



Liberty University, Inc.

Consolidated Financial Statements and Supplementary Information Years Ended June 30, 2020 and 2019

Liberty University, Inc.

Consolidated Financial Statements and Supplementary Information
Years Ended June 30, 2020 and 2019

Liberty University, Inc.

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Independent Auditor's Report

To the Board of Trustees
Liberty University, Inc.
Lynchburg, VA

We have audited the accompanying consolidated financial statements of Liberty University, Inc., which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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.

Auditor's 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. 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 auditor's 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, 2020 and 2019, 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.

Emphasis of Matter

As described in Note 22 to the consolidated financial statements, the Executive Committee of the Board of Trustees engaged an external law firm to investigate certain facets of the University's operations during former President Jerry Falwell, Jr.'s leadership. The investigation is on-going and expected completion of the investigation is anticipated for early fall 2021. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit of the consolidated financial statements was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the accompanying Title IV Strength Factor Score and the Schedules of Financial Position - Excluding Subsidiaries is presented for purposes of additional analysis 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 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.

BDO USA, LLP

August 12, 2021

Consolidated Financial Statements

Liberty University, Inc.

Consolidated Statements of Financial Position

June 30,	2020	2019
Asset		
Cash and cash equivalents	\$ 340,553,045	\$ 272,129,171
Accounts receivable, less allowance for doubtful accounts of \$11,281,627 and \$26,492,704 as of June 30, 2020 and 2019, respectively	40,539,545	67,658,047
Accounts receivable from related organizations	271,250	507,325
Notes receivable, less allowance for bad debt of \$597,438 and \$544,393 as of June 30, 2020 and 2019, respectively	2,972,081	3,006,487
Contributions receivable, net	7,500	-
Prepaid expenses and other assets	35,903,258	41,370,191
Investments, at fair value	1,530,514,291	1,435,245,075
Investments in real estate	161,424,613	134,578,759
Property, plant, and equipment, net	1,261,696,016	1,175,229,476
Total Assets	\$ 3,373,881,599	\$ 3,129,724,531
Liabilities and Net Assets		
Liabilities		
Accounts payable - vendors	\$ 20,489,851	\$ 25,310,566
Accounts payable - other	7,834,173	8,643,646
Accrued liabilities	57,533,417	29,158,337
Accrued interest payable	3,536,560	3,412,556
Deferred revenue and deposits	145,709,844	132,184,269
Gift annuities payable	27,826,254	30,343,307
Liability under split interest agreements	1,181,373	1,219,905
Other long-term liabilities	2,460,291	214,836
Long-term debt, net	197,589,939	202,536,441
Total Liabilities	464,161,702	433,023,863
Net Assets		
Without donor restrictions		
Quasi endowment	1,697,866,458	1,570,528,552
Undesignated	1,188,905,213	1,102,374,787
Total net assets without donor restrictions	2,886,771,671	2,672,903,339
With donor restrictions		
Perpetual endowments	15,872,893	15,847,996
Purpose restricted	6,956,343	7,722,196
Time restricted	118,990	227,137
Total net assets with donor restrictions	22,948,226	23,797,329
Total Net Assets	2,909,719,897	2,696,700,668
Total Liabilities and Net Assets	\$ 3,373,881,599	\$ 3,129,724,531

See notes of accompanying consolidated financial statements.

Liberty University, Inc.
Consolidated Statements of Activities

Years Ended June 30,	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue						
Tuition and fees, less institutional scholarships of \$293,983,133 and \$277,655,007, respectively	\$ 888,570,282	\$ -	\$ 888,570,282	\$ 829,983,542	\$ -	\$ 829,983,542
Contributions	9,844,217	1,337,057	11,181,274	11,247,461	3,862,592	15,110,053
Grants and contracts	5,237,946	1,500	5,239,446	8,991,855	-	8,991,855
Auxiliary services	82,673,187	-	82,673,187	89,073,946	-	89,073,946
Other sources	55,443,913	110,841	55,554,754	46,339,993	49,341	46,389,334
Net assets released from restrictions	1,587,146	(1,587,146)	-	1,017,240	(1,017,240)	-
Total operating revenue	1,043,356,691	(137,748)	1,043,218,943	986,654,037	2,894,693	989,548,730
Operating Expense						
Instruction	260,500,300	-	260,500,300	234,922,006	-	234,922,006
Academic support	75,728,595	-	75,728,595	71,454,818	-	71,454,818
Student services	227,428,913	-	227,428,913	201,027,485	-	201,027,485
Auxiliary services	77,564,636	-	77,564,636	82,054,035	-	82,054,035
Public services	11,507,436	-	11,507,436	13,947,393	-	13,947,393
Institutional support	148,033,551	-	148,033,551	119,618,917	-	119,618,917
Research	1,892,969	-	1,892,969	1,480,710	-	1,480,710
Total operating expense	802,656,400	-	802,656,400	724,505,364	-	724,505,364
Changes in net assets from operations	240,700,291	(137,748)	240,562,543	262,148,673	2,894,693	265,043,366
Nonoperating Revenue (Expense)						
Contributions to endowments	-	23,340	23,340	-	238,996	238,996
Investment income, net	12,516,811	282,241	12,799,052	9,311,243	207,571	9,518,814
Realized and unrealized (losses) gains, net	(41,257,418)	(908,788)	(42,166,206)	41,701,750	546,212	42,247,962
Change in split interest agreements	1,908,648	(108,148)	1,800,500	(859,409)	19,222	(840,187)
Changes in net assets from nonoperating activities	(26,831,959)	(711,355)	(27,543,314)	50,153,584	1,012,001	51,165,585
Changes in net assets	213,868,332	(849,103)	213,019,229	312,302,257	3,906,694	316,208,951
Net Assets, beginning of year	2,672,903,339	23,797,329	2,696,700,668	2,360,601,082	19,890,635	2,380,491,717
Net Assets, end of year	\$ 2,886,771,671	\$ 22,948,226	\$ 2,909,719,897	\$ 2,672,903,339	\$ 23,797,329	\$ 2,696,700,668

See notes of accompanying consolidated financial statements.

