



Report of Independent Auditor's and Single Audit
Report and Financial Statements for
Loma Linda University

June 30, 2010 and 2009

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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LOMA LINDA UNIVERSITY

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

AND INDEPENDENT AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Loma Linda University

We have audited the accompanying statements of financial position of Loma Linda University (the University) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental schedules included on pages 30 and 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the procedures applied in the audits of the basic financial statements and we express no opinion on these supplemental schedules.

Mass Adams, LLP

Los Angeles, California
December 14, 2010

LOMA LINDA UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS:		
Cash and cash equivalents	\$ 14,004,443	\$ 41,065,518
Restricted cash	2,404,783	10,338,267
Accounts receivable (net of allowance of \$4,910,324 in 2010 and \$7,849,287 in 2009)	25,851,969	32,218,328
Prepaid items and deferred charges	3,409,798	3,840,816
Inventory	4,320,042	4,070,107
Student loans receivable (net of allowance of \$948,410 in 2010 and \$4,108,590 in 2009)	41,121,298	37,179,741
Pledges receivable	3,266,090	5,484,974
Irrevocable trusts	57,207,066	59,075,356
Investments	449,010,729	438,275,611
Other assets	9,833,838	10,091,190
Plant and equipment (net)	270,295,095	245,315,124
TOTAL ASSETS:	<u>\$ 880,725,151</u>	<u>\$ 886,955,032</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 32,588,999	\$ 28,184,720
Accrued expenses and other current liabilities	5,064,861	5,595,329
Deferred income	17,355,703	19,241,905
Notes and loans payable	40,321,820	27,405,669
Trust liabilities	32,812,797	37,351,527
Annuities payable	5,002,333	5,317,319
Non-operating liability	32,764,918	30,876,161
Amounts held on behalf of others	210,247,414	239,082,546
Bonds payable	34,860,000	35,490,000
Total Liabilities:	<u>411,018,845</u>	<u>428,545,176</u>
Net assets:		
Unrestricted:		
Unrestricted – undesignated	116,099,231	123,215,026
Unrestricted – board designated	43,695,674	35,421,903
Unrestricted – administration designated	19,435,172	24,151,835
Total unrestricted	<u>179,230,077</u>	<u>182,788,764</u>
Temporarily restricted	169,390,574	169,714,270
Permanently restricted	121,085,655	105,906,822
Total net assets:	<u>469,706,306</u>	<u>458,409,856</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 880,725,151</u>	<u>\$ 886,955,032</u>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition and fees	\$ 114,451,446	\$ -	\$ -	\$ 114,451,446
Less student aid	(6,687,771)	-	-	(6,687,771)
Net tuition and fees	107,763,675	-	-	107,763,675
Gifts	7,255,447	7,466,502	6,725,416	21,447,365
Grants and contracts	36,362,919	-	-	36,362,919
Investment income (loss)	4,108,140	7,460,719	(2,640,665)	8,928,194
Other operating revenue (expense)	31,081,985	(209,000)	-	30,872,985
Non-operating revenue	56,049,484	54,975	117,852	56,222,311
Subsidies	10,368,860	-	-	10,368,860
Sales income	2,081,296	-	-	2,081,296
Financial aid	111,664	1,470,115	-	1,581,779
Net assets released from restriction - operating	22,047,605	(22,047,605)	-	-
Total revenue and support	277,231,075	(5,804,294)	4,202,603	275,629,384
EXPENSES				
Instruction	101,382,654	-	-	101,382,654
Research	36,278,868	-	-	36,278,868
Public service	3,774,830	-	-	3,774,830
Academic support	43,779,372	-	-	43,779,372
Student services	5,346,548	-	-	5,346,548
Institutional administration	35,807,457	-	-	35,807,457
Physical plant	4,658,279	-	-	4,658,279
Student financial support	2,121,390	-	-	2,121,390
Independent operations	39,809,342	-	-	39,809,342
Depreciation	15,054,553	-	-	15,054,553
Total expenses	288,013,293	-	-	288,013,293
Change in net assets from operating activities	(10,782,218)	(5,804,294)	4,202,603	(12,383,909)
<i>Unrealized gains on investments</i>	7,223,531	5,480,598	10,976,230	23,680,359
Change in net assets	(3,558,687)	(323,696)	15,178,833	11,296,450
<i>Net assets, beginning of year</i>	182,788,764	169,714,270	105,906,822	458,409,856
Net assets, end of year	\$ 179,230,077	\$ 169,390,574	\$ 121,085,655	\$ 469,706,306

