146,310 | 12,802,751 |
| Gift annuities payable | (2,535,521) | 6,881,940 |
| Liability under split interest agreements | (262,242) | (616,972) |
| Net cash provided by operating activities | <u>241,848,131</u> | <u>296,452,326</u> |
| Cash flows from investing activities: | | |
| Adjustments to reconcile changes in net assets to net cash provided (used) by investing activities: | | |
| Investment in joint venture | - | (33,500,000) |
| Purchases of property, plant, and equipment | (255,175,001) | (179,734,680) |
| Proceeds from sale of property, plant, and equipment | 27,588,734 | 12,393,196 |
| Purchases of investments | (814,301,237) | (1,607,058,299) |
| Proceeds from sales and maturities of investments | 794,611,461 | 1,461,479,634 |
| Net cash used by investing activities | <u>(247,276,043)</u> | <u>(346,420,149)</u> |

See accompanying notes.

Liberty University, Inc.
Consolidated Statements of Cash Flows
June 30, 2017 and 2016

(Continued)

| | <u>2017</u> | <u>2016</u> |
|--|------------------------------|------------------------------|
| Cash flows from financing activities: | | |
| Payments on gift annuities | \$ (773,305) | \$ (743,375) |
| Payments on split interest agreements | (24,708) | (17,693) |
| Payments on obligations under capital leases | 6,059 | - |
| Proceeds from long term debt | 800,000 | - |
| Proceeds from issuance of commercial paper | - | 85,000,000 |
| Payments on long-term debt | (3,026,411) | (4,504,620) |
| Payments on commercial paper | - | (85,000,000) |
| | <u>(3,018,365)</u> | <u>(5,265,688)</u> |
| Net cash used by financing activities | <u>(3,018,365)</u> | <u>(5,265,688)</u> |
| Net decrease in cash and cash equivalents | (8,446,277) | (55,233,511) |
| Cash and cash equivalents at beginning of year | <u>139,841,852</u> | <u>195,075,363</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 131,395,575</u></u> | <u><u>\$ 139,841,852</u></u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | <u><u>\$ 10,553,035</u></u> | <u><u>\$ 10,722,085</u></u> |

See accompanying notes.

Notes to Financial Statements

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 – provides charter air service to the University
- LU Plaza Holdings, LLC – retail shopping centers, classified as quasi-endowments
- LU Candler's Station Holdings, LLC - retail shopping centers, classified as quasi-endowments
- Airport Plaza Holdings, LLC - retail shopping centers, classified as quasi-endowments
- Liberty Mountain Capital, Inc. – C-corporation – investment purposes
- Liberty Mountain Conference Center, LLC – conference center for the University and community
- LU Racquet Sports, LLC (sold February 29, 2016) – indoor tennis facility
- G & J Thomas, Inc. – S-corporation that holds property for student housing, classified as quasi-endowments
- Ivy Hill Recreation, LLC – lake donated for various student activities – classified as quasi-endowments
- Freedom Aviation, Inc. – 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, news to the Lynchburg community
- Liberty Motion Picture Company, LLC – provides opportunities for students and former students to produce motion pictures
- Liberty Mountain Medical Group, LLC – medical clinic
- Burton Realty – real-estate holdings
- Crossroads Investments, LLC - real-estate holdings
- Liberty Health Services, LLC – acts as a holding company for various health services
- Red Tie Music, LLC – produces, publishes, and distributes music
- Liberty Christian Academy – a Christian, co-educational school for grades K-12, and Early Learning Center for ages 2-4

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, 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 11). 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. Included in cash and cash equivalents are short term treasury bills in the amount of \$45,138,859. Although not insured by the FDIC, these treasury bills are backed by the U.S. government. 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, excluding treasury bills, which exceeded the FDIC limits were \$89,487,425 and \$143,697,542 at June 30, 2017 and 2016, respectively.

Accounts receivable

Accounts receivable represent the amount receivable for tuition and other student fees and expenses, trade accounts receivable, and investment property rents and income receivable. The University provides for uncollectible accounts annually based on a percentage of collections within 90 days of year-end. Bad debt expense totaled \$12,881,692 and \$20,546,999 for the years ended June 30, 2017 and 2016, respectively. When accounts are deemed uncollectible they are charged against the allowance for doubtful accounts.