Liberty University, Inc.
Consolidated Statements of Cash Flows

<i>Years Ended June 30,</i>	2020	2019
Cash Flows From Operating Activities		
Changes in net assets	\$ 213,019,229	\$ 316,208,951
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation of property, plant and equipment	59,495,721	57,972,413
Amortization of other assets	(214,836)	(194,276)
Change in value of split-interest agreements	(1,800,500)	840,187
Bad debt expense on accounts receivable	11,291,077	3,036,208
Donations of property, plant and equipment	(7,978,000)	(15,000)
Realized and unrealized gains on investments, net	42,166,206	(42,247,962)
Loss on disposal of property, plant, and equipment	5,746,092	14,573,718
Contributions for donor restricted	(23,340)	(238,996)
Net decrease (increase) in operating assets:		
Accounts receivable	16,003,052	(31,356,300)
Accounts receivable from related parties	60,448	(374,164)
Contributions receivable	(7,500)	-
Prepaid expenses and other assets	5,466,933	728,740
Net (decrease) increase in operating liabilities:		
Accounts payable - vendors and other	(5,630,188)	(18,559,748)
Accrued liabilities	25,728,283	13,234,845
Accrued interest payable	124,004	(39,913)
Lease liability	2,490,337	-
Deferred revenue and deposits	13,525,575	4,756,300
Gift annuities payable	(1,788,260)	2,859,076
Liability under split interest agreements	(16,286)	(52,635)
Net cash provided by operating activities	377,658,047	321,131,444
Cash Flows From Investing Activities		
Proceeds from notes receivable	-	1,101,181
Issuances of notes receivable	-	(3,064,387)
Purchases of property, plant, and equipment	(177,157,079)	(124,213,651)
Proceeds from sale of property, plant, and equipment	9,227,668	4,116,335
Purchases of investments	(891,209,390)	(1,150,335,639)
Proceeds from sales and maturities of investments	755,574,468	1,034,252,530
Net cash used by investing activities	(303,564,333)	(238,143,631)
Cash Flows From Financing Activities		
Payments on gift annuities	(728,793)	(739,464)
Payments on split interest agreements	(22,245)	(25,021)
Imputed interest on finance leases	(30,046)	-
Contributions for donor restricted	23,340	238,996
Proceeds from long-term debt	99,710,000	-
Payments on long-term debt	(104,622,096)	(2,516,394)
Net cash used by financing activities	(5,669,840)	(3,041,883)
Net increase in cash and cash equivalents	68,423,874	79,945,930
Cash and cash equivalents at beginning of year	272,129,171	192,183,241
Cash and cash equivalents at end of year	\$ 340,553,045	\$ 272,129,171
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ 10,237,669	\$ 10,357,409

See notes of accompanying consolidated financial statements.

Liberty University, Inc.

Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Business

Liberty University, Inc. (the “University”) is a 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 residential and off-campus 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.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). In accordance with this method of accounting, revenue is recognized in the period in which it is earned, and expenses are recognized in the period in which they are incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of Liberty University, Inc. and its wholly-owned subsidiaries:

- 747 River Road, LLC - Holds real estate property
- Airport Plaza Holdings, LLC - Retail shopping centers, classified as quasi endowments
- Burton Realty, LLCs - Real estate holdings, classified as quasi endowments
- C&C Aviation, LLC - Provides charter air service to the University
- CFA-Wards Road, LLC - Created to hold commercial real estate
- Crossroads Investments, LLC - Real estate holdings, classified as quasi endowments
- Currus Holdings, LLC - Investment holding company, classified as quasi endowments
- Eleanor’s Bench, LLC - Cinematic Arts motion picture
- Freedom Aviation, Inc. - C-corporation that provides charter air and repair and maintenance services to the public. Also provides aviation fueling services through its consolidated subsidiary, Virginia Aviation Resources, Inc.
- G & J Thomas, Inc. - S-corporation that holds property for student housing, classified as quasi endowments, dissolved June 27, 2019
- Ivy Hill Recreation, LLC - Lake donated for various student activities (property sold April 16, 2019) classified as quasi endowments
- Jerry Falwell Ministries, LLC - Created to accept donations
- Liberty Christian Academy, Inc. (“LCA”) - Christian, co-educational school for grades K-12, and Early Learning Center for ages 2-4
- Liberty Health Services, LLC - Acts as a holding company for various health services
- Liberty Motion Picture, LLC - Provides opportunities for students and former students to produce motion pictures
- Liberty Mountain Capital, Inc. - C-corporation created for investment purposes, classified as quasi endowments
- Liberty Mountain Medical Group, LLC - Medical clinic

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- Liberty Ridge, LLC - Created to hold and manage real estate rental property
- LU Candler's Mountain Road Holdings, LLC - Holds land and building
- LU Candler's Station Holdings, LLC - Retail shopping centers, classified as quasi endowments
- LU Plaza Holdings, LLC - Retail shopping centers, classified as quasi endowments
- LU Wards Rd Center Holdings, LLC - Real-estate holdings, classified as quasi endowments
- LUCOM Graduate Medical Education Services, LLC - Created to support Liberty University College of Osteopathic Medicine ("LUCOM")
- Liberty University Endowment Trust, Inc - Created to support the endowment of the University
- Liberty Village Community Association, Inc - Homeowner's Association for Liberty Ridge real estate rental properties
- Morning Star Broadcasting, LLC - Provides broadcasting of Liberty University and other athletics, weather, news to the Lynchburg community
- Philanthropy Lynchburg, LLC - Retail franchise
- Red Tie Music, LLC - Produces, publishes, and distributes music
- Richmond Highway Properties (9 LLCs) - Owns several real estate parcels, classified as quasi endowments
- River Ridge Mall JV, LLC - Retail shopping mall, classified as quasi endowments
- Vertical Ventures, LLC - Formed to hold telecommunication assets

All significant intercompany transactions and balances have been eliminated in the consolidation.

2. Summary of Significant Accounting Policies

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 \$264,431,358 and \$213,160,923 as of June 30, 2020 and 2019, respectively. 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 financial institutions 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 \$79,213,759 and \$71,893,242 at June 30, 2020 and 2019, respectively.

Liquidity and Availability

As part of its liquidity management, the University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily operating funds in short-term investments such as treasury bills, certificates of deposit, and money market funds.

The following schedule explains the University's financial assets available to meet cash needs for general expenditures within one year. The financial assets were derived from the total assets on the consolidated statements of financial position by excluding the assets that are unavailable for general expenditures in the next 12 months. The University seeks to maintain sufficient liquid assets to cover three months' operating and capital expenditures.

Liberty University, Inc.

Notes to Consolidated Financial Statements

Asset Categories	2020
Cash and cash equivalents	\$ 340,553,045
Accounts and notes receivable, net	43,511,626
Investments	1,530,514,291
Less: Non-current portion of note receivable	(2,820,539)
Less: Investments designated for quasi endowment	(1,467,056,955)
Less: Investments designated for other purposes	(63,283,236)
Less: Unfunded commitments	(32,801,795)
Add: Endowment spending-rate distributions and appropriations	321,855
Financial assets available to meet cash needs for general expenditures within one year of June 30, 2020	\$ 348,938,292

Asset Categories	2019
Cash and cash equivalents	\$ 272,129,171
Accounts and notes receivable, net	70,664,534
Investments	1,435,245,075
Less: Non-current portion of note receivable	(2,853,752)
Less: Investments designated for quasi endowment	(1,370,889,961)
Less: Investments designated for other purposes	(64,184,759)
Less: Unfunded commitments	(24,966,245)
Add: Endowment spending-rate distributions and appropriations	366,544
Financial assets available to meet cash needs for general expenditures within one year of June 30, 2019	\$ 315,510,607

Accounts Receivable

Accounts receivable represents the amount receivable for tuition and other student fees and expenses, trade accounts receivable, and investment property rent and income receivable. The University provides for uncollectible accounts annually based on total write-offs from the preceding three years. Bad debt totaled \$11,376,974 and (\$8,120,969) for the periods ended June 30, 2020 and 2019, respectively. The net change in the allowance for bad debt for the period ended June 30, 2020 is primarily the result of increased enrollment and the University's change in methodology for calculating bad debt allowance. For the fiscal year ended June 30, 2019, the University allowed for uncollectible accounts based on the average percentage of receivables collected for the preceding five fiscal years. For the fiscal year ended June 30, 2020, the University's allowance is calculated based on the average percentage of revenue that is written-off per payor type. This methodology change follows Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). When accounts from prior fiscal years are deemed uncollectible, or an accounts receivable balance for the current fiscal year is greater than the associated revenue, they are charged against the allowance for doubtful accounts through bad debt expense. ASC 606 dictates that revenue presented on the Statements of Activities should only reflect the transaction

Liberty University, Inc.