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition and fees	\$ 106,153,716	\$ -	\$ -	\$ 106,153,716
Less student aid	(7,108,037)	-	-	(7,108,037)
Net tuition and fees	99,045,679	-	-	99,045,679
Gifts	14,884,449	822,858	4,060,554	19,767,861
Grants and contracts	32,958,126	-	-	32,958,126
Investment income	8,745,524	13,782,216	1,337,707	23,865,447
Other operating revenue	35,552,812	3,000	-	35,555,812
Non-operating revenue	55,255,152	510,430	196,283	55,961,865
Subsidies	9,170,526	-	-	9,170,526
Sales income	4,515,198	-	-	4,515,198
Financial aid	-	1,280,682	-	1,280,682
Net assets released from restriction - Operating	25,964,234	(25,964,234)	-	-
Total revenue and support	286,091,700	(9,565,048)	5,594,544	282,121,196
EXPENSES				
Instruction	102,056,516	-	-	102,056,516
Research	35,640,161	-	-	35,640,161
Public service	3,492,999	-	-	3,492,999
Academic support	44,203,326	-	-	44,203,326
Student services	4,197,199	-	-	4,197,199
Institutional administration	36,249,856	-	-	36,249,856
Physical plant	4,963,920	-	-	4,963,920
Student financial support	1,779,034	-	-	1,779,034
Independent operations	41,994,559	-	-	41,994,559
Depreciation	15,518,887	-	-	15,518,887
Total expenses	290,096,457	-	-	290,096,457
Change in net assets from operating activities	(4,004,757)	(9,565,048)	5,594,544	(7,975,261)
<i>Unrealized (losses) on investments</i>	(37,196,294)	(19,857,865)	(35,747,149)	(92,801,308)
Change in Net assets	(41,201,051)	(29,422,913)	(30,152,605)	(100,776,569)
<i>Net assets, beginning of year</i>	223,989,815	199,137,183	136,059,427	559,186,425
Net assets, end of year	\$ 182,788,764	\$ 169,714,270	\$ 105,906,822	\$ 458,409,856

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash provided from operating activities		
Change in net assets	\$ 11,296,450	\$ (100,776,569)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,054,553	15,518,887
Allowance for doubtful accounts	6,099,143	3,745,619
Unrealized (gains) losses on investments	(23,680,359)	92,801,308
Changes in operating assets and liabilities:		
Accounts receivable	267,216	5,926,493
Prepaid items and deferred charges	431,018	29,241
Inventory	(249,935)	386,287
Pledges receivable, net	2,218,884	2,659,753
Irrevocable trust agreements	1,868,290	11,984,146
Other assets	257,352	1,114,279
Accounts payable	4,404,279	(1,558,178)
Accrued expenses and other current liabilities	(530,468)	461,021
Deferred income	(1,886,202)	6,852,509
Trust liabilities	(1,194,261)	(204,642)
Annuities payable	64,055	108,845
Non-operating liability	1,888,757	(1,054,072)
Amounts held on behalf of others	(28,835,132)	(11,481,250)
Contributions restricted for long-term purposes	(17,458,008)	(10,368,386)
Net cash (used in) provided by operating activities	<u>(29,984,368)</u>	<u>16,145,291</u>
Cash flows from investing activities		
Proceeds from sales of investments	251,829,757	884,618,244
Purchases of investments	(238,884,516)	(829,470,700)
Withdrawals from restricted cash	7,933,484	11,968,390
Purchases of plant facilities and construction in progress	(40,034,524)	(54,715,451)
Repayments of loans from students	107,069,226	102,138,221
Disbursements of loans to students	(111,010,783)	(102,610,372)
Net cash (used in) provided by investing activities	<u>(23,097,356)</u>	<u>11,928,332</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	17,458,008	10,368,386
Contractual payments on annuities	(379,041)	(481,302)
Trust liabilities distribution	(3,344,469)	(3,847,377)
Proceeds from notes and loans payable	12,916,151	1,755,997
Principal payments on long-term debt	(630,000)	(605,000)
Net cash provided by financing activities	<u>26,020,649</u>	<u>7,190,704</u>
Net change in cash and cash equivalents	(27,061,075)	35,264,327
Cash and cash equivalent at beginning of year	41,065,518	5,801,191
Cash and cash equivalent at end of year	<u>\$ 14,004,443</u>	<u>\$ 41,065,518</u>
Supplemental cash flow information:		
Debt issuance cost	\$ -	\$ 71,272
Cash paid for interest	\$ 1,883,621	\$ 2,655,144