As a result of the January 31, 2017 acquisition of Liberty Christian Academy, an additional \$8,533,620 in accounts receivable, net of allowance for doubtful accounts, has been recognized at June 30, 2017. The June 30, 2017 Consolidated Statement of Financial Position also reflects a \$23,182,528 receivable for the sale of a television spectrum by Morning Star, LLC.

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 other than the Investment in Joint Venture 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 \$4,645,585 and \$4,227,624 for the years ended June 30, 2017 and 2016, respectively, are included in institutional support expense on the consolidated statements of activities.

The Investment in Joint Venture is accounted for using the equity method.

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 the 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 up to 60 years for certain 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 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.

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, 2017 and 2016 would not have a significant impact on the University's results of activities. Certain subsidiaries of the University are taxed as separate entities.

Concentration of credit risk

Financial instruments that potentially subject the University to a 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 who pay in advance, and those who receive grants and loans to cover tuition and related expenses.

For the year ended June 30, 2017, one major donor made approximately 39% of contributions. For the year ended June 30, 2016, two major donors made approximately 39% of contributions.

Advertising expenses

The University expenses advertising costs as incurred. Advertising expense was \$20,055,030 and \$15,049,273 for June 30, 2017 and 2016, 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.

Subsequent events

In preparing these consolidated financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 20, 2017, the date the consolidated financial statements were issued.

On August 2, 2017, Liberty University and River Ridge Mall, LLC entered into a membership interest purchase agreement for Liberty to acquire River Ridge Mall, LLC's remaining 25% interest for \$9,000,000, closing the membership interest purchase and sale transaction on August 17, 2017. Upon completion of Liberty's acquisition of said interest, Liberty will own 100% of the membership interests in River Ridge Mall, LLC.

Recent accounting pronouncements

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for Not-for-Profit (NFP) entities. Under the new guidance, financial statements and noted disclosure requirements for NFP entities include the following:

1. Present on the face of the statement of financial position net assets with and without donor restrictions.
2. Present on the statement of activities additional operation measures.
3. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
4. Enhanced disclosures that provide quantitative and qualitative information about liquidity management.

The amendments in ASU 2016-14 are effective for the University beginning on July 1, 2018, with early adoption permitted. Management has not yet determined what the effects of adopting this ASU will be on its consolidated financial statements.

3. Investments, at Fair Value

Investments at June 30 consist of the following:

| | 2017 | | 2016 | |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Cost | Fair Value | Cost | Fair Value |
| General investments | \$ 1,007,861,626 | \$1,053,762,845 | \$ 976,092,400 | \$ 972,943,282 |
| Split-interest agreements | 51,246,958 | 55,663,054 | 53,253,652 | 52,333,242 |
| Scholarships | 891,826 | 921,467 | 1,384,515 | 1,417,222 |
| Endowments | 12,901,928 | 13,883,772 | 11,937,291 | 11,781,067 |
| | \$ 1,072,902,338 | \$ 1,124,231,138 | \$ 1,042,667,858 | \$ 1,038,474,813 |

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.

4. 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. At June 30, 2017, there are no Level 3 assets. There were no changes in the valuation techniques during the current year.

