

*Consolidated  
Financial Statements  
Years Ended  
June 30, 2012 and 2011*

*Liberty University, Inc.*



**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

*Liberty University, Inc.*

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## *Report of Independent Auditors*

Board of Trustees  
***Liberty University, Inc.***

We have audited the accompanying consolidated statements of financial position of ***Liberty University, Inc.***, a nonprofit corporation, as of June 30, 2012 and 2011 and the related consolidated statements of activities and cash flows, for the years then ended. These consolidated financial statements are the responsibility of ***Liberty University, Inc.***'s management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The unconsolidated statement 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*

Danville, Virginia  
October 19, 2012

*Liberty University, Inc.*

*Consolidated Statements of Financial Position*

<b>June 30,</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 384,416,844	\$ 403,619,549
Accounts receivable - less allowance for doubtful accounts of \$17,214,000 and \$7,920,000 respectively	27,097,237	95,233,904
Accounts receivable from related organizations	1,580,282	1,344,002
Notes receivable	825,135	604,166
Contributions receivable	428,200	560,000
Other prepaid expenses and other assets	9,738,922	9,424,869
Investments, at fair value	492,351,618	120,840,275
Property, plant, and equipment, net	361,214,278	310,559,418
<b>Total assets</b>	<b>\$ 1,277,652,516</b>	<b>\$ 942,186,183</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable - vendors	\$ 17,971,241	\$ 8,194,452
Accounts payable - other	7,452,328	6,366,638
Accrued liabilities	12,933,060	7,337,059
Accrued interest payable	3,817,771	3,048,713
Deferred revenue and deposits	136,188,748	131,135,167
Gift annuities payable	17,696,115	15,649,787
Liability under split interest agreements	2,285,448	2,265,483
Obligations under capital leases	1,667,277	2,384,937
Long-term debt	226,343,735	128,336,531
<b>Total liabilities</b>	<b>426,355,723</b>	<b>304,718,767</b>
Net assets		
Unrestricted	837,925,037	627,798,173
Temporarily restricted	4,839,282	2,442,026
Permanently restricted	8,532,474	7,227,217
<b>Total net assets</b>	<b>851,296,793</b>	<b>637,467,416</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,277,652,516</b>	<b>\$ 942,186,183</b>

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

*Liberty University, Inc.*

*Consolidated Statements of Activities*

Years Ended June 30,

	2012			2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Support</b>							
Tuition and fees:							
Gross tuition and fees	\$ 660,219,623	\$ -	\$ -	\$ 535,484,329	\$ -	\$ -	\$ 535,484,329
Institutional scholarships	(136,787,402)	-	-	(111,035,017)	-	-	(111,035,017)
<b>Tuition and fees, net</b>	523,432,221	-	-	424,449,312	-	-	424,449,312
Contributions	11,510,901	1,337,124	1,311,582	11,534,899	1,177,928	191,503	12,904,330
Grants and contracts	2,065,280	15,000	-	1,577,627	-	-	1,577,627
Investment income, net	6,832,452	103,348	38,484	7,414,529	98,313	68,024	7,580,866
Realized and unrealized gains (losses), net	(3,883,555)	(8,619)	(1,591)	(4,781,263)	21,107	10,120	(4,750,036)
Auxiliary services	56,895,691	-	-	53,145,630	-	-	53,145,630
Other sources	30,423,874	67,002	-	31,258,917	42,040	-	31,300,957
Change in split interest agreements	(930,520)	1,719,635	(43,218)	(1,229,587)	378,046	(22,540)	(874,081)
Net assets released from restrictions	836,234	(836,234)	-	1,024,538	(1,024,538)	-	-
<b>Total revenues and support</b>	\$ 627,182,578	\$ 2,397,256	\$ 1,305,257	\$ 524,394,602	\$ 692,896	\$ 247,107	\$ 525,334,605