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

1) Nature of Organization

Loma Linda University (the University) is a Seventh-day Adventist educational health-sciences institution with approximately 4,000 students located in Southern California. Eight schools and the Faculty of Graduate Studies comprise the University organization. More than 55 programs are offered by the schools of Allied Health Professions, Dentistry, Medicine, Nursing, Pharmacy, Public Health, Religion and Science and Technology. Curricula offered range from certificates of completion and associate in science degrees to doctor of philosophy and professional doctoral degrees. Students from more than 80 countries around the world and virtually every state in the nation are represented in Loma Linda University's student body. The University also offers distance education.

As its mission, Loma Linda University seeks to further the healing and teaching ministry of Jesus Christ "to make man whole" by:

- Educating ethical and proficient Christian health professionals and scholars through instruction, example, and the pursuit of truth;
- Expanding knowledge through research in the biological, behavioral, physical, and environmental sciences and applying this knowledge to health and disease;
- Providing comprehensive, competent, and compassionate health care for the whole person through faculty, students, and alumni.

The activities of the University are conducted within two major divisions for financial reporting purposes.

- a) University Educational Division – includes the operations and related activities of the academic functions.
- b) University Foundation – includes endowments, trust agreements, annuities, independent operations and other nonacademic activities.

Loma Linda University Adventist Health Sciences Center (LLUAHSC) is a religious nonprofit corporation that serves as the sole member of the University. Other corporations of which LLUAHSC is the sole member include the Loma Linda University Medical Center (LLUMC), a religious nonprofit corporation, and the Loma Linda University Behavioral Medicine Center (LLUBMC), a religious nonprofit corporation. LLUAHSC also serves as a member of Loma Linda University Health Care, a religious nonprofit Corporation.

Social Action Community Health System (SACHS), a clinic, is a California nonprofit corporation, with the University and LLUMC as its two corporate members, and was organized for the purpose of providing health services to lower socioeconomic groups in San Bernardino and Riverside Counties of California. SACHS has incurred operating losses for several years. The University and LLUMC share in the profits and losses of SACHS equally. Each has agreed to provide SACHS additional funding as necessary to meet its cash flow needs through at least June 30, 2010. The losses of SACHS clinic accrued by the University during the years ended June 30, 2010 and 2009 were \$500,000 and \$484,870, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

SACHS continues to rotate LLU-trained health professions students and residents through SACHS clinics as they are transitioning to a stand-alone community health center. SACHS is currently in the application process to become a Federally Qualified Health Center (FQHC), which will allow it to grow its programs and serve more of the community's uninsured. This designation will provide an increased reimbursement rate for their Medi-Cal services, which basically will cover the majority of the cost of providing care to the underserved community.

As of July 31, 2010, SACHS is no longer an affiliate of LLU. Consequently, this will allow SACHS to fully make the transition to provide federally subsidized care.