Liberty University, Inc.
Notes to Financial Statements

| Fair Value as of June 30, 2017 | | | | | |
|--|----------------|----------------|---------------|----------------|------------------|
| | Level 1 | Level 2 | Level 3 | NAV (a) | Total |
| Assets | | | | | |
| Cash - money market funds | \$ 39,264,288 | \$ - | \$ - | \$ - | \$ 39,264,288 |
| Certificates of deposit | - | 8,226,088 | - | - | 8,226,088 |
| Government bonds | - | 1,033,200 | - | - | 1,033,200 |
| Term loans | - | - | - | 224,570,990 | 224,570,990 |
| Convertible loans | - | 3,180,555 | - | - | 3,180,555 |
| Corporate bonds | - | 160,772,664 | - | - | 160,772,664 |
| Common stock | 84,520,647 | - | - | - | 84,520,647 |
| Mutual funds | 139,880,698 | - | - | - | 139,880,698 |
| Other | - | 4,318,248 | - | - | 4,318,248 |
| Hedge funds: | | | | | |
| Long/short equity funds | - | - | - | 444,460,127 | 444,460,127 |
| Master Limited Partnerships | - | - | - | 13,693,483 | 13,693,483 |
| Other asset backed securities | - | 310,150 | - | - | 310,150 |
| Total assets | \$ 263,665,633 | \$ 177,840,905 | \$ - | \$ 682,724,600 | \$ 1,124,231,138 |
| Liabilities | | | | | |
| Gift annuities payable | \$ - | \$ - | \$ 31,093,447 | \$ - | \$ 31,093,447 |
| Liability under split interest interest agreements | - | - | 1,634,476 | - | 1,634,476 |
| Total liabilities | \$ - | \$ - | \$ 32,727,923 | \$ - | \$ 32,727,923 |

| Fair Value as of June 30, 2016 | | | | | |
|--|----------------|----------------|---------------|----------------|------------------|
| | Level 1 | Level 2 | Level 3 | NAV (a) | Total |
| Assets | | | | | |
| Cash - money market funds | \$ 255,141,894 | \$ - | \$ - | \$ - | \$ 255,141,894 |
| Certificates of deposit | - | 69,892,517 | - | - | 69,892,517 |
| Term loans | - | - | - | 170,999,726 | 170,999,726 |
| Corporate bonds | - | 133,291,848 | - | - | 133,291,848 |
| Common stock | 66,394,298 | - | - | - | 66,394,298 |
| Mutual funds | 58,682,216 | - | - | - | 58,682,216 |
| Other | - | 1,637,704 | - | - | 1,637,704 |
| Hedge funds: | | | | | |
| Long/short equity funds | - | - | - | 282,008,891 | 282,008,891 |
| Collateralized mortgage | - | 425,719 | - | - | 425,719 |
| Total assets | \$ 380,218,408 | \$ 205,247,788 | \$ - | \$ 453,008,617 | \$ 1,038,474,813 |
| Liabilities | | | | | |
| Gift annuities payable | \$ - | \$ - | \$ 34,402,273 | \$ - | \$ 34,402,273 |
| Liability under split interest interest agreements | - | - | 1,921,426 | - | 1,921,426 |
| Total liabilities | \$ - | \$ - | \$ 36,323,699 | \$ - | \$ 36,323,699 |

(a) In accordance with the amendments to Subtopic 820-10 from ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The net asset value (NAV) column above represents the University's ownership interest in certain alternative investments. As a practical expedient, the University uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value, and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The NAV of these investments is determined by the general partner and is based upon appraisal or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the general partner will take into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.

Redemptions are generally permitted after some period of time after initial investment (for example, quarterly, semi-annually, annually, five-year, and ten-year), subject to certain restrictions, which include a notice period ranging from 30 days to one year.

**Redemption Information for Assets Valued at Net Asset Value (NAV) –
Fair Value as of June 30, 2017**

| <u>Classification</u> | <u>NAV</u> | <u>Redemption Terms</u> | <u>Days' Notice</u> |
|------------------------------|-----------------------------|--------------------------------|----------------------------|
| Term Loans | \$224,570,990 | Monthly | 30 Days |
| Hedged Funds | 12,972,878 | Daily | Daily |
| | 337,003,764 | Monthly | 30 Days |
| | 8,072,745 | Monthly | 90 Days |
| | 83,049,772 | Quarterly | 45 Days to 90 days |
| | 5,818,754 | Quarterly | 10 years Final closing (*) |
| | <u>11,235,697</u> | Annual | 90 days |
| TOTAL NAV | <u>\$682,724,600</u> | | |

(*) Foreign Equity fund has \$14,575,660 remaining unfunded with 9 years of remaining life as of June 30, 2017.