Notes to Consolidated Financial Statements

price, or amount reasonably expected to be collected. As a result, the portion of current year tuition and fees not expected to be collected reduces revenue instead of increasing bad debt expense.

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. Contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Prepaid Expenses and Other Assets

Prepaid expenses primarily consist of insurance, dues, subscriptions, and other expenditures that are amortized over their useful lives. Other assets include right-of-use assets, inventories, vendor deposits, and intangible assets.

Investments

Investments are recorded at estimated fair value. The fair values of investments are determined based on quoted market prices or estimated fair values. Net investment income/(loss) is reported in the accompanying consolidated statements of activities and consists of interest income, dividend income, and realized and unrealized gains and losses less external and direct internal investment expenses.

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.

Investments in Real Estate

The University's investments in real estate consist of land and buildings donated from various individuals or purchased by the University for investment purposes. The University holds investments in real estate at historical cost less depreciation. These investments are analyzed for impairment each year based on current market conditions.

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. Interest on outstanding debt is capitalized based on the balance of cumulative payments made on construction in progress until the specified assets are ready for their intended use. Capitalized interest is amortized over the useful life of the related asset.

Liberty University, Inc.

Notes to Consolidated Financial Statements

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.

Net Assets

The University's net assets and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net asset changes therein are classified and reported as follows:

- Without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions. The University's Board of Trustees has authorized the President and Senior Vice President of Finance and Investment Management to designate net assets for quasi endowment from other net assets without donor restrictions.
- With donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or by purpose specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions 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 net assets without donor restrictions. Expirations and releases of 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 net assets with donor restrictions to net assets without donor restrictions (see Note 13). Donor restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service.

Methods Used for Allocation of Expenses to Programs and Supporting Services

The University allocates expenses on a functional basis to its various programs and supporting services. The accompanying consolidated financial statements report certain categories of expenses that are attributable to one or more program(s) or supporting service(s) of the University. These expenses include utilities and maintenance, depreciation, interest, and information technology. Utilities and maintenance, depreciation, and interest are allocated based on square footage. Information technology is allocated based on estimates of time and effort and is reported in the Compensation and benefits natural classification within the Analysis of Expense by Functional and Natural Categories as discussed in Note 4.

Revenue and Expense Classifications

The University classifies its revenues and expenses as operating or non-operating in the accompanying consolidated statements of activities. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principle ongoing operations. Operating revenues include activities such as student tuition and fees, contributions to University operations or capital projects, certain educational grants and contracts for services, sales and services of auxiliary enterprises, and gains and losses on sale of operating

Liberty University, Inc.

Notes to Consolidated Financial Statements

assets. Operating expenses are all expense transactions incurred other than those related to investing activities. Non-operating revenues and expenses include transactions not related to the principle operations of the University such as endowed gifts, investment income and expenses, gains and losses on sale of non-operating assets, and changes in split interest agreements.

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 periods ended June 30, 2020 and 2019 would not have a significant impact on the University's results of activities. Certain subsidiaries of the University are taxed as separate entities. The impact of taxes from taxable entities is not material to the accompanying consolidated financial statements and therefore such information has not been itemized herein.

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.

Advertising Expenses

The University expenses advertising costs as incurred. Advertising expense totaled \$17,510,605 and \$14,324,444 for the years ended June 30, 2020 and 2019, respectively.

Use of Estimates

The University has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires recognition of a right-of-use asset and liability for future lease payments for contracts that meet the definition of a lease and requires disclosure of certain information about leasing arrangements. Generally, a lease exists when a contract or part of a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining whether a lease exists, the University considers whether a contract provides the University with both the right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. The University adopted the standard on July 1, 2019 using the effective date approach and, as a result, did not recast prior period comparative financial statements. Adoption of the new standard resulted in the recording of operating lease right-of-use assets and associated lease liabilities of \$1,963,796 and finance lease right-of-use assets and associated lease liabilities of \$833,904 as of July 1, 2019. The right-of-use assets and lease liabilities are classified under prepaid expenses and other assets and other long-term liabilities, respectively,

Liberty University, Inc.

Notes to Consolidated Financial Statements

within the consolidated statement of financial position. There was no cumulative impact to net assets, and the adoption did not have a material impact on the University's results of operations or cash flows.

Reclassifications

As discussed further in Note 20 to the consolidated financial statements, certain items in the 2019 consolidated financial statements and notes have been reclassified to conform to the 2020 presentation. Such reclassifications had no impact on previously reported changes in net assets or net asset balances.

3. Revenue

The University elected to early adopt ASC 606, with a date of initial application of July 1, 2018, using the modified retrospective approach. As a result, the University made changes to its accounting policy for revenue recognition as outlined below. The accompanying consolidated statements of activities for the years ended June 30, 2020 and 2019 are presented in accordance with ASC 606.

Subsequent to the adoption of ASC 606, the University measures revenue based on the consideration specified in a contract with a customer and recognizes revenue as a result of satisfying its promise to transfer goods or services in a contract with a customer using the following general revenue recognition five-step model: (1) identify the contract; (2) identify performance obligations; (3) determine transaction price; (4) allocate transaction price; (5) recognize revenue.

Disaggregation of Revenue from Contracts with Customers

ASC 606 requires that entities disclose disaggregated revenue information in categories (such as type of good or service, geography, market, type of contract, etc.) that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. ASC 606 explains that the extent to which an entity's revenue is disaggregated depends on the facts and circumstances that pertain to the entity's contracts with customers and that some entities may need to use more than one type of category to meet with the objective for disaggregating revenue.

The University's disaggregated tuition and fees and auxiliary services revenues consisted of the following:

<i>Years ended June 30,</i>	2020	2019
Liberty University Online	\$ 799,995,254	\$ 713,406,523
Residential	360,506,466	376,088,898
LUOA	22,051,695	18,143,128
Tuition and fees, gross	\$ 1,182,553,415	\$ 1,107,638,549
Less: Institutional aid	(293,983,133)	(277,655,007)
Tuition and fees, net	\$ 888,570,282	\$ 829,983,542

Liberty University, Inc.

Notes to Consolidated Financial Statements

<i>Years ended June 30,</i>	2020	2019
Student housing	\$ 43,999,821	\$ 45,248,077
Food services	34,194,697	35,091,989
Retail operations and other auxiliary services	4,478,669	8,733,880
Auxiliary services revenue	\$ 82,673,187	\$ 89,073,946

Judgments

The University earns revenue primarily through instruction. The University provides instruction to students residentially, on its Lynchburg, Virginia campus, and online to students around the world. The University serves both domestic and international students. The University recognizes this revenue per day based on the start and end dates for each individual course. In addition to instruction, the University also earns revenue through auxiliary services and other sources. These sources of revenue can be disaggregated by whether there is a contract with a student or non-student, or if there is no contract. The University recognizes non-student contracts based on the date of the event or when the service is provided.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The University does not capitalize contract costs.

The performance obligations related to contracts with students include providing instruction, housing and dining (if applicable), and access to the University's facilities and services throughout the contract term. As a result, the performance obligation is satisfied over time ratably throughout each contract's applicable period.

The University enters into contracts that include various combinations of services, which are generally capable of being distinct and are accounted for as separate performance obligations.