2) Summary of Significant Accounting Policies

a) *Basis of Presentation*

To ensure compliance with restrictions placed on the resources available to the University, the University's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics are combined into three net asset categories: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor-imposed restrictions that permit the University to use or expend the assets as specified. These restrictions are satisfied either by the passage of time or by actions of the University.

Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained in perpetuity, but permit the University to use, or expend part or all of the income derived from the donated assets for either specified or unspecified purposes and in accordance with the law.

b) *Revenue Recognition, Accounts Receivable and Deferred Revenue*

Revenues consist primarily of tuition and fees derived from courses taught in the University. Revenues from tuition and fees are recognized pro-rata (on a straight-line basis) over a relevant period attended by the student of the applicable course or program. If a student withdraws from a course or program, the paid but unearned portion of the student's tuition may be subject to refunds. Refunds are calculated and paid in accordance with applicable federal, state and University's refund policies. Deferred revenue is the portion of payments received but not earned, and is reflected as a liability in the accompanying statements of financial position as such amounts are expected to be earned within the next year. In addition, the University records gifts of long-lived assets as revenue when they are received unconditionally, at their fair value. Conditional contributions are recognized as revenue when the conditions on which they depend have been met.

c) *Student Loans Receivable*

Student loans consist of federal and private donated funds loaned to students. Private donated funds are recorded as unrestricted net assets. Federal funds are recorded as federal student loan obligations in the statements of financial position.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

d) Accounts Receivable

Accounts receivable include, tuition receivable, non-student receivables (employee education notes, mortgage loans) and third-party receivables. It is stated at the amount management expects to collect from outstanding balances on accounts. Collectability of accounts receivable is reviewed both individually and in the aggregate. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance using a modified percent of receivables (Statement of Financial Position) approach and the assessment of the current status of individual accounts. Balances deemed uncollectible are written off through a charge to the provision for doubtful accounts and a credit to loans receivable. The University follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

e) Pledges Receivable

Unconditional promises to give are recorded as receivables and gift revenues and require the University to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and recorded in their respective net asset categories. An allowance for uncollectible pledges receivable may be provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

f) Board and Administration Designated Net Assets

The Board of Trustees and administration of the University have designated certain unrestricted net asset balances at June 30 to be used for operating endowments, instruction, research, student aid and other areas.

g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The University's significant accounting estimates include investment valuation, useful life of fixed assets, allowances for uncollectible accounts for accounts receivable, student loans and pledges receivable as well as estimated trust liabilities and annuities payable.

h) Concentration of Credit Risk

The University maintains its cash accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The University performs ongoing evaluations of these institutions to limit its concentration risk exposure.

The University invests excess cash in various types of investments. The University has established guidelines relative to diversification and maturities that maximize safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

A substantial portion of tuition is paid through the students' participation in federally funded financial aid programs. Transfers of funds from the financial aid programs to the University are made in accordance with the U.S. Department of Education (DOE) requirements. The financial aid and assistance programs are subject to political and budgetary considerations. The University's administration of these programs is periodically reviewed by various regulatory agencies.

If the University were to lose its eligibility to participate in federal student financial aid programs, the students at the University would lose access to funds derived from those programs and would have to seek alternative sources of funds to pay their tuition and fees. Students obtain access to federal student financial aid through a DOE prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically apply the funds received from the federal financial aid programs to pay their tuition and fees.