The following table illustrates the activity of liabilities:

| | <u>Annuities Payable</u> | <u>Liability Under Split-interest Agreements</u> |
|--|-------------------------------------|---|
| Balance, June 30, 2015 | \$ 28,263,708 | \$ 2,556,091 |
| Additions/purchases | 3,246,928 | - |
| Payouts | (2,932,377) | (209,608) |
| Realized gains (losses) | - | (313,670) |
| Unrealized gains (losses) | - | (47,138) |
| Change in value of split-interest agreements | <u>5,824,014</u> | <u>(64,249)</u> |
| Balance, June 30, 2016 | 34,402,273 | 1,921,426 |
| Additions/purchases | 830,059 | - |
| Payouts | (3,103,874) | (139,212) |
| Realized gains (losses) | 2,252,826 | 542,432 |
| Unrealized gains (losses) | 2,513,626 | 69,989 |
| Change in value of split-interest agreements | <u>(5,801,463)</u> | <u>(760,159)</u> |
| Balance, June 30, 2017 | <u>\$ 31,093,447</u> | <u>\$ 1,634,476</u> |

5. Investment in Joint Venture

On March 11, 2016, the University and River Ridge Mall, LLC, a wholly owned subsidiary of CBL & Associates Limited Partnership (CBL) formed a joint venture, River Ridge Mall JV, LLC (Joint Venture), to own and operate the River Ridge Mall (Mall) in Lynchburg, VA. Prior to the formation of the Joint Venture, CBL owned 100% of River Ridge Mall and the University owned 100% of the former Sears parcel adjacent to Mall, (Sears parcel). Upon formation of the Joint Venture, CBL contributed the River Ridge mall. The University contributed the Sears parcel with a value of \$7,000,000 and cash of \$33,500,000. The \$33,500,000 was then paid to CBL. The University and CBL own 75% and 25%, respectively, of the Joint Venture.

The joint venture agreement grants CBL certain contractual participating rights which inhibit the University from exercising control over the Joint Venture. Accordingly, the investment in the joint venture is accounted for using the equity method. The University's investment was valued at \$43,035,819 and \$41,028,757 at June 30, 2017 and 2016, respectively.

See also Note #2, Subsequent Events, regarding the purchase of the remaining 25% interest in River Ridge Mall in August 2017.

6. Property, Plant and Equipment and Leases

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

| | <u>2017</u> | <u>2016</u> |
|---|------------------------|-----------------------|
| Buildings | \$ 854,748,128 | \$ 700,279,962 |
| Furniture and equipment | 225,362,283 | 201,997,934 |
| Land and land improvements | 199,675,146 | 175,889,039 |
| Construction in progress | <u>181,989,507</u> | <u>131,816,561</u> |
| Total property, plant and equipment | 1,461,775,064 | 1,209,983,496 |
| Accumulated depreciation and amortization | <u>(308,054,509)</u> | <u>(261,947,372)</u> |
| Property, plant and equipment | <u>\$1,153,720,555</u> | <u>\$ 948,036,124</u> |

At June 30, 2017 and 2016, the University had no capital lease obligations. Minimum rental payments due under operating leases with original terms in excess of one year are as follows:

| <u>Years Ending June 30,</u> | |
|----------------------------------|---------------------|
| 2018 | \$ 686,083 |
| 2019 | 485,250 |
| 2020 | 489,404 |
| 2021 | 493,693 |
| 2022 | 497,652 |
| Thereafter | <u>705,737</u> |
| | <u>\$ 3,357,819</u> |

Total rent expense under operating leases was \$848,338 and \$944,403 for the years ended June 30, 2017 and 2016, respectively. Taxes, insurance and maintenance expenses relating to all leases are obligations of the University.

7. Deferred Revenue and Deposits

Deferred revenue and deposits consist 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:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Deferred Other | \$ 11,689,482 | \$ 845,426 |
| Deferred Student – Summer | 73,524,822 | 76,161,390 |
| Deferred Student – Fall | 46,070,447 | 44,632,262 |
| Deferred Student – Liberty University Online Academy | 1,572,116 | 1,139,944 |
| Deposits | <u>33,626,510</u> | <u>28,558,045</u> |
| | <u>\$ 166,483,377</u> | <u>\$ 151,337,067</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 count rate reflecting expected rates of return in the marketplace and the expected lives of the donors. Fixed payout percentages range from 3.1% to 13%.