Revenue is recognized in an amount that reflects the consideration the University expects to receive in exchange for its services. Arrangements may include variable consideration in the form of tuition discounts, scholarships, or institutional aid. For any such arrangements, the transaction price only includes tuition and fees net of the awarded discounts or institutional aid. Refunds and withdrawals have been deemed immaterial.

Contract Payment Terms

Before the beginning of each contract term, students are required to complete Financial Check-in ("FCI"). During this process, they are presented with the total amount that is due from them for the upcoming period. This amount is due in full upon completion of FCI when they electronically sign their contract. However, students may opt-in to a payment plan to delay paying portions of their tuition. The University does not consider the payment plan participation fees for this option to represent a significant financing component because payments are due within 120 days.

Liberty University, Inc.

Notes to Consolidated Financial Statements

Revenue recognition

The University recognizes revenue from contracts with students over the term or sub-term of the course in which they are enrolled. Each course has a set beginning and ending date. The University recognizes revenue over time based on the number of days that have elapsed for each course.

4. Analysis of Expense by Functional and Natural Categories

Expenses by functional and natural classifications are as follows:

<i>Year ended June 30, 2020</i>	Academic Instruction and Student Services	Institutional Support	Total
Compensation and benefits	\$ 368,444,026	\$ 81,917,816	\$ 450,361,842
Utilities, maintenance, insurance, taxes	12,725,924	9,107,596	21,833,520
Supplies, services, travel, and other	216,925,565	47,709,664	264,635,229
Depreciation	50,635,002	8,860,720	59,495,722
Interest expense	5,892,332	437,755	6,330,087
Total Functional Expenses	\$ 654,622,849	\$ 148,033,551	\$ 802,656,400

<i>Year ended June 30, 2019</i>	Academic Instruction and Student Services	Institutional Support	Total
Compensation and benefits	\$ 345,619,441	\$ 63,073,757	\$ 408,693,198
Utilities, maintenance and insurance, taxes	11,395,307	11,192,316	22,587,623
Supplies, services, travel, and other	192,130,457	36,075,744	228,206,201
Depreciation	49,072,518	8,899,895	57,972,413
Interest expense	6,668,724	377,205	7,045,929
Total Functional Expense	\$ 604,886,447	\$ 119,618,917	\$ 724,505,364

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 that 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:

Liberty University, Inc.

Notes to Consolidated Financial Statements

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; and
- 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 carrying amount of Level 3 investments approximate fair value as of June 30, 2020 and 2019. There were no changes in the valuation methodology during the current year.

	Fair Value at June 30, 2020					Total
	Level 1	Level 2	Level 3	NAV ¹		
Assets:						
Cash and cash equivalents	\$ 282,555,286	\$ 8,565,842	\$ -	\$ -	\$ -	\$ 291,121,128
Publicly traded equities	120,772,302	-	-	152,995,947	-	273,768,249
Traditional fixed income	20,712,236	185,524,929	-	491,366,613	-	697,603,778
Hedge funds	1,058,420	-	-	137,882,736	-	138,941,156
Private equity	-	-	6,528,661	33,919,994	-	40,448,655
Commodities/other alternatives	1,238,407	-	-	87,392,918	-	88,631,325
Total Assets	\$ 426,336,651	\$ 194,090,771	\$ 6,528,661	\$ 903,558,208	\$ -	\$ 1,530,514,291
Liabilities:						
Gift annuities payable	\$ -	\$ -	\$ 27,826,254	\$ -	\$ -	\$ 27,826,254
Liability under split interest agreements	-	-	1,181,373	-	-	1,181,373
Total Liabilities	\$ -	\$ -	\$ 29,007,627	\$ -	\$ -	\$ 29,007,627

Liberty University, Inc.

Notes to Consolidated Financial Statements

	Fair Value at June 30, 2019				
	Level 1	Level 2	Level 3	NAV ¹	Total
Assets:					
Cash and cash equivalents	\$ 91,724,346	\$ 8,395,988	\$ -	\$ -	\$ 100,120,334
Publicly traded equities	246,563,915	-	-	176,919,576	423,483,491
Traditional fixed income	11,596,360	210,776,892	-	411,834,261	634,207,513
Hedge funds	296	-	-	186,696,618	186,696,914
Real estate	-	32,850	-	-	32,850
Private equity	-	-	2,241,062	11,620,648	13,861,710
Commodities/other alternatives	86,358	-	-	76,755,905	76,842,263
Total Assets	\$ 349,971,275	\$ 219,205,730	\$ 2,241,062	\$ 863,827,008	\$ 1,435,245,075
Liabilities:					
Gift annuities payable	\$ -	\$ -	\$ 30,343,307	\$ -	\$ 30,343,307
Liability under split interest agreements	-	-	1,219,905	-	1,219,905
Total Liabilities	\$ -	\$ -	\$ 31,563,212	\$ -	\$ 31,563,212

¹ 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, 2020 and 2019.

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

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Notes to Consolidated Financial Statements

Redemption Information for Assets Valued at NAV Fair Value as of June 30, 2020

Classification	NAV	Redemption Terms	Days' Notice
Publicly Traded Equities	\$ 8,470,808	Daily	Daily
	108,007,006	Monthly	30 Days
	36,518,133	Quarterly	3 years rolling
Traditional Fixed Income	491,366,613	Monthly	30 days
Hedge Funds	26,209,129	Monthly	60 Days
	12,440,252	Quarterly	60 Days
	85,754,638	Quarterly	90 Days
	13,478,717	Annual	5 years or more
Private Equity/Venture Capital	33,919,994	Annual	5 years or more
Commodities/other Alternatives	87,392,918	Monthly	30 Days
Total Assets Valued at NAV	\$ 903,558,208		

Redemption Information for Assets Valued at NAV Fair Value as of June 30, 2019

Classification	NAV	Redemption Terms	Days' Notice
Publicly Traded Equities	\$ 14,873,383	Daily	Daily
	107,719,289	Monthly	30 Days
	42,564,116	Quarterly	3 years rolling
	11,762,788	Annual	1 Year
Traditional Fixed Income	286,003,903	Monthly	30 days
Hedge Funds	125,830,358	Monthly	45 days
	51,749,115	Monthly	30 Days
	13,616,714	Monthly	60 Days
	11,774,330	Quarterly	60 Days
	81,511,284	Quarterly	90 Days
Private Equity/Venture Capital	28,045,175	Annual	5 years or more
	11,620,648	Annual	5 years or more
Commodities/other Alternatives	76,755,905	Monthly	30 Days
Total Net Assets Valued at NAV	\$ 863,827,008		

Private equity funds had \$32,801,795 and \$24,966,246 remaining unfunded with up to 8 years and 10 years of remaining life as of June 30, 2020 and 2019, respectively.

Liberty University, Inc.