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

*Liberty University, Inc.*

*Consolidated Statements of Activities*

Years Ended June 30,

	2012			2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Expenses</b>							
Program services							
Instruction	\$ 114,973,249	\$ -	\$ -	\$ 94,712,436	\$ -	\$ -	\$ 94,712,436
Academic support	24,126,235	-	-	22,365,477	-	-	22,365,477
Student services	80,068,414	-	-	64,757,991	-	-	64,757,991
Auxiliary services	45,787,095	-	-	44,674,978	-	-	44,674,978
Public services	5,537,640	-	-	4,545,085	-	-	4,545,085
<b>Total program services</b>	<b>270,492,633</b>	<b>-</b>	<b>-</b>	<b>231,055,967</b>	<b>-</b>	<b>-</b>	<b>231,055,967</b>
Supporting services							
Institutional support	146,538,499	-	-	92,095,656	-	-	92,095,656
Research	24,582	-	-	19,451	-	-	19,451
<b>Total supporting services</b>	<b>146,563,081</b>	<b>-</b>	<b>-</b>	<b>92,115,107</b>	<b>-</b>	<b>-</b>	<b>92,115,107</b>
<b>Total expenses</b>	<b>417,055,714</b>	<b>-</b>	<b>-</b>	<b>323,171,074</b>	<b>-</b>	<b>-</b>	<b>323,171,074</b>
<b>Changes in net assets</b>	<b>210,126,864</b>	<b>2,397,256</b>	<b>1,305,257</b>	<b>201,223,528</b>	<b>692,896</b>	<b>247,107</b>	<b>202,163,531</b>
Net assets - beginning of year	627,798,173	2,442,026	7,227,217	426,574,645	1,749,130	6,980,110	435,303,885
Net assets at end of year	\$ 837,925,037	\$ 4,839,282	\$ 8,532,474	\$ 627,798,173	\$ 2,442,026	\$ 7,227,217	\$ 637,467,416

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

*Liberty University, Inc.*

*Consolidated Statements of Cash Flows*

<b>Years Ended June 30,</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 213,829,378	\$ 202,163,531
Adjustments to reconcile changes in net assets to net cash		
Depreciation and amortization of property, plant and equipment	17,196,413	17,576,072
Amortization of prepaid lease payments	-	35,518
Change in value of split-interest agreements	(745,897)	874,081
Bad debt expense on accounts receivable	16,921,139	5,646,321
Donations of property, plant and equipment	(505,200)	-
Non cash donation of investment	(3,278,726)	(355,651)
Other non cash donation	(79,726)	-
Forgiveness of related party debt	200,000	636,539
Cash received for permanently restricted contributions	(1,311,582)	(191,503)
Realized/unrealized losses on investments, net	3,893,765	4,750,037
Loss on disposal of property, plant, and equipment	3,047,748	511,823
Permanently restricted earnings	(38,484)	(68,024)
Net (increase) decrease in:		
Accounts receivable	51,106,290	(76,323,615)
Accounts receivable from related organizations	(127,042)	145,257
Notes receivable	(220,969)	(111,190)
Contributions receivable	131,800	(200,000)
Other prepaid expenses and other assets	(314,053)	(3,235,732)
Net increase (decrease) in:		
Accounts payable	9,102,198	(1,469,937)
Accrued liabilities	5,596,001	1,122,665
Accrued interest payable	769,058	2,868,975
Gift annuities payable	4,358,751	2,304,636
Liability under split interest agreements	626,434	(481,060)
Student deposits	5,053,581	59,532,549
<b>Net cash from operating activities</b>	<b>325,210,877</b>	<b>215,731,292</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant, and equipment	(69,602,009)	(45,279,940)
Proceeds from sale of property, plant, and equipment	634,055	3,333,517
Purchases of investments	(975,681,741)	(235,938,787)
Proceeds from sales and maturities of investments	604,096,291	198,242,054
<b>Net cash from investing activities</b>	<b>\$ (440,553,404)</b>	<b>\$ (79,643,156)</b>

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

*Liberty University, Inc.*

*Consolidated Statements of Cash Flows*

<b>Years Ended June 30,</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from financing activities:</b>		
Payments on gift annuities	\$ (2,312,423)	\$ (2,238,326)
Payments on split interest agreements	(187,365)	(226,307)
Permanently restricted earnings	38,484	68,024
Payments on obligations under capital leases	(717,660)	(1,139,255)
Proceeds from issuance of long-term debt	99,676,312	121,962,197
Payments on long-term debt	(1,669,108)	(58,441,306)
Cash received for permanently restricted contributions	1,311,582	191,503
	<hr/>	<hr/>
<b>Net cash from financing activities</b>	96,139,822	60,176,530
	<hr/>	<hr/>
<b>Net change in cash and cash equivalents</b>	(19,202,705)	196,264,666
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of year</b>	403,619,549	207,354,883
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	\$ 384,416,844	\$ 403,619,549
	<hr/>	<hr/>
<b>Supplemental disclosures of cash flows information:</b>		
Cash paid during the year for interest	\$ 1,864,914	\$ 2,980,641
Noncash transactions:		
Acquisition of property, plant and equipment with accounts payable	\$ 1,760,281	\$ 2,055,628
Contribution of property, plant and equipment	\$ 505,200	\$ 900,000
Donation of investment	\$ 3,278,726	\$ 355,651
Other non cash donation	\$ 79,726	\$ -
Forgiveness of related party notes receivable	\$ 200,000	\$ 636,539