The University adopted the 2012 Individual Annuity Reserving Table (2012 IAR Table) for reserving purposes for the year ended at June 30, 2017. Discount rates used in the fair value calculation reflect the rate of return on the underlying assets. The discount rate used was 2.84% and 0.99% for fiscal years June 30, 2017 and 2016, respectively.

The University received contributions under split-interest agreements of \$595,670 and \$1,586,281 for the years ended June 30, 2017 and 2016, respectively.

9. Long-Term Debt

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

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Term loan with a bank collateralized by aircraft with an interest rate of 3.75%, payable in monthly principal and interest payments of \$17,111 through September 2018. | \$ 150,245 | \$ 346,070 |
| 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 agreed to pay \$0.33 per meal towards repayment of the loan. The loan was paid in full during 2017. | - | 443,836 |
| Bond issue 2010, unsecured and issued at a premium of approximately \$2 million, with various principal and interest payments due each March 1st and September 1st 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%. | 108,845,768 | 111,271,297 |
| Term loan with a bank, collateralized by a hangar with an interest rate of 1.901%, payable in monthly installments of \$4,666 through September 2018 with a balloon payment of approximately \$346,000 due October 2018. | 410,203 | 455,560 |
| Interest-free note with Bedford County for purchase of 26 acre lot, with potential credits to the note contingent upon various trigger points through September 2019. | 800,000 | - |
| Bond issue 2012, unsecured and issued at a discount of approximately \$950,000, with interest only payments due each March 1st and September 1st at a fixed rate of 5.1%. Principal is due in full in 2042. | <u>99,225,081</u> | <u>99,193,665</u> |
| Total long-term debt | <u>\$ 209,431,297</u> | <u>\$ 211,710,428</u> |

There are bond covenants regarding the tax exempt usage of the facility associated with the bond issue. At June 30, 2017 and 2016, the University was in compliance with these covenants.

There are six certificates of deposit from Carter Bank and Trust in an amount totaling \$4,741,261 which are pledged as collateral to secure a performance bond with the City of Lynchburg and Campbell County for various campus construction projects.

Between March 2016 and June 2017, 27 letters of credit totaling \$5,316,318 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 June 2016 and September 2018.

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

| <u>Years Ending June 30,</u> | |
|----------------------------------|-----------------------|
| 2018 | \$ 2,805,856 |
| 2019 | 3,064,592 |
| 2020 | 2,895,000 |
| 2021 | 2,805,000 |
| 2022 | 2,945,000 |
| Thereafter | <u>194,915,849</u> |
| | <u>\$ 209,431,297</u> |

The following are the components of the long-term debt as of June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|-----------------------|-----------------------|
| Long-term debt payable | \$ 209,431,297 | \$ 211,710,428 |
| Unamortized debt issuance costs | <u>(1,251,620)</u> | <u>(1,304,339)</u> |
| Long-term debt payable, net | <u>\$ 208,179,677</u> | <u>\$ 210,406,089</u> |

Interest expense on long-term debt amounted to \$10,591,656 and \$10,683,119 for the years ended June 30, 2017 and 2016, respectively.

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 primarily used for scholarships and Flames Club expenses released or reclassified were \$1,783,992 and \$2,184,047 for the years ended June 30, 2017 and 2016, respectively.

11. Net Assets

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|
| Scholarships | \$ 2,697,635 | \$ 2,472,605 |
| Flames Club/Split interest agreements | 138,827 | 16,791 |
| Other | <u>501,626</u> | <u>96,449</u> |
| Temporarily restricted net assets | <u>\$ 3,338,088</u> | <u>\$ 2,585,845</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:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|----------------------|----------------------|
| Scholarships | \$ 9,829,756 | \$ 9,769,671 |
| General University use | 3,585,097 | 3,585,097 |
| Chairs- church planting | 145,247 | 139,188 |
| Grounds improvement | 3,944 | 3,944 |
| Split interest agreements | <u>49,744</u> | <u>3,012</u> |
| Permanently restricted net assets | <u>\$ 13,613,788</u> | <u>\$ 13,500,912</u> |

At June 30, 2017 and 2016, the University had expendable net assets in the amount of \$1,144,855,177 and \$1,063,611,709, respectively.