Notes to Consolidated Financial Statements

Changes in Level 3 assets for the years ended June 30, 2020 and 2019 are as follows:

<i>Years ended June 30,</i>	2020	2019
Balance , beginning of year	\$ 2,241,062	\$ 1,684,674
Purchases and sales, net	4,287,599	556,388
Balance , end of year	\$ 6,528,661	\$ 2,241,062

Changes in Level 3 liabilities for the years ended June 30, 2020 and 2019 are as follows:

	Gift Annuities Payable	Other Split-Interest Agreements
Balance, June 30, 2018	\$ 28,223,695	\$ 1,297,561
Additions/purchases	1,772,662	-
Payouts	(2,928,757)	(118,187)
Realized/unrealized gains	2,080,774	1,128
Change in value of split-interest agreements	1,194,933	39,403
Balance, June 30, 2019	\$ 30,343,307	\$ 1,219,905
Additions/purchases	822,303	-
Payouts	(2,933,852)	(119,792)
Realized/unrealized gains (losses)	420,722	(28,170)
Change in value of split-interest agreements	(826,226)	109,430
Balance, June 30, 2020	\$ 27,826,254	\$ 1,181,373

6. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following at:

<i>June 30,</i>	2020	2019
Buildings	\$ 1,122,152,895	\$ 1,068,988,642
Furniture and equipment	253,136,241	230,305,332
Land and land improvements	187,691,447	179,853,780
Construction in progress	98,571,324	51,790,127
Property, plant and equipment, gross	1,661,551,907	1,530,937,881
Accumulated depreciation and amortization	(399,855,891)	(355,708,405)
Property, plant and equipment, net	\$ 1,261,696,016	\$ 1,175,229,476

Liberty University, Inc.

Notes to Consolidated Financial Statements

The University capitalized \$4,283,010 and \$3,310,281 of interest in the years ended June 30, 2020 and 2019, respectively. Depreciation expense for the years ended June 30, 2020 and 2019, totaled \$59,495,722 and \$57,972,413, respectively.

In accordance with the University's property, plant and equipment policy, 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.

7. Investments in Real Estate

Investment in real estate, net consisted of the following at:

<i>June 30,</i>	2020	2019
Investment in real estate	\$ 174,473,717	\$ 145,169,034
Accumulated depreciation and amortization	(13,049,104)	(10,590,275)
Investment in real estate, net	\$ 161,424,613	\$ 134,578,759

The University's investments in real estate consist of land and buildings donated from various individuals or purchased by the University for investment purposes. The University holds investments in real estate at historical cost less depreciation. These investments are analyzed for impairment each year based on current market conditions. During the years ended June 30, 2020 and 2019, the University recognized no impairment loss on investments in real estate.

8. 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:

<i>June 30,</i>	2020	2019
Deferred student - fall	\$ 49,160,425	\$ 46,366,312
Deferred student - summer	62,812,895	42,319,954
Deferred student - Liberty University Online Academy	3,118,781	2,832,954
Deferred - other	5,893,523	7,485,058
Deposits	24,724,220	33,179,991
Deferred revenue and deposits	\$ 145,709,844	\$ 132,184,269

Liberty University, Inc.

Notes to Consolidated Financial Statements

The following tables summarize the contract liability activity for the years ended June 30, 2020 and 2019:

<i>Year ended June 30, 2020</i>	Beginning Balance	Revenue Recognized	Cash Receipts	Ending Balance
Tuition and fees	\$ 91,262,115	\$ (888,570,282)	\$912,313,255	\$115,005,088
Auxiliary activities	257,106	(78,173,543)	78,003,453	87,016
Total	\$ 91,519,221	\$ (966,743,825)	\$990,316,708	\$115,092,104

<i>Year ended June 30, 2019</i>	Beginning Balance	Revenue Recognized	Cash Receipts	Ending Balance
Tuition and fees	\$ 98,188,044	\$ (829,983,542)	\$ 823,057,613	\$ 91,262,115
Auxiliary activities	216,367	(80,521,047)	80,561,786	257,106
Total	\$ 98,404,411	\$ (910,504,589)	\$ 903,619,399	\$ 91,519,221

The University expects the full amount outstanding as of June 30, 2020, less refunds, to be recognized into revenue during the year ended June 30, 2021, given the time span of each of its terms being less than a year. Consideration from these contracts was not excluded from the transaction prices.

9. 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 3.1% to 12%.

The University utilized the 2012 Individual Annuity Reserving Table (“2012 IAR Table”) for reserving purposes for the years ended June 30, 2020 and 2019. Discount rates used in the fair value calculation reflect the rate of return on the underlying assets. The discount rate used was 3.26% and 2.51% for the years ended June 30, 2020 and 2019, respectively.

The University received contributions under split-interest agreements of \$596,183 and \$257,442 for the years ended June 30, 2020 and 2019, respectively.

Liberty University, Inc.

Notes to Consolidated Financial Statements

10. Long-Term Debt

Long-term debt consisted of the following at:

<i>June 30,</i>	2020	2019
Bond issue 2010, unsecured and issued at a premium of approximately \$2,000,000, with various principal and interest payments due each March 1st and September 1st in amounts ranging from \$1,318,125 to \$4,011,464 through 2025. Semi-annual sinking fund payments will be due from March 2026 through March 2041 in amounts ranging from \$910,000 to \$7,440,000. Interest rates range from 2.00% to 5.25%. This bond issue was paid off in March 2020.	\$ -	\$ 103,744,710
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. This note was paid off during fiscal year 2020.	-	650,000
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.	99,319,328	99,287,912
Bond issue 2019, unsecured and issued at a discount of approximately \$714,000, with various principal and interest payments due each March 1st and September 1st in amounts ranging from \$778,000 to \$2,366,000 through 2034. Semi-annual sinking fund payments will be due from March 2021 through March 2034 in amounts ranging from \$2,720,000 to \$46,590,000. Interest rates range from 2.25% to 3.34%.	99,025,478	-
Long-term debt, gross	\$ 198,344,806	\$ 203,682,622
Less: Unamortized debt issuance costs	(754,867)	(1,146,181)
Long-term debt, net	\$ 197,589,939	\$ 202,536,441

There were no financial covenants over long-term debt at June 30, 2020. Bond issue 2010 held bond covenants regarding the tax-exempt usage of the facility associated debt. At June 30, 2019, the University was in compliance with these covenants.

There are seven certificates of deposit from Carter Bank and Trust in an amount totaling \$5,870,784 which are pledged as collateral to secure a performance bond with the City of Lynchburg and Campbell County for various campus construction projects.

Liberty University, Inc.

Notes to Consolidated Financial Statements

As of June 30, 2020, there are 21 letters of credit totaling \$2,107,114, that were issued between April 2013 and June 2019, on behalf of the University to local municipalities (City of Lynchburg and Campbell County) for various construction projects. The expiration dates occur between June 2020 and June 2021.

Interest expense on long-term debt amounted to \$6,169,240 and \$7,069,268 for the years ended June 30, 2020 and 2019, respectively.

The aggregate annual maturities of long-term debt as of June 30, 2020 are as follows:

<i>Years Ending June 30,</i>	
2021	\$ 2,720,000
2022	3,580,000
2023	3,660,000
2024	3,745,000
2025	3,825,000
Thereafter	180,814,806
Total	\$ 198,344,806

11. Leases

The University has historically entered in to a number of lease arrangements under which it is the lessee. Specifically, twelve of the University's leases are subject to financing lease standards, and three are subject to operating lease standards. The majority of the financing leases entered into consist of communications tower leases. The remaining financing leases consist of equipment leases. The three operating leases consist of equipment, parking lot, and communications tower leases.

All of the University's leases include optional renewal periods. To the extent the initial lease term of the related lease is less than the useful life of the leasehold improvements, the University concludes it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term with the related payments reflected in the right-of-use ("ROU") asset and lease liability. Each lease is routinely evaluated to determine the likelihood that renewal periods will be exercised.