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

## *Liberty University, Inc.*

### *Notes to Consolidated Financial Statements*

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**June 30, 2012 and 2011**

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#### **1. Organization and Nature of Activities**

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

#### **2. Summary of Significant Accounting Policies**

##### **Principles of Consolidation**

The consolidated financial statements include the accounts of Liberty University, Inc. and its wholly-owned subsidiaries, C&C Jetting, LLC, LU Plaza Holdings, LLC, LU Candler Station Holdings, LLC, Liberty Mountain Capital, Inc, Liberty Mountain Conference Center, LLC, LU Racquet Sports, LLC, and Falwell Aviation, Inc (collectively the “University”). C&C Jetting, LLC provides charter air service to the University. LU Plaza Holdings, LLC and Candler Station Holdings, LLC are retail shopping centers held by the University and classified as quasi-endowments. Liberty Mountain Capital, Inc is a C-corporation owned by the University for investment purposes. Liberty Mountain Conference Center operates as a conference center for the University and community. LU Racquet Sports operates as an indoor tennis facility, providing services to the University and community. Falwell Aviation, Inc is a C-corporation that provides charter air and repair and maintenance services to the public as well as flight instruction for the University’s School of Aeronautics. All significant intercompany transactions and balances have been eliminated in the consolidation.

##### **Basis of Accounting**

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

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

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

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and these restrictions are not met within the current reporting period. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets (see Note 10). Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service.

### **Cash and Cash Equivalents**

At June 30, 2012 and 2011, cash equivalents consist of \$2,858,296 and \$9,471,821, respectively, of money market funds. 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.

### **Accounts Receivable**

Accounts receivable represent the amount receivable for tuition and other student fees and expenses. The University provides for uncollectible accounts annually based on a percentage of collections within 90 days of year-end. Bad debt expense totaled \$16,921,139 and \$5,646,321 for the years ended June 30, 2012 and 2011, respectively. When accounts are deemed uncollectible they are charged against the allowance for doubtful accounts.

### **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.

Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is established for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

### **Investments**

Investments are recorded at fair value. The fair values of investments are determined based on quoted market prices or estimated fair values. The net realized and unrealized gains and losses on investments are reflected in the statements of activities. Investment income is reported net of related investment expenses.

### **Property, Plant, and Equipment**

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

### **Deferred Revenue and Deposits**

Student deposits consist primarily of student payments received for University summer and fall sessions received during the current year which 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, 2012 and 2011 would not have a significant impact on the University's results of activities. Certain subsidiaries of the University are taxed as separate entities. The University has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2012. Fiscal years ending on or after June 30, 2009, remain subject to examination by federal and state tax authorities.

### **Concentration of Credit Risk**

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

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

For the year ended June 30, 2012, approximately 20% of contributions were made by two major donors. For the year ended June 30, 2011, approximately 14% and 7% of contributions were made by one major donor and related organizations, respectively.

### **Advertising Expenses**

The University expenses advertising costs as incurred. Advertising expense was \$5,499,602 and \$2,025,305 at June 30, 2012 and 2011, respectively.

### **Use of Estimates**

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

### **Reclassifications**

Certain items in the 2011 comparative totals have been reclassified to conform to the 2012 presentation.

### Subsequent Events

In preparing these consolidated financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 19, 2012, the date the consolidated financial statements were available to be issued.