12. Liberty University Endowments

The University's permanent endowment consists of 88 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, 2017, the endowment net asset composition by type of fund was as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------------|------------------------|-----------------------------------|-----------------------------------|------------------------|
| Donor-restricted endowments | \$ - | \$ 820,953 | \$ 13,564,044 | \$ 14,384,997 |
| Quasi-endowments | <u>1,276,317,851</u> | <u>-</u> | <u>-</u> | <u>1,276,317,851</u> |
| | <u>\$1,276,317,851</u> | <u>\$ 820,953</u> | <u>\$ 13,564,044</u> | <u>\$1,290,702,848</u> |

At June 30, 2016, the endowment net asset composition by type of fund was as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------------|------------------------|-----------------------------------|-----------------------------------|------------------------|
| Donor-restricted endowments | \$ - | \$ 128,663 | \$ 13,497,900 | \$ 13,626,563 |
| Quasi-endowments | <u>1,069,369,505</u> | <u>-</u> | <u>-</u> | <u>1,069,369,505</u> |
| | <u>\$1,069,369,505</u> | <u>\$ 128,663</u> | <u>\$ 13,497,900</u> | <u>\$1,082,996,068</u> |

The Quasi endowment is held to support the general purpose of the University as needed.

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.

Liberty University, Inc.
Notes to Financial Statements

The University has one endowment whose fair value as of June 30, 2017 and 2016 was \$706,561 and \$726,084, respectively, less than fair value at the date of the original gift. Also, at June 30, 2017 and 2016, an additional endowment pool was \$0 and \$473,915, respectively, less than fair value at the date of the gift.

A summary of the activity in endowment funds for the year ended June 30, 2017 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|------------------------|-----------------------------------|-----------------------------------|------------------------|
| Endowment net assets, beginning of year | <u>\$1,069,369,505</u> | <u>\$ 128,663</u> | <u>\$ 13,497,900</u> | <u>\$1,082,996,068</u> |
| Investment return: | | | | |
| Investment income (loss) | <u>6,471,637</u> | <u>167,081</u> | <u>-</u> | <u>6,638,718</u> |
| Net realized and unrealized gain (loss) | <u>66,583,801</u> | <u>1,019,286</u> | <u>-</u> | <u>67,603,087</u> |
| Total investment return | <u>73,055,438</u> | <u>1,186,367</u> | <u>-</u> | <u>74,241,805</u> |
| Quasi and permanently restricted contributions/ net | <u>198,059,693</u> | <u>1,000</u> | <u>308,179</u> | <u>198,368,872</u> |
| Other changes: | | | | |
| Reserve for underwater endowment | <u>-</u> | <u>(493,439)</u> | <u>-</u> | <u>(493,439)</u> |
| Release of restriction on endowment funds | <u>(64,166,785)</u> | <u>-</u> | <u>(242,035)</u> | <u>(64,408,820)</u> |
| Scholarship awards | <u>-</u> | <u>(1,638)</u> | <u>-</u> | <u>(1,638)</u> |
| Endowment net assets, end of year | <u>\$1,276,317,851</u> | <u>\$ 820,953</u> | <u>\$ 13,564,044</u> | <u>\$1,290,702,848</u> |