All of the University's leases include fixed rental payments, but some of the leases also include variable rental payments. In addition, the University also commonly enters into leases under which the lease payments increase at pre-determined dates based on the change in the consumer price index. While the majority of the leases are gross leases, the University also has a number of leases in which separate payments are made to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. The University has elected to separate lease and non-lease components for all leases.

As of June 30, 2020, lease liabilities have been determined using a weighted-average discount rate of approximately 4.42%. The rate implicit in the University's leases is not readily determinable. Accordingly, the University uses its estimated incremental borrowing rate, which represents the

Liberty University, Inc.

Notes to Consolidated Financial Statements

rate of interest that it would pay to borrow on a collateralized basis over a similar term. The remaining weighted-average life of the University's finance leases and operating leases is approximately 4.69 years and 5.46 years, respectively, with a weighted-average of 5.18 years across all leases.

The University has decided to exclude non-lease components when measuring right-of-use assets and lease liabilities. Non-lease components include payments for utilities, and payments based on the usage of the leased assets.

Lease costs were as follows:

<i>Year ended June, 30</i>	2020
Operating Lease Cost	
Fixed rent expense	\$ 439,737
Finance Lease Cost	
Amortization of ROU assets	157,499
Interest expense	30,046
Net Lease Cost	\$ 627,282
Lease Cost - Instruction	\$ 16,300
Lease Cost - Public service	153,036
Lease Cost - Institutional support	457,946
Net Lease Cost	\$ 627,282

Amounts recognized as right-of-use assets related to finance leases are included in prepaid expenses and other assets, net in the accompanying statements of financial position, while related lease liabilities are included in other long-term liabilities. Right-of-use assets totaled \$675,809 as of June 30, 2020. Current and long-term portions of lease liabilities related to finance leases totaled \$166,863 and \$528,746, respectively, as of June 30, 2020.

The University had the following cash and non-cash activities associated with leases as follows:

<i>Year ended June 30,</i>	2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 444,658
Operating cash flows from finance leases	138,295
Financing cash flows from finance leases	30,046
Non-cash investing and financing activities additions to ROU assets obtained from:	
New operating lease liabilities	1,963,796
New finance lease liabilities	\$ 833,904

Liberty University, Inc.

Notes to Consolidated Financial Statements

Future minimum lease payments due under financing and operating leases as of June 30, 2020 were as follows:

<i>Year ending June 30,</i>	Financing Leases	Operating Leases
2021	\$ 200,550	\$ 433,595
2022	117,943	389,674
2023	93,575	361,488
2024	92,769	133,167
2025	46,160	133,167
2026 and thereafter	436,231	340,419
Total lease payments	\$ 987,228	\$ 1,791,510
Less: Variable portion of lease payments	-	(38,368)
Less: Imputed interest	(291,619)	(164,298)
Present Value of Lease Liabilities	\$ 695,609	\$ 1,588,844

12. 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 athletic expenses released or reclassified were \$1,587,146 and \$1,017,240 for the years ended June 30, 2020 and 2019, respectively.

Liberty University, Inc.

Notes to Consolidated Financial Statements

13. Net Assets

The amounts included as net assets with donor restrictions consist of the following at:

<i>June 30,</i>	2020	2019
<hr/>		
Perpetual Endowments		
Scholarships	\$ 12,111,221	\$ 12,096,131
General University	3,557,082	3,548,534
Seminary	43,204	43,204
Endowment requiring earnings added to corpus	161,386	160,127
<hr/>		
Total perpetual endowments	\$ 15,872,893	\$ 15,847,996
<hr/>		
Purpose Restricted Net Assets		
Scholarships	\$ 6,883,660	\$ 6,812,933
Athletics	424,346	546,398
Capital projects	251,912	295,161
Benevolence and missions and other	801,706	718,765
Underwater endowments	(1,405,281)	(651,061)
<hr/>		
Total purpose restricted net assets	\$ 6,956,343	\$ 7,722,196
<hr/>		
Time Restricted Net Assets		
Split interest agreements	\$ 118,990	\$ 227,137
<hr/>		
Total time restricted net assets	118,990	227,137
<hr/>		
Net assets with donor restrictions	\$ 22,948,226	\$ 23,797,329

Liberty University, Inc.

Notes to Consolidated Financial Statements

14. Endowments

The University's endowment consists of 89 individual donor-restricted endowment funds as well as quasi endowment funds. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment net asset composition by type of fund was as follows at:

<i>June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions		Total
		Original Gift	Accumulated (Loss) Gain	
Quasi endowment	\$ 1,697,866,458	\$ -	\$ -	\$ 1,697,866,458
Underwater funds	-	3,435,950	(1,400,031)	2,035,919
Other funds	-	12,436,943	2,123,244	14,560,187
Total	\$ 1,697,866,458	\$ 15,872,893	\$ 723,213	\$ 1,714,462,564

<i>June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions		Total
		Original Gift	Accumulated (Loss) Gain	
Quasi endowment	\$ 1,570,528,552	\$ -	\$ -	\$ 1,570,528,552
Underwater funds	-	2,088,950	(651,061)	1,437,889
Other funds	-	13,759,046	2,193,072	15,952,118
Total	\$ 1,570,528,552	\$ 15,847,996	\$ 1,542,011	\$ 1,587,918,559

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 net assets with donor restrictions in perpetuity (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 perpetual endowments is classified as purpose or time restricted net assets until those amounts are appropriated for expenditure.

Liberty University, Inc.

Notes to Consolidated Financial Statements

Changes in endowment funds consisted of the following for the years ended June 30, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 1,416,485,310	\$ 16,478,915	\$ 1,432,964,225
Investment return, net	47,850,578	690,724	48,541,302
Contributions, net	106,192,664	238,996	106,431,660
Appropriations for expenditure	-	(18,628)	(18,628)
Endowment net assets, June 30, 2019	\$ 1,570,528,552	\$ 17,390,007	\$ 1,587,918,559
Investment return, net	(30,598,455)	(776,552)	(31,375,007)
Contributions, net	157,936,361	23,340	157,959,701
Appropriations for expenditure	-	(40,689)	(40,689)
Endowment net assets, June 30, 2020	\$ 1,697,866,458	\$ 16,596,106	\$ 1,714,462,564

The University has adopted donor-restricted endowment and quasi endowment spending policies to help ensure the continued viability of endowment funds and to preserve the long-term purchasing power of endowment funds. Investment returns are achieved through capital appreciation (realized and unrealized), current yield (interest and dividends), and net income on endowed subsidiaries. The University has a diversified asset allocation that places emphasis on investments in equities and absolute return strategies to achieve its long-term return objectives within prudent risk constraints.

The Board-approved spending formula for the donor restricted endowment provides for spending the lesser of 3% of the original gift, including earnings returned to principle as of the prior year end, or historic accumulated earnings distributed to the endowment fund.

15. Employee Benefit Plans

The University participates in retirement plans for all eligible faculty, staff, and hourly employees and matches plan participants' contributions up to 5% of gross pay. Eligible participants are subject to a five-year vesting schedule. The University contributed \$8,502,424 and \$6,625,874 under these plans during the years ended June 30, 2020 and 2019, respectively.