### 3. Contributions Receivable

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

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 170,000	\$ 460,000
One to five years	258,200	100,000
	<u>\$ 428,200</u>	<u>\$ 560,000</u>

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

### 4. Investments

Investments at June 30 consist of the following:

	<u>2012</u>		<u>2011</u>	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 142,080,679	\$ 142,080,679	\$ 58,652,187	\$ 58,652,187
Real estate/other	565,634	565,634	1,059,634	1,059,634
Certificates of deposit	7,400,812	7,400,812	7,223,163	7,223,163
Corporate bonds	151,405,843	151,874,394	114,505	164,997
Municipal bonds	3,478,770	3,458,928	48,917	55,236
Mutual funds	100,050,685	100,682,600	50,758,025	50,630,396
Common stocks	84,577,901	86,288,571	3,039,745	3,054,662
	<u>\$ 489,560,324</u>	<u>\$ 492,351,618</u>	<u>\$ 120,896,176</u>	<u>\$ 120,840,275</u>

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

## 5. Fair Value Measurements

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

- |         |  |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.  |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |
| 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. All assets have been valued using a market approach, except for Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. Fair values for assets in Level 3 are determined by the net asset value of the fund provided by the fund manager. There were no changes in the valuations techniques during the current year.

**Fair Value as of June 30, 2012**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash – money market funds	\$ 142,080,678	\$ -	\$ -	\$ 142,080,678
Certificates of deposit	-	7,400,812	-	7,400,812
Government and agency bonds	-	17,885,815	-	17,885,815
Municipal bonds	-	3,458,928	-	3,458,928
Mortgage funds	2,409,299	-	-	2,409,299
Bank loan floating rate securities	4,217,190	-	-	4,217,190
High yield bonds	-	64,347,174	-	64,347,174
Investment grade bonds	-	63,014,917	-	63,014,917
Mutual funds				
Government and agency bond funds	47,728,238	-	-	47,728,238
Corporate bond funds	47,154,413	-	-	47,154,413
Equity funds	5,799,949	-	-	5,799,949
	<u>100,682,600</u>	<u>-</u>	<u>-</u>	<u>100,682,600</u>
Stocks				
Financial institutions	15,483,407	-	-	15,483,407
Energy and utilities	4,829,324	-	-	4,829,324
Oil and gas exploration	4,289,040	-	-	4,289,040
Global energy and materials	7,430,310	-	-	7,430,310
Gold trusts	18,189,880	-	-	18,189,880
Hospitality	5,627,500	-	-	5,627,500
	<u>55,849,461</u>	<u>-</u>	<u>-</u>	<u>55,849,461</u>
Other	-	565,634	-	565,634
Hedge funds				
Long/short equity funds	-	-	20,622,900	20,622,900
Fund of funds	-	-	9,816,210	9,816,210
	<u>-</u>	<u>-</u>	<u>30,439,110</u>	<u>30,439,110</u>
<b>Total assets</b>	<b><u>\$ 305,239,228</u></b>	<b><u>\$ 156,673,280</u></b>	<b><u>\$ 30,439,110</u></b>	<b><u>\$ 492,351,618</u></b>
<b>Liabilities:</b>				
Annuities payable	\$ -	\$ -	\$ 17,696,115	\$ 17,696,115
Liability under split-interest agreements	-	-	2,285,448	2,285,448
<b>Total liabilities</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 19,981,563</u></b>	<b><u>\$ 19,981,563</u></b>

**Fair Value as of June 30, 2011**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash – money market funds	\$ 58,652,187	\$ -	\$ -	\$ 58,652,187
Certificates of deposit	7,223,163	-	-	7,223,163
Corporate bonds				
Mortgage backed	-	61,178	-	61,178
Intermediate term bonds	-	103,819	-	103,819
	-	164,997	-	164,997
Municipal bonds	55,236	-	-	55,236
<b>Mutual funds:</b>				
Bank loan floating rate securities	7,647,554	-	-	7,647,554
Emerging market bonds	2,908,010	-	-	2,908,010
High yield bonds	3,204,369	-	-	3,204,369
Intermediate term bonds	5,259,851	-	-	5,259,851
Multi-sector bonds	2,271,631	-	-	2,271,631
Short term bonds	24,918,277	-	-	24,918,277
World bonds	1,598,780	-	-	1,598,780
Foreign large cap value funds	41,758	-	-	41,758
Foreign small/mid cap growth funds	23,578	-	-	23,578
Foreign small/mid cap value funds	18,711	-	-	18,711
Large cap blended funds	23,557	-	-	23,557
Large cap equity funds	5,345	-	-	5,345
Large cap value funds	2,893	-	-	2,893
Large growth funds	1,220	-	-	1,220
Midcap growth	555,956	-	-	555,956
Midcap value	598,217	-	-	598,217
Small cap growth	40,003	-	-	40,003
Small cap value	33,896	-	-	33,896
Emerging markets	22,089	-	-	22,089
International large cap growth	18,545	-	-	18,545
Bear market	2,225	-	-	2,225
Global real estate	1,245,835	-	-	1,245,835
Natural resources	41,449	-	-	41,449
Other	146,647	-	-	146,647
	50,630,396	-	-	50,630,396
<b>Stocks</b>				
Hospitality	2,813,750	-	-	2,813,750
Other	240,912	-	-	240,912
	3,054,662	-	-	3,054,662
Real Estate	1,059,634	-	-	1,059,634
<b>Total assets</b>	<b>\$ 120,675,278</b>	<b>\$ 164,997</b>	<b>\$ -</b>	<b>\$ 120,840,275</b>