A summary of the activity in endowment funds for the year ended June 30, 2016 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|------------------------|-----------------------------------|-----------------------------------|------------------------|
| Endowment net assets, beginning of year | <u>\$1,041,995,665</u> | <u>\$ 201,550</u> | <u>\$ 12,289,899</u> | <u>\$1,054,487,114</u> |
| Investment return: | | | | |
| Investment income (loss) | <u>4,639,332</u> | <u>152,508</u> | <u>-</u> | <u>4,791,840</u> |
| Net realized and unrealized gain (loss) | <u>(31,421,936)</u> | <u>(940,941)</u> | <u>-</u> | <u>(32,362,877)</u> |
| Total investment return | <u>(26,782,604)</u> | <u>(788,433)</u> | <u>-</u> | <u>(27,571,037)</u> |
| Quasi and permanently restricted contributions/ net | <u>54,156,444</u> | <u>-</u> | <u>1,208,001</u> | <u>55,364,445</u> |
| Other changes: | | | | |
| Reserve for underwater endowment | <u>-</u> | <u>765,813</u> | <u>-</u> | <u>765,813</u> |
| Scholarship awards | <u>-</u> | <u>(50,267)</u> | <u>-</u> | <u>(50,267)</u> |
| Endowment net assets, end of year | <u>\$1,069,369,505</u> | <u>\$ 128,663</u> | <u>\$ 13,497,900</u> | <u>\$1,082,996,068</u> |

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, and 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 \$6,463,119 and \$5,940,290 under these plans during the years ended June 30, 2017 and 2016, respectively.

The University is self-insured for employee health care claims up to the lesser of \$400,000 per covered individual or an aggregate amount of approximately \$29,300,000 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, 2017 and 2016, the University had provided an accrual of \$3,616,648 and \$3,221,787, 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, 2017 and 2016, the University incurred claims, premium expenses, and administrative fees related to its health care plan totaling \$26,603,757 and \$22,748,172, 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 of unused days into the next calendar year nor compensation in the form of payment at the end of the calendar year. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of work. Accrued vacation was \$1,423,794 and \$1,399,970 at June 30, 2017 and 2016, respectively, and is included in accrued liabilities on the consolidated statements of financial position.

15. Related Party Transactions

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

| | <u>2017</u> | <u>2016</u> |
|----------------------------|------------------|---------------------|
| Liberty Christian Academy | \$ - | \$ 2,251,177 |
| Thomas Road Baptist Church | 70,324 | 1,369,330 |
| Liberty Godparent Home | <u>19,442</u> | <u>14,312</u> |
| | <u>\$ 89,766</u> | <u>\$ 3,634,819</u> |

On January 31, 2017, the University purchased Liberty Christian Academy (LCA) and Dan River Shopping Center from Thomas Road Baptist Church (TRBC). As part of the purchase agreement, TRBC paid off its \$1,626,114 outstanding debt to the University, and the University began providing free custodial services to the church. The value of these custodial services was \$78,701 for the year ended June 30, 2017. The University also contributed \$432,143 and \$117,857 in usage of the LCA facilities to LCA and TRBC, respectively, and \$63,350 usage of the Dan River Church facilities to TRBC. The value of the donated custodial charges is booked as donation expense on the University's statement of activities, and the donated facilities usage is booked as rental revenue and donation expense.

With the exception of the donated services described above, management believes the fees received from and paid to related parties during 2017 and 2016 approximated market rates and, accordingly, were consistent with those that would be paid in an arm's-length transaction.

The University also made contributions of \$893,883 and \$968,421 to Liberty University Foundation (LUF) for the years ending June 30, 2017 and 2016, respectively. In addition, the University holds a note receivable from Old Time Gospel Hour (OTGH) with balances of \$395,126 and \$379,710 as of June 30, 2017 and 2016, respectively.

The University does not control TRBC, Liberty Godparent Home, LUF, or OTGH, and did not control LCA prior to the January 31, 2017 purchase of the school.

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 October 2012, the University was awarded a grant by the Virginia Tobacco Commission for \$8.5 million. This grant is for Phase II of the Liberty University Center for Medical and Health Sciences and is to be used for the purchase of furniture, fixtures, and equipment. The University has applied \$5,630,622 of the grant monies as of June 30, 2017. In August of 2016 the University requested and the Tobacco Commission approved a two-year extension for the grant which ends September 27, 2018.