The University is self-insured for employee health care claims up to \$400,000 per covered individual per plan year. The University has purchased specific stop loss coverage from a commercial insurance carrier to provide for any claim in excess of these amounts. The expected claims cost for the 2020 - 2021 plan year is \$37,340,705. At June 30, 2020 and 2019, the University had provided an accrual of \$4,187,430 and \$3,883,042, respectively, which represents our Incurred But Not Reported claims for the previous plan year. Participants are fully vested at enrollment. For the years ended June 30, 2020 and 2019, the University incurred claims, premium expenses, and administrative fees related to its health care plan totaling \$32,759,323 and \$25,415,692, respectively.

Liberty University, Inc.

Notes to Consolidated Financial Statements

During the year ended June 30, 2020, the University provided then-President Jerry Falwell (“Falwell”) an additional nonqualified retirement plan to supplement his University-provided 403(b). The benefit was structured so that it is treated as having been earned as an annual notional credit of \$385,000 (reduced by the University-provided 403(b) employer contribution) to an account earning 6% investment returns annually over the term of Falwell’s service as President, including credits for the period 2007-2019. Annual credits attributable to service periods after July 1, 2019 require Falwell to be employed as President through the crediting date to receive the credit, and the entire benefit is subject to forfeiture if certain conditions are not met. As of June 30, 2020, \$7,635,927 is accrued as the liability for this plan.

16. 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 \$3,230,120 and \$2,484,133 at June 30, 2020 and 2019, respectively, and is included in accrued liabilities on the consolidated statements of financial position.

17. 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 accompanying consolidated statements of financial position are as follows at:

<i>June 30,</i>		2020		2019
Thomas Road Baptist Church	\$	233,352	\$	260,853
Liberty Godparent Home		37,392		69,465
Jerry Falwell, Jr.		114		175,627
Old Time Gospel Hour		196		690
Liberty University Foundation		196		690
Total	\$	271,250	\$	507,325

The University provides free custodial services to Thomas Road Baptist Church (“TRBC”). The value of these custodial services was \$174,000 for each of the years ended June 30, 2020 and 2019. The University also contributed \$282,857 in usage of LCA facilities to TRBC, and \$152,040 in usage of the Dan River Church facilities to TRBC for each of the years ended June 30, 2020 and 2019. The value of the donated custodial charges is recorded as donation expense on the University’s consolidated statements of activities, and the donated facilities usage is recorded as rental revenue and donation expense.

Liberty University, Inc.

Notes to Consolidated Financial Statements

Jonathan Falwell, the Senior Pastor of TRBC, is a permanent member of LCA's Board of Directors. LCA has been granted access rights to various TRBC buildings and land at no cost to LCA. The fair value of the rent of the TRBC property was estimated to be \$235,765 for each of the years ended June 30, 2020 and June 30, 2019. LCA has made improvements to the buildings and land which are recorded by LCA as leasehold improvements and depreciated based upon the shorter of the lease term or estimated useful life of the improvements. During the years ended June 30, 2020 and June 30, 2019, LCA received \$40,042 and \$50,000 from TRBC, respectively. The members of TRBC also receive a tuition discount to attend LCA, which approximated \$74,000 and \$130,000 for the years ended June 30, 2020 and June 30, 2019, respectively. These amounts are recorded in Other Sources and Institutional Support in the University's Consolidated Statements of Activities.

The University also made contributions of \$628,378 and \$736,706 to Liberty University Foundation ("LUF") and \$36,666 and \$43,284 to Old Time Gospel Hour ("OTGH") for the years ended June 30, 2020 and 2019, respectively. In addition, the University holds a note receivable from OTGH with balances of \$181,489 and \$171,558 at June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, the University engaged in the following related party transactions with then President Jerry Falwell, Jr. and/or members of his immediate family. Construction services valued at \$19,603 and \$175,799, respectively, were performed at the Mr. Falwell's private residence, which was also used for Liberty University events. Additionally, \$5,756 of travel costs were billed during fiscal year 2020. As of June 30, 2020 and 2019, respectively, \$114 and \$175,627 were due from Mr. Falwell related to these expenses. Other services were provided as part of his compensation package.

During the year ended June 30, 2020, real estate valued at \$850,000 was donated by Mr. Falwell, his sister, and his brother, Jonathan Falwell, a Trustee of the University. Real estate valued at \$142,000 was purchased from the Falwell siblings. Real estate management fees were paid to firms owned by the sons of Jerry Falwell, who were also employees of the University, during the years ended June 30, 2020 and 2019: \$12,293 and \$40,748, respectively, were paid to Cedar Ridge Management, LLC, and \$63,683 and \$46,340, respectively, were paid to JF Management, LLC.

The University does not control TRBC, Liberty Godparent Home, LUF, or OTGH. Other immaterial related party transactions are disclosed in public documents as required by federal or state regulations.

18. 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.

Liberty University, Inc.

Notes to Consolidated Financial Statements

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, 2020, the remainder of contract costs to be completed.

Project	Contract Amount	Costs to Date	Costs to Complete
Arena expansion	\$ 50,211,251	\$ 36,202,894	\$ 14,008,357
East campus parking garage	35,283,391	28,110,279	7,173,112
Dick's Sporting Goods	13,878,522	7,291,411	6,587,111
Indoor tennis facility	7,900,000	779,306	7,120,694
Vines Center renovations	6,754,000	1,890,113	4,863,887
River Ridge Mall	3,398,256	1,063,536	2,334,720
West William Stadium suite renovation	2,687,786	1,048,052	1,639,734
Total	\$ 120,113,206	\$ 76,385,591	\$ 43,727,615

The University also has agreed to certain guarantees that could be, but are highly improbable to be, material to financial statements in future years.

19. Other Sources

For the years ended June 30, 2020 and 2019, the University had other sources income of \$55,554,754 and \$46,389,334, respectively. These amounts include various non-mandatory student fees, fines, vehicle registration fees, sales and commissions, rental income, advertising income, athletic league distributions, and various sporting event related income and other miscellaneous income.

20. Reclassifications

During the preparation of these consolidated financial statements, the University identified certain amounts presented in the prior year consolidated financial statements that would require reclassification to be comparable to the current year. As a result, certain 2019 consolidated financial statement captions are being adjusted as follows:

Financial Statement Caption	Previously Presented	Reclassification Adjustments	As Reclassified
Tuition and fees	\$ 783,521,464	\$ 46,462,078	\$ 829,983,542
Other sources	92,851,412	(46,462,078)	46,389,334
Investments in real estate	-	134,578,759	134,578,759
Accrued liabilities	31,805,134	(2,646,797)	29,158,337
Property, plant, and equipment, net	1,312,455,032	(137,225,556)	1,175,229,476
A/R from related parties	331,698	175,627	507,325
Accounts receivable, net	67,833,674	(175,627)	67,658,047

Liberty University, Inc.

Notes to Consolidated Financial Statements

21. COVID-19 and the CARES Act

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. As a result of the COVID-19 outbreak, the University ceased most in-person instruction at the beginning of Spring Break on Friday, March 13. In-person instruction resumed in August 2020.

Students were given the option to return to or stay on campus for the remainder of the semester to finish their classes online. The students who chose, by March 28, 2020, not to return to campus, were granted a \$1,000 housing credit to be applied to the Fall 2020 semester or, if the student was graduating, to be applied to their student account, with any resulting credit balance being refunded to the student. Revenue was reduced by \$5,204,287 as a result of this credit.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

During the year ended June 30, 2020, the University was allocated federal funds from the CARES Act for Higher Education Emergency Relief Fund (“HEERF Grant”) in the total amounts of approximately \$15,205,124 related to relief efforts in light of the COVID-19 outbreak. The University did not draw any of the HEERF Grant funds during the year ended June 30, 2020.

22. Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements from June 30, 2020 (the date the statement of financial position is being presented) through August 12, 2021 (the date these financial statements were available to be issued). The following disclosures were determined to be necessary.

As of the date of this report, the University drew down and distributed all \$15,205,124 of the HEERF Grant to students. No less than 50% of the grant is to be utilized for direct emergency aid to students. The University recognized the remaining 50% of the HEERF Grant that was allocated to the institution, as allowed by Sections 18004(a)(1) and 18004(c) of the CARES Act, which can be used as reimbursement for forgone revenue resulting from student refunds for services that could not be provided as a result of the impacts to campus resulting from COVID-19. The University has elected to distribute 100% of the HEERF Grant funds to students.

On December 27, 2020, President Trump signed into law the “Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)”. This legislation added to the federal funds previously allocated under the HEERF Grant (HEERF 2). The University was allocated \$37,777,577 from the HEERF 2 funds, with \$10,282,412 to be utilized for direct aid to students. As of the date of this report, the University drew down and distributed \$10,221,498 of the HEERF 2 funds to students and

Liberty University, Inc.

Notes to Consolidated Financial Statements

drew down all \$27,495,165 of the portion meant to reimburse institutional expenses related to COVID-19.

On March 11, 2021, President Biden signed into law the “American Rescue Plan (“ARP”) Act.” The ARP Act created an additional allocation of federal funds for education under the HEERF Grant (HEERF 3). The University was allocated \$63,492,347 of HEERF 3 funds. As of the date of this report, the University has not drawn down any of the HEERF 3 funds.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the University’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

The outbreak may have a material adverse impact on economic and market conditions, triggering a period of global economic slowdown. However, the University has the necessary resources to continue its mission in fiscal year 2021.

Prompted by litigation, on August 31, 2020, the Executive Committee of the University’s Board of Trustees engaged an external law firm to investigate matters dating back at least 14 years relating to certain facets of the University’s operations during former President Jerry Falwell, Jr.’s leadership. The external law firm subsequently engaged a public accounting firm to assist with the investigation. Critical areas of the investigation include potential misuse of the University’s assets, certain construction contracts and/or real estate transactions, the engagement of certain third parties, and various related party transactions. As of the date of this report, the investigation team has conducted over 100 interviews of both current and former University personnel and related parties and has also reviewed an extensive amount of documentation obtained from University management and associated third parties. The investigation team has incurred substantial hours in its efforts to complete these procedures, some of which are still on-going. The current expected completion of the investigation is anticipated for early fall 2021.

Based upon the results of the investigation to date, there will be adjustments not only to certain disclosures but also to certain balances and/or classifications presented on the accompanying consolidated financial statements. To date, management has not identified any matters that would have a quantitatively material impact on the consolidated financial statements before or after June 30, 2018. The consolidated financial statements of the University currently do not reflect an accrual or disclosure of the adverse outcome, if any, that may result from this investigation.

Supplementary Financial Information

Liberty University, Inc.
Title IV Strength Factor Score
Year-Ended June 30, 2020

Reference	Primary Reserve Ratio	Data	Strength Factor	Strength Factor Calculation	Strength Factor Weight	Weighted Strength Factor
Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions	+ \$ 2,886,771,671				
Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions	+ 22,948,226				
Note 13 Net Assets	Net assets with donor restrictions: restricted in perpetuity	- 15,872,893				
N/A	Annuities, term endowment, and life income funds with donor restrictions	-				
N/A	Intangible assets	-				
Statement of Financial Position - Property and equipment, net	Net property, plant & equipment (PPE)	- 1,261,696,016				
Statement of Financial Position - Investments in Real Estate	Investments in Real Estate (PPE)	- 161,424,613				
	Post-employment and defined benefit pension liabilities	+				
Statement of Financial Position - Long-term debt, net, Note 10 and Related party receivables, Note 17	Long-term debt	+ 197,589,939				
	Unsecured related-party receivables	- 271,250				
	Numerator total	\$ 1,668,045,064				
Statement of Activities and Change in Net Assets - Total operating expenses plus nonoperating losses	All expenses and losses without donor restrictions	\$ 843,913,818				
	Denominator total	\$ 843,913,818				
	<i>Primary Reserve Ratio:</i>	1.98	10.00	3.00	0.40	1.20
	Equity Ratio					
Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions	+ \$ 2,886,771,671				
Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions	+ 22,948,226				
N/A	Intangible assets	- 18,692,329				
N/A	Unsecured related-party receivables	- 271,250				
	Numerator total	\$ 2,890,756,318				
Statement of Financial Position - Total assets	Total assets	+ \$ 3,373,881,599				
N/A	Intangible assets	-				
N/A	Unsecured related-party receivables	- 271,250				
	Denominator total	\$ 3,373,610,349				
	<i>Equity Ratio:</i>	0.86	6.00	3.00	0.40	1.20
	Net Income Ratio					
Statement of Activities and Change in Net Assets - Change in net assets without donor restrictions	Change in net assets without donor restrictions	\$ 213,868,332				
	Numerator total	\$ 213,868,332				
Statement of Activities and Change in Net Assets and Note 14 - Total operating revenues less appropriation from endowment plus nonoperating revenues	Total revenues plus gains	\$ 1,057,741,461				
	Denominator total	\$ 1,057,741,461				
	<i>Net Income Ratio:</i>	0.20	1 + (50x)	3.00	0.20	0.60
			Strength Factor Score			3.0

See independent auditor's report.

Liberty University, Inc.

Schedules of Financial Position - Excluding Subsidiaries

June 30,	2020	2019
Assets		
Cash and cash equivalents	\$ 317,453,353	\$ 254,386,664
Accounts receivable, less allowance for doubtful accounts of \$11,177,882 and \$26,380,602 for the years ended June 30, 2020 and 2019, respectively	50,426,953	75,858,753
Accounts receivable from related organizations	271,250	507,325
Notes receivable, less allowance for bad debt of \$544,393 and \$544,393 for the years ended June 30, 2020 and 2019, respectively	3,542,836	3,604,750
Contributions receivable, net	7,500	-
Prepaid expenses and other assets	17,505,909	19,081,095
Investments, at fair value	1,726,390,787	1,592,091,850
Investments in real estate	50,122,917	46,234,527
Property, plant, and equipment, net	1,241,164,059	1,162,918,319
Total Assets	\$ 3,406,885,564	\$ 3,154,683,283
Liabilities and Net Assets		
Liabilities:		
Accounts payable - vendors	56,614,446	55,680,119
Accounts payable - other	7,825,354	8,643,646
Accrued liabilities	57,046,760	28,812,308
Accrued interest payable	3,536,560	3,412,556
Deferred revenue and deposits	141,353,312	127,334,333
Gift annuities payable	27,826,254	30,343,307
Liability under split interest agreements	1,181,373	1,219,905
Other long-term liabilities	4,191,669	-
Long-term debt, net	197,589,939	202,536,441
Total Liabilities	497,165,667	457,982,615
Net Assets:		
Without donor restrictions	2,886,771,671	2,672,903,339
With donor restrictions	22,948,226	23,797,329
Total Net Assets	2,909,719,897	2,696,700,668
Total Liabilities and Net Assets	\$ 3,406,885,564	\$ 3,154,683,283

See independent auditor's report.