<b>Fair Value as of June 30, 2011 (Continued)</b>				
	Level 1	Level 2	Level 3	Total
Liabilities:				
Annuities payable	\$ -	\$ -	\$ 15,649,787	15,649,787
Liability under split-interest agreements	-	-	2,265,483	2,265,483
Total liabilities	\$ -	\$ -	\$ 17,915,270	\$ 17,915,270

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

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

	Hedge funds	Annuities payable	Liability under split-interest agreements
Balance - June 30, 2010	\$ -	\$ 14,709,397	\$ 2,863,197
Contributions	-	3,700,761	-
Payouts	-	(2,238,326)	(226,307)
Change in fair value	-	(522,045)	(371,407)
Balance - June 30, 2011	-	15,649,787	2,265,483
Contributions/purchases	30,000,000	3,361,904	604,627
Payouts	-	(2,411,510)	(352,803)
Change in fair value	439,110	1,095,934	(231,859)
Balance - June 30, 2012	\$ 30,439,110	\$ 17,696,115	\$ 2,285,448

The fair value option was chosen to measure all financial assets and liabilities in order to mitigate volatility in reported changes in net assets.

## 6. Property, Plant, and Equipment and Leases

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

	2012	2011
Land and land improvements	\$ 96,618,400	\$ 90,367,090
Buildings	285,977,278	263,932,384
Furniture and equipment	100,817,828	81,216,646
Construction in progress	30,749,521	15,335,341
Total property, plant, and equipment	514,163,027	450,851,461
Less accumulated depreciation and amortization	(152,948,749)	(140,292,043)
Property, plant, and equipment	\$ 361,214,278	\$ 310,559,418

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

	<u>2012</u>	<u>2011</u>
Property, plant, and equipment under capital leases	\$ 3,452,078	\$ 4,476,190
Less accumulated amortization	<u>(2,137,852)</u>	<u>(2,320,790)</u>
Property, plant and equipment under capital leases, net	<u>\$ 1,314,226</u>	<u>\$ 2,155,400</u>

At June 30, 2012, minimum rental payments due under capital and operating leases with original terms in excess of one year are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
Years ending June 30:		
2013	\$ 791,442	\$ 389,241
2014	791,442	334,351
2015	197,860	284,030
2016	-	261,964
2017	-	243,399
Thereafter	<u>-</u>	<u>1,115,566</u>
Total minimum lease payments	\$ 1,780,744	<u>\$ 2,628,551</u>
Less imputed interest (rates ranging from 5% through 9%)	<u>(113,467)</u>	
Obligations under capital leases	<u>\$ 1,667,277</u>	

Total interest expense on capital leases for the years ended June 30, 2012 and 2011 was \$112,213 and \$156,030, respectively. Total rent expense under operating leases was \$1,083,033 and \$2,365,688 for the years ended June 30, 2012 and 2011, respectively. Taxes, insurance and maintenance expenses relating to all leases are obligations of the University.

## 7. Deferred Revenue and Deposits

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

	<u>2012</u>	<u>2011</u>
Deferred Other	\$ 1,266,828	\$ 722,097
Deferred Student – Fall	33,918,166	34,661,883
Deferred Student – Summer	45,559,133	41,414,763
Deposits	<u>55,444,621</u>	<u>54,336,425</u>
Total	<u>\$ 136,188,748</u>	<u>\$ 131,135,168</u>

## 8. Liabilities under Split-Interest Agreements

The University receives gifts from donors who receive income from the assets until their deaths. These split-interest agreements consist primarily of charitable gift annuities and charitable remainder unitrusts. These agreements provide either fixed annual payments or fixed annual returns to the original donor or a designated beneficiary. The assets received from the donor are recorded at fair market value upon receipt of the gift and the liability is recorded using a discount rate reflecting expected rates of return in the marketplace and the expected lives of the donors. Fixed payout percentages range from 5% to 11.8%.

