

Liberty University's net assets headed for \$1 billion, thanks to online

Liz Barry | Posted: Tuesday, July 24, 2012 1:00 am

Liberty University's net assets have sustained a fivefold increase — from \$150 million to \$860 million — over the past six years, driven by the rapid expansion of Liberty's online programs.

While colleges across the country have struggled to make ends meet during the economic downturn, Liberty's financial picture has grown stronger by the year, according to an examination of Liberty's IRS 990 tax forms by The News & Advance.

In a nutshell, Liberty's net assets show how much the university in Lynchburg is worth after subtracting its debt and other liabilities.

In 2006-07, the university's net assets were \$150 million, according to the 990 tax form, which nonprofits must file annually with the IRS. Driven by a growing student body and influx of tuition dollars, Liberty's net assets grew to \$637 million by 2010-11, the most recent 990 available from the IRS.

As of June, Liberty officials said the school had about \$860 million in net assets and expects that number to exceed \$1 billion by year's end — a major milestone for the university.

"We've grown so fast that we can't spend it fast enough," LU Chancellor Jerry Falwell Jr. said.

Since Liberty is a nonprofit, any surplus it generates must be invested back into the school. However, Falwell said there is no strict timeline about when Liberty must use the money; part of Liberty's strategy is to build an endowment that will secure the long-term stability of the school.

"We want to continue to improve the university and stay on the cutting edge, but we also want to put money away for the future," Falwell said.

For now, Liberty is focused on revitalizing the campus and improving its academic programs, Falwell said.

Over past year, Liberty began pouring more than \$220 million into construction projects that promise to transform campus over the next decade. Old buildings are being torn down and replaced with Jeffersonian architecture; makeshift dorms will be replaced with high-rise residence halls.

This summer, the campus is a full-fledged construction zone.

Behind Williams Stadium, a fleet of bulldozers is paving the way for a new baseball stadium. By DeMoss Hall, Liberty's main academic building, crews are building the foundation of the \$50 million Jerry Falwell Library.

Across the border in Campbell County, construction has begun on a medical school.

Liberty's recent growth was tempered by years of financial struggle. During those years, university leaders resolved to run the school like a business — an approach Falwell said is partly responsible for LU's current success.

"We had no choice but to be frugal for a long time," said Falwell, LU's vice chancellor until the death of his father, Jerry Falwell Sr., in 2007. "Those years ... forced us to treat students like customers because we know the school's survival depended on whether those students showed up the next year. And so we did treat them like customers and we still do."

The turning point came around 2006-07, when Liberty's online enrollment first surpassed 20,000, Falwell said.

In 2007, Liberty also benefitted from \$29 million in proceeds from the life insurance policy of Falwell Sr.

"Building the online program was expensive, but once we reached a certain enrollment number, it actually began to make money for the university," Falwell Jr. said.

Online enrollment surpassed 82,000 this year, bringing the university's total head count to about 97,000 students. The residential program has experienced more modest gains, expanding from about 9,500 in 2006-07 to 12,500 this year.

This growth in both programs has caused a spike in revenue from tuition and fees, which account for the largest chunk of Liberty's revenue. In 2010-11, for example, Liberty earned more than \$535 million in tuition and fees, which in turn comprised about 85 percent of Liberty's total revenue, according to the 990 tax form. The rest comes from sources like room and board, campus concessions and student fees.

A key part of Liberty's strategy to attract students is keeping tuition affordable.

"We've kept our tuition in the lower 25 percent for all private schools for residential. Online, we're lower than most of the for-profit," Falwell said. The cost for a semester of online courses is about \$4,900, and for on-campus, \$9,000.

Liberty's workforce has more than doubled from about 2,700 in 2006-07 to 6,100 today. The current workforce includes about 1,700 who live outside the Lynchburg region. Many are professors for LU Online.

The growth has allowed Liberty to take on big projects, such as building a school of health sciences and an osteopathic medical school.

In January, Liberty completed its second bond sale to help fund these projects. The university received an "AA" bond rating from Standard & Poor's and an "A1" rating from Moody's Investors Service, its fifth-highest grade.

By building its financial standing, Liberty is working to guarantee its future and stability, Falwell said.

"Back when we were having a hard time, financially, it was also hard to get accreditation reaffirmed. It was hard to keep our programs. It was hard to attract top-quality students because they weren't sure if we

were going to be here the next year."

Until recently, Liberty's assets were mostly sitting in cash reserves.

Over the past year, Liberty has worked with an assets management firm in New York City, Permanens Capital, to lay the groundwork for converting those cash reserves into low-risk investments. Permanens chief investment officer John Regan said that because Liberty is a young school, the administration is not bound to a "legacy way of doing things."

"Falwell is a very prudent chancellor of the university and he's very aware that with the growth Liberty's had, you really have to protect it," Regan said.

Since 2008, Regan has specialized in helping universities manage their assets. He previously managed Cornell University's endowment in the role of senior investment officer, and is now reaching out to other schools.

In a climate in which universities are struggling financially, Regan said Liberty appears to be a pioneer in combining residential and online education.

"I'm fascinated with Liberty's model ..." Regan said. "I will tell you that even the top universities are still trying to figure out this online thing. It's amazing that Liberty is this far along."

Liberty leaders are optimistic about the university's future, and don't foresee enrollment numbers slowing anytime soon, especially with online programs.

"I think the only thing that would ever cause us to decrease in numbers is if education becomes downgraded, where people don't want to receive higher education," said Neal Askew, LU's executive vice president. "I don't think that's going to happen. I think our market is totally growing and not subsiding worldwide. I don't think we can saturate the market."

Falwell said there's a balance between spending money to grow the university and saving for less prosperous times.

"You need a big reserve to operate a university because we may go through years where we've got no surplus in the future," Falwell said.

"You don't go out and spend it all, but that doesn't mean you've made a profit. It means you've guaranteed the future."