Accounts receivable from students and patients are reported net of an allowance for doubtful accounts. The allowance is an estimate by management based upon an analysis of delinquent amounts and the respective student's/patient's ability and intent to repay. These estimated uncollectible amounts can be affected by changes in the student's/patient's economic circumstances. As a result, it is reasonably possible that the allowance for doubtful accounts could change in the near term.

i) Investments and Investment Income

Investments are measured at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures in the statements of financial position (see Footnote 14). Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in unrestricted revenues, gains and other support unless the income or loss is restricted by donor or law.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the California Prudent Management of Institutional Funds Act (CPMIFA) requires Loma Linda University to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$1,691,782 on June 30, 2010 and \$3,494,423 on June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Return Objectives and Risk Parameters

Loma Linda University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Loma Linda University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index, while assuming a moderate level of investment risk. Loma Linda University expects its endowment funds, over time, to provide an average rate of return of approximately nine percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Loma Linda University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Loma Linda University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Loma Linda University has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing the policy, Loma Linda University considered the long-term expected return on its endowment. Accordingly, over the long term, Loma Linda University expects the current spending policy to allow its endowment to grow at an average of four percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

j) Advertising and Promotion

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion expense amounted to \$790,405 and \$578,666 for the years ended June 30, 2010 and 2009, respectively.

k) Fundraising Activities

The University has included fundraising costs in institutional administration expenses in the accompanying Statement of Activities. The University incurred approximately \$1,934,954 and \$2,060,313 of fundraising costs in fiscal years ending June 30, 2010 and June 30, 2009, respectively.

l) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include amounts held in certificates of deposits and money market accounts with original maturities of three months or less, except that such instruments purchased with endowment, annuity, or life income assets are classified as investments. Restricted cash consists of the balance of proceeds from long-term debt issuance.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

m) Inventories

Inventories are valued at the lower of cost or market and accounted for on a first-in, first-out basis, and are substantially made up of finished goods.

n) Plant Facilities

Plant facilities are stated at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. Capital equipment at the University is tangible personal property having a useful life of one year or more and an acquisition cost of \$2,500 or more per unit. Land and buildings are always capitalized. Depreciation is computed using the straight-line method over estimated useful lives of five to 15 years for land improvements, 25 to 75 years for buildings, five to 20 years for building improvements, and three to five years for equipment. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and the related gains and losses are included in the Statement of Activities. The half-year convention method of determining what assets are depreciated is utilized in the Educational Division. For the Foundation Division, assets are depreciated beginning in the next month following the acquisition date. Leasehold improvements are amortized over the lesser of their useful lives or the lives of the building. Maintenance and repairs are charged to expense as incurred.

Asset retirement obligations include legal obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long-lived asset. The fair value of the obligation is measured based on the present value of estimated future retirement costs. Asset retirement costs are depreciated on a straight-line basis through the estimated date of retirement. Subsequent to the initial recognition, period-to-period changes in the carrying amount of the liability are recorded due to the passage of time and revisions to either the timing or amount of the original estimated cash flows. Liabilities are released when the related obligations are settled.

o) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less selling costs. During the years ended June 30, 2010 and 2009, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

p) Annuities Payable

Annuities are paid to individuals who have entered into annuity contracts with the University. Standard annuity tables are used to estimate the present value of future payments due to annuitants based on the annuitant's age and gender, the frequency and amount of payment, and the principal amount of the annuity.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

q) Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on net assets is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. Restrictions expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of events specified by the donors or by the change of restrictions specified by the donors.

r) Income Tax Status

The Internal Revenue Service has ruled that the University qualifies under Section 501(c)(3) of the Internal Revenue Code and is therefore not subject to income taxes for activities related to its exempt programs. Management is not aware of any event which would cause the University to be disqualified in operation. The University had no unrecognized tax benefits at June 30, 2010 and at June 30, 2009. The Organization files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board. The Organization is no longer subject to income tax examinations by taxing authorities for years before 2007 and 2006 for its federal and state filings, respectively.

s) Endowment

The Board of Trustees of Loma Linda University interpreted the California Uniform Prudent Management of Institutional Funds Act (CPMIFA) to state that Loma Linda University, in the absence explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate so much of an endowment fund as the University determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, Loma Linda University classifies as permanently restricted net assets (a) the value of gifts donated to the endowment, (b) 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, and (c) appreciation and (or) depreciation in fair value of the related financial instrument. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Loma Linda University in a manner consistent with the standard of prudence prescribed by California CPMIFA.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

In accordance with CPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The mission of Loma Linda University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Loma Linda University
- (7) The investment policies of Loma Linda University

t) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

3) Pledges Receivable

The pledges receivable, net of estimated uncollectible amounts, are discounted to present value at rate of 5.25%. Based on the University's collection history, management determined that no reserve was necessary for pledges receivable at June 30, 2010 and 2009.