The University received contributions under split-interest agreements of approximately \$3,436,000 and \$1,730,000 for the years ended June 30, 2012 and 2011, respectively.

## 9. Long-Term Debt

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

	<u>2012</u>	<u>2011</u>
Term note payable, due June 2013, with monthly principal and interest (at initial rate of 5% and variable prime rate adjusted monthly thereafter beginning after the 1 <sup>st</sup> month) payments of \$27,810 and a lump sum payment of principal and accrued interest due on maturity. The interest rate at 6/30/12 was 3.25%. The note is collateralized by an airplane.	\$ 2,746,799	\$ 2,936,259
Term note payable, due July 2017, with monthly principal and interest at a rate of 7.75%. The loan is repaid as part of the fees collected by Sodexo for dining services. Liberty University agrees to pay \$0.33 per meal towards repayment of the loan.	2,580,953	3,084,642
Term loan with a bank collateralized by an aircraft, with an interest rate of 3.75%, payable in monthly installments of \$3,870 through December 2018.	267,070	-
Term loan with a bank collateralized by aircraft with an interest rate of 3.75%, payable in monthly installments of \$6,769 through July 2018.	440,479	-
Bond issue 2010, unsecured and issued at a premium of approximately \$2 million, with various principal and interest payments due each March 1 <sup>st</sup> and September 1 <sup>st</sup> 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%.	120,088,412	121,043,941
Uncollateralized term loan with a bank with an interest rate of prime less 0.25% (3.00% at June 30, 2012), payable in monthly installments of \$5,535 through September 2013 with a balloon payment of approximately \$576,000 due October 2013.	635,838	682,091

Term loan with a bank collateralized by an aircraft with an interest rate of 5.25%, payable in monthly installments of \$1,345 through April 2021.	113,521	123,317
Term loan with a bank collateralized by personal property with an interest rate of London Interbank Offer Rate (LIBOR) plus 1.75% with a 3.50% minimum (3.5% at June 30, 2012), payable in monthly installments of \$1,199 through August 2015.	42,999	55,612
Term loan with a bank collateralized by two aircraft with an interest Rate of 5.00%, payable in monthly installments of \$4,354 through March 2019.	297,928	334,023
Notes payable secured by vehicles. The monthly payments are \$788 with a fixed rate of 4.92% and matures May 2016.	61,733	76,636
Bond issue 2012, unsecured and issued at a discount of approximately \$950,000, with interest only payments due each March 1 <sup>st</sup> and September 1 <sup>st</sup> at a fixed rate of 5.1%. Principal is due in full in 2042.	99,068,003	-
Total long-term debt	<u>\$ 226,343,735</u>	<u>\$ 128,336,521</u>

On January 19, 2012 series 2012 taxable bonds were issued for \$100,000,000. The proceeds of the sale of the bonds will be used by the University for financing costs and expenses relating to the planning, acquisition, development, construction, renovation, improvement, equipping and installation of higher education facilities.

During the year ended June 30, 2011, the Virginia College Building Authority issued \$119,705,000 of Educational Facilities Revenue Bonds Series 2010 on behalf of the University. A portion of the proceeds from this bond issue were used to pay in full the \$30,000,000 tax-exempt bond issue from 2010 and the remainder of the funds were used for capital building projects. The bond issues carry certain covenants based on facility use which must be maintained by the University. At June 30, 2012, all covenants were met.

There are six certificates of deposit from Carter Bank and Trust in an amount totaling \$4,221,617 which are pledged as collateral to secure a performance bond with the City of Lynchburg for various campus construction projects.

Between June 2011 and June 2012, 22 letters of credit in amounts ranging from \$2,500 to \$1,350,000 and totaling \$1,744,840 have been issued on behalf of the University to local municipalities (City of Lynchburg and Campbell County) for various construction projects. The expiration dates occur between July 2012 and June 2014.