There are various 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 as of June 30, 2017, the remainder of contract costs to be completed.

| Project | Contract Amount | Costs to Date | Costs to Complete |
|---|----------------------------|--------------------------|------------------------------|
| Commons Housing Building III | \$ 69,191,346 | \$59,048,650 | \$ 10,142,696 |
| DeMoss Student Center | 46,124,777 | 46,076,779 | 47,998 |
| Freedom Tower | 40,169,278 | 23,921,947 | 16,247,331 |
| Football Practice Facility | 25,499,887 | 22,902,642 | 2,597,245 |
| Athletic Academic Performance Center | 25,353,578 | 20,495,295 | 4,858,283 |
| Natatorium | 16,878,775 | 8,517,935 | 8,360,840 |
| School of Communication & Creative Arts | 11,859,873 | 10,558,476 | 1,301,397 |
| Campus Walk | 8,652,647 | 2,069,890 | 6,582,757 |
| South Campus Bridge | 6,026,180 | 5,487,711 | 538,469 |
| DeMoss Hall Renovations | 3,875,492 | 1,083,027 | 2,792,465 |
| LU Shooting Sports | 2,739,236 | 598,033 | 2,141,203 |
| School of Engineering | 2,507,044 | - | 2,507,044 |
| | <u>\$ 258,878,113</u> | <u>\$ 200,760,385</u> | <u>\$ 58,117,728</u> |

17. Loss on Transfer of Asset to Joint Venture

In March of 2016, the University recognized an impairment loss in the amount of \$6,908,347 on the Sears parcel (land and building) that was contributed by the University towards the investment (Joint Venture) in the River Ridge Mall JV LLC, as noted in Note 5.

18. Other Sources

For the years ended June 30, 2017 and 2016, the University had other sources income of \$63,490,359 and \$81,567,826, 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.

On April 4, 2017 Morning Star LLC sold the rights to the television spectrum WFFP-TV for \$23,182,528, which is included in Gain on Sale of Television Spectrum on the Consolidated Statements of Activities.

The University was the beneficiary under three key person life insurance policies on Mrs. Macel Falwell, the wife of University Founder and Chancellor Dr. Jerry Falwell. Mrs. Falwell passed away October 15, 2015. Life insurance proceeds of \$27,800,000 were received. These proceeds, net of cash surrender value assets of \$3,361,876, are also included in other income - life insurance proceeds on the Consolidated Statements of Activities.

Supplementary Information

Liberty University, Inc.
Schedules of Financial Position - Excluding Subsidiaries
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 125,274,330 | \$ 137,923,507 |
| Accounts receivable - less allowance for doubtful accounts of \$43,568,474 and \$48,596,489, respectively | 80,633,780 | 75,536,871 |
| Accounts receivable from related organizations | 89,766 | 3,634,819 |
| Notes receivable, less allowance for bad debt of \$230,158 and \$0, respectively | 2,857,459 | 3,290,686 |
| Contributions receivable | - | 10,000 |
| Other prepaid expenses and other assets | 15,940,297 | 15,009,287 |
| Investments, at fair value | 1,243,861,167 | 1,121,488,093 |
| Investment in Joint Venture | 43,035,819 | 41,028,757 |
| Property, plant, and equipment, net | 1,079,522,924 | 885,335,911 |
| Total assets | <u><u>\$ 2,591,215,542</u></u> | <u><u>\$ 2,283,257,931</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable - vendors | \$ 66,793,344 | \$ 47,923,300 |
| Accounts payable - other | 7,132,508 | 8,363,867 |
| Accrued liabilities | 12,592,622 | 11,267,367 |
| Accrued interest payable | 3,485,203 | 3,510,986 |
| Deferred revenue and deposits | 156,704,625 | 151,175,526 |
| Gift annuities payable | 31,093,447 | 34,402,273 |
| Liability under split interest agreements | 1,634,476 | 1,921,426 |
| Long-term debt, net of unamortized debt issuance costs | 207,769,474 | 209,950,530 |
| Total liabilities | <u>487,205,699</u> | <u>468,515,275</u> |
| Net assets | | |
| Unrestricted | 2,087,057,967 | 1,798,655,899 |
| Temporarily restricted | 3,338,088 | 2,585,845 |
| Permanently restricted | 13,613,788 | 13,500,912 |
| Total net assets | <u>2,104,009,843</u> | <u>1,814,742,656</u> |
| Total liabilities and net assets | <u><u>\$ 2,591,215,542</u></u> | <u><u>\$ 2,283,257,931</u></u> |