Pledge receivable due to be collected at June 30 are:

	2010	2009
Gross unconditional pledges receivables	\$ 3,389,391	\$ 5,645,755
Less: unamortized discounts	(123,301)	(160,781)
	\$ 3,266,090	\$ 5,484,974

Amounts due in:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,791,311	\$ 4,693,259
One year to five years	1,474,779	791,715
	\$ 3,266,090	\$ 5,484,974

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

4) Plant Facilities

Plant facilities consist of the following at June 30:

	2010	2009
Land and improvements	\$ 30,047,522	\$ 25,655,990
Vehicles	437,391	234,009
Equipment	117,060,660	113,942,229
Buildings and improvements	266,858,859	169,588,218
	414,404,432	309,420,446
Less accumulated depreciation and amortization	(195,207,375)	(181,582,935)
Net plant facilities	219,197,057	127,837,511
Construction in progress	51,098,038	117,477,613
Plant and equipment, net	\$270,295,095	\$245,315,124

The University has substantially completed the Centennial Complex in October 2010. However, there remained various construction-in-progress minor projects open as of June 30, 2010, for the construction of facilities and other improvements. The University has budgeted approximately \$31 million (unaudited) for the completion of these projects and as of June 30, 2010.

5) Notes and Loans Payable

Notes and loans payable consist of the following at June 30:

	2010	2009
Notes to two individuals:		
Collateralized by deed of trust, fixed rate, 7.5%, principal and interest monthly. Due in 2033	\$ 1,478,786	\$ 1,358,878
Collateralized by deed of trust, variable rate, interest only payments monthly, (0.53% and 3.42% at June 30, 2010 and 2009, respectively) due upon death of both individuals	400,000	400,000
Notes to individuals:		
Mortgage notes, interest ranging from 5.5% to 10%, interest and payable monthly, quarterly and on demand, various due dates through 2010	22,000	22,000
Bank of America Line of Credit (see note 6)	10,000,000	
Wachovia Securities Line of Credit (see note 6)	28,421,034	25,624,791
Total notes and loans payable	\$40,321,820	\$27,405,669

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

Aggregate maturities of notes and loans payable for the period subsequent to June 30, are as follows:

2011	\$38,521,077
2012	24,062
2013	25,930
2014	27,943
2015	30,112
2016 and thereafter	<u>1,692,696</u>
	<u>\$40,321,820</u>

Interest related to the notes and loans payable was \$104,973 and \$92,689 for the years ending June 30, 2010 and 2009, respectively.

6) Lines of Credit Agreement

The University has a \$10 million line of credit with Bank of America, with interest at prime which was borrowed as of June 30, 2010. In 2009, however, there were no borrowings under the line of credit agreement.

The University also has a balance of \$28,421,034 and \$25,624,791 as of June 30, 2010 and 2009, respectively, from Wachovia Securities on a demand line of credit that is secured by securities held at Wachovia, with a margin rate of 2.375% (see Note 5).

7) Annuity and Life Income Funds

Revocable Trust Agreements

At June 30, 2010 and 2009, the University held, as trustee, a total of 42 and 41 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$17,416,303 (unaudited) in 2010 and \$16,112,204 (unaudited) in 2009. Revocable trust agreements with assets totaling \$0 in 2010 and \$2,664,138 in 2009 became irrevocable due to the demise of the surviving trustor. The University's policy is to recognize as contributions revenue the trust gift when the agreement becomes irrevocable.