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

Years ending June 30:	
2013	\$ 5,541,802
2014	3,438,081
2015	2,918,150
2016	3,008,960
2017	3,008,330
Thereafter	<u>208,428,412</u>
Total	<u>\$ 226,343,735</u>

Interest on long-term debt amounted to \$3,822,883 and \$2,787,514 for the years ended June 30, 2012 and 2011, 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 released or reclassified were \$836,234 and \$1,024,538 for the years ended June 30, 2012 and 2011, respectively.

#### 11. Net Assets

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 96,391	\$ 259,032
Split interest agreement funds	3,318,046	1,607,249
Construction and improvements	1,424,845	575,745
Temporarily restricted net assets	<u>\$ 4,839,282</u>	<u>\$ 2,442,026</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>2012</u>	<u>2011</u>
Scholarships	\$ 5,353,142	\$ 4,371,180
Religion department	32,075	32,075
Endowment for church planting	113,121	103,047
Grounds improvement	3,944	3,944
General University use	3,030,192	2,716,971
Permanently restricted net assets	<u>\$ 8,532,474</u>	<u>\$ 7,227,217</u>

#### 12. Liberty University Endowments

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

At June 30, 2012, the endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 334,476	\$ 8,297,687	\$ 8,632,163
Quasi-endowments	50,014,451	-	-	50,014,451
	<u>\$ 50,014,451</u>	<u>\$ 334,476</u>	<u>\$ 8,297,687</u>	<u>\$ 58,646,614</u>

At June 30, 2011, the endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 249,301	\$ 6,949,211	\$ 7,198,512
Quasi-endowments	46,933,609	-	-	46,933,609
	<u>\$ 46,933,609</u>	<u>\$ 249,301</u>	<u>\$ 6,949,211</u>	<u>\$ 54,132,121</u>

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

A summary of the activity in endowment funds for the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 46,933,609	\$ 249,301	\$ 6,949,211	\$ 54,132,121
Investment return:				
Investment income	2,199,854	133,443	38,483	2,371,780
Net realized and unrealized loss	(275,738)	(2,960)	(1,591)	(280,289)
Total investment return	1,924,116	130,483	36,892	2,091,491
Contributions	1,165,363	-	1,311,584	2,476,947
Other changes:				
Scholarship awards	(8,637)	(45,308)	-	(53,945)
Endowment net assets, end of year	<u>\$ 50,014,451</u>	<u>\$ 334,476</u>	<u>\$ 8,297,687</u>	<u>\$ 58,646,614</u>

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

A summary of the activity in endowment funds for the year ended June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 43,876,753	\$ 158,989	\$ 6,679,565	\$ 50,715,307
Investment return:				
Investment income	3,076,567	121,689	68,024	3,266,280
Net realized and unrealized gain (loss)	(19,711)	10,191	9,789	269
Total investment return	3,056,856	131,880	77,813	3,266,549
Contributions	-	-	191,833	191,833
Other changes:				
Scholarship awards	-	(41,568)	-	(41,568)
Endowment net assets, end of year	\$ 46,933,609	\$ 249,301	\$ 6,949,211	\$ 54,132,121

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

### 13. Employee Benefit Plans

The University participates in defined contribution retirement annuity plans with TIAA-CREF, Fidelity Investments, Guidestone for all faculty, staff, and hourly employees. Before January 1, 2012, the University matched 5% of a plan participant's contributions. In order to receive the match, a participant had to contribute at least 5% of gross pay to the plan. Participants could make contributions in excess of 5%, but these contributions were not matched by the University. As of January 1, 2012, the University began matching plan participants' contributions up to 5% of gross pay. Effective January 1, 2012, the University further amended the plan to include a five year vesting schedule for new eligible staff employees. Eligible faculty employees and all participating employees prior to January 1, 2012 are fully vested at enrollment. The University contributed \$2,956,856 and \$2,756,652 under these plans during the years ended June 30, 2012 and 2011, respectively.

The University is self-insured for employee health care claims up to the lesser of \$125,000 per covered individual or an aggregate amount of approximately \$14,900,000 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, 2012 and 2011, the University had provided an accrual of \$1,645,757 and \$1,388,392, 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, 2012 and 2011, the University incurred claims, premium expenses, and administrative fees related to its health care plan totaling \$12,411,276 and \$10,894,915, respectively.