Other Unrecorded Trusts

The University has beneficial or remainder interest in a number of irrevocable and revocable trusts, life income agreements, and estates held by various Conferences of the Seventh-day Adventist Church or third-party trustees, such as banks, that will not be reflected in the financial statements until such gifts are received by the University.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

8) Related Party Transactions

The University receives capital and operating appropriations as well as various other special appropriations, from the General Conference of Seventh-day Adventists (GC). Revenues received from the GC in unrestricted contributions for the years ended June 30, 2010 and 2009, respectively, were \$10,377,866 and \$10,375,119.

In addition, the University shares certain service functions and has a close relationship with Loma Linda University Medical Center as a teaching hospital. Services are also shared between other LLUAHSC organizations. Total expenses paid to LLUAHSC for shared services were \$10,656,264 and \$10,363,927 for the year ended June 30, 2010 and 2009, respectively, and are included in the institutional administration expense category in the Statement of Activities.

During the year ending June 30, 2009, LLUMC borrowed \$24 million from the LLU investment pools. The effective date of this loan was December 30, 2008 with a five-year term. Principal and interest are due monthly at a rate of seven percent. The balance at June 30, 2010 was \$ 18,027,245. The loan is secured by a trust deed and is included in the investments account on the Statement of Financial Position.

The University also provides various services to LLUAHSC entities during the year. The revenue generated from these entities is mostly represented in non-operating revenue in the Statement of Activities. Net accounts receivable from LLUAHSC entities were \$14,713,077 and \$15,432,419 at June 30, 2010 and 2009, respectively, and are included in accounts receivable in the Statement of Financial Position

9) Deferred Compensation

The University maintains a nonqualified deferred compensation plan for the benefit of certain doctors associated with various medical groups. The plan is an unsecured promise to pay income in the future. As of June 30, 2010 and 2009, the plan liabilities totaled \$5,080,118 and \$4,466,599, respectively. The assets are included in other assets and the liabilities are included in non-operating liability in the accompanying statements of financial position.

10) Bonds Payable

On November 1, 2007, the University completed the offering of \$36,095,000 California Municipal Authority Revenue Bonds, Loma Linda University Series 2007 Bonds, issued by the California Municipal Finance Authority (the Authority) on the University's behalf. The Loma Linda University Series 2007 Bonds are issued pursuant to the provisions of the Joint Exercise of Powers Act, Title 1, Division 7, Chapter 5 of the California Government Code and an Indenture of Trust, dated as of November 1, 2007, between the Authority and U.S. Bank National Association, as trustee.

The Authority lent the proceeds of the Series 2007 Bonds to the University pursuant to a Loan Agreement dated as of November 1, 2007, by and between the Authority and the University. The University will use the proceeds of the Series 2007 Bonds for the purpose of (a) financing a portion of the cost of the acquisition, construction, expansion, rehabilitation, remodeling, renovation and/or equipping of certain student housing, power plant upgrades and related projects, (b) funding a Reserve Account for the Series 2007 Bonds, and (c) paying certain costs of issuance of the Series 2007 Bonds. The Series 2007 Bonds are secured by the tuition received by the University each year.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

The \$36,095,000 Series 2007 Bonds mature at varying dates from April 1, 2009 to April 1, 2037. Certain lots of the Series 2007 Bonds have optional redemption provisions prior to their respective stated maturities on or after April 1, 2017, at par, plus accrued interest while the other lots of the Series 2007 Bonds have mandatory redemption provisions on each April 1, and after April 1, 2019, April 1, 2023, and April 1, 2028.

Interest payments totaled \$1,726,547 and \$2,655,144 and capitalized interest totaled \$345,309 and \$578,387 for the years ended June 30, 2010 and 2009, respectively.

Mandatory redemption from sinking fund payments

The Series 2007 Bonds maturing on April 1, 2028 are subject to redemption, in part, by lot, from mandatory sinking fund payments deposited in the Series 2007 Bond Account on each April 1, from and after April 1, 2025, at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium), as follows:

Mandatory Sinking Fund Payment Date (April 1)	Mandatory Sinking Fund Payment	Mandatory Sinking Fund Payment Date (April 1)	Mandatory Sinking Fund Payment	Mandatory Sinking Fund Payment Date (April 1)	Mandatory Sinking Fund Payment
2025	\$1,265,000	2029	\$1,535,000	2033	\$1,850,000
2026	1,325,000	2030	1,610,000	2034	1,940,000
2027	1,390,000	2031	1,685,000	2035	2,035,000
*2028	1,460,000	*2032	1,765,000	2036	2,140,000
				*2037	2,245,000

* *Maturity dates*

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

The aggregate scheduled maturities of the Series 2007 Bond is summarized as follows:

Maturity Date (April 1)	Amount
2011	660,000
2012	685,000
2013	715,000
2014	750,000
2015	785,000
Thereafter	31,265,000
	\$ 34,860,000

The Series 2007 bond agreement with California Municipal Authority requires the maintenance of certain financial ratios.

11) Nature and Amount of Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30 are available for the following purposes:

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
2010		
Restricted for specific purposes	\$ 75,664,361	\$ -
Student Loans	30,888,880	-
Endowment	35,802,075	112,487,834
Annuity and life income agreements	27,035,258	8,597,821
	\$ 169,390,574	\$ 121,085,655
2009		
Restricted for specific purposes	\$ 74,396,310	\$ -
Student Loans	29,955,540	-
Endowment	40,122,525	98,061,717
Annuity and life income agreements	25,239,895	7,845,105
	\$ 169,714,270	\$ 105,906,822

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

12) Retirement Plans

a) *Defined Benefit Plans*

The University participates in a noncontributory defined benefit pension plan known as the “Seventh-day Adventist Retirement Plan for the North America Division.” This plan, which covers substantially all employees of the University, is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 (ERISA) as a multiple-employer plan of a church-related agency.

The University also participates in a noncontributory, defined benefit health plan known as the “Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.” This plan, which covers substantially all employees of the University, is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from ERISA as a multiple-employer plan of a church-related agency.

The University contributed \$3,174,231 and \$2,889,156 to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2010 and 2009, respectively.

These plans are defined by the FASB as multi-employer plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the University apart from other plan participants.

The North American Division Committee voted to freeze the accrual of service credit in these plans effective December 31, 1999, except for employees who choose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The University continues to make contributions (at a reduced rate) to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

b) *Defined Contribution Plan*

Effective January 1, 2000, the University participates in a defined contribution retirement plan known as “The Adventist Retirement Plan.” This plan, which covers substantially all employees of the University, is administered by the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from ERISA as a multiple-employer plan of a church-related agency. The University makes a basic contribution to this plan for covered employees, at a stated percentage of the employee’s wage. The University also makes matching contributions at a stated percentage of additional contributions made by covered employees. Investment management of the accumulated contributions designated for each employee is provided under an agreement between the GC and Variable Annuity Life Insurance Company. The University contributed \$2,035,040 and \$2,142,693 during the years ended June 30, 2010 and 2009, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Faculty does not participate in the retirement plan that is administered by the General Conference of Seventh-day Adventists, but participate in the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this defined contribution plan, the University and plan participants make annual payments to purchase individual annuities, fixed or variable, equivalent to retirement benefits earned. Vesting provisions are full and immediate. Benefits commence upon retirement, and pre-retirement survivor death benefits are also provided. Charges to unrestricted net assets for the University's share of costs were \$3,424,086 and \$3,452,443 during the years ended June 30, 2010 and 2009, respectively.

13) Self-Insurance Plans

The University is insured through the Risk Management division of LLUAHSC for employee and student health care coverage, state disability benefits, auto, physical damage, unemployment benefits and workers' compensation benefits.

The University is also insured through the Risk Management Trust (the Trust) for professional and general liability exposure up to \$4 million. The Trust has purchased additional insurance to cover claims in excess of \$4 million up to \$100 million per claim or aggregate. The