### 14. Compensated Absences

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

The University provides for vacation days accrued based on years of employment and paid at the employee's base pay rate at the time of vacation. The policy does not allow for carryover or payment of unused days into the next calendar year and unused days are not paid to employees while employed or upon termination

**15. Related Party Transactions**

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

	<u>2012</u>	<u>2011</u>
Liberty Christian Academy	\$ 759,368	\$ 659,275
Liberty Godparent Home	66,325	44,763
Thomas Road Baptist Church	754,589	639,964
	<u>\$ 1,580,282</u>	<u>\$ 1,344,002</u>

Management believes the fees received from, and paid to, related parties during 2012 and 2011 approximated market rates and, accordingly, were consistent with those that would be paid in an arm's-length transaction. Management anticipates that similar transactions with related parties will occur in 2012.

During the year ended June 30, 2011, Thomas Road Baptist Church (TRBC) donated rent related to space occupied by the University in the amount of \$710,326. The University purchased the property from TRBC in December 2010, therefore, there are no transactions related to this property for the year ended June 30, 2012.

During the year ended June 30, 2012, the University made donations of \$200,000 to Lynchburg Christian Academy (LCA). During the year ended June 30, 2011 the University made donations to TRBC in the amount of \$60,000.

**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 or its operations. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

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

In September 2011 the University was awarded a grant by the Virginia Tobacco Commission for \$12 million. This grant is to be matched by the University and is for the purpose of establishing a School of

Osteopathic Medicine and to expand the existing School of Health Sciences. The school will be built in Campbell County adjacent to the University's main campus. The first phase of the project is expected to be completed by fall 2013.

There are several commitments and contingencies related to the University's construction projects, which are listed below. Listed by project is the entire estimated project cost, contract amount in place, remainder of a specific contract related to the project to complete and total remainder of project to be completed.

<b>Project</b>	<b>Estimated Cost</b>	<b>Contract in Place</b>	<b>Contract to Complete</b>	<b>Project to Complete</b>
Jerry Falwell Library	\$ 60,000,000 plus	\$ 49,281,991	\$ 46,276,026	\$ 53,904,445
Baseball Complex	16,000,000	7,473,931	5,386,592	14,366,298
Basketball Practice Facility	7,500,000	6,070,755	4,045,252	5,240,183
Candler's Mt. IM Fields	3,500,000	N/A	N/A	3,392,511

#### 17. Other Sources

For the years ended June 30, 2012 and 2011, the University had other sources income of \$30,491,048 and \$31,300,957 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.

#### 18. Subsequent Events

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 equipment.

Subsequent to June 30, 2012, the University purchased, with cash the Wingate Hotel, Lynchburg, Virginia for approximately \$9 million. At the present time, the University plans to continue operating this property as a Wingate Hotel. The University has also entered into contracts for the construction of two new educational facilities at a cost of approximately \$41 million as well as contracts to purchase two additional properties at a cost of approximately \$19.5 million to be used for administrative purposes and student housing.

\* \* \* \* \*

*Supplementary Information*

*Liberty University, Inc.*

*Statements of Financial Position*

<b>June 30,</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 383,606,590	403,164,042
Accounts receivable - less allowance for doubtful accounts of \$17,214,291 and \$7,920,270 respectively	29,564,672	95,622,788
Accounts receivable from related organizations	1,580,282	1,453,240
Notes receivable	1,605,475	1,465,896
Contributions receivable, net	428,200	560,000
Other prepaid expenses and other assets	9,081,030	8,500,848
Investments, at fair value	529,413,461	156,000,759
Property, plant, and equipment, net	327,890,824	277,985,808
<b>Total assets</b>	<b>\$ 1,283,170,534</b>	<b>944,753,381</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable - vendors	\$ 27,406,293	14,848,541
Accounts payable - other	7,308,391	6,235,199
Accrued liabilities	12,839,163	7,299,043
Accrued interest payable	3,817,771	3,048,713
Deferred revenue and deposits	135,332,947	130,761,113
Gift annuities payable	17,696,115	15,649,787
Liability under split interest agreements	2,285,448	2,265,483
Obligations under capital leases	1,667,277	2,384,937
Long-term debt	224,545,900	127,141,487
<b>Total liabilities</b>	<b>432,899,305</b>	<b>309,634,303</b>
Net assets		
Unrestricted	836,899,471	625,844,248
Temporarily restricted	4,839,282	2,372,023
Permanently restricted	8,532,476	6,902,807
<b>Total net assets</b>	<b>850,271,229</b>	<b>635,119,078</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,283,170,534</b>	<b>944,753,381</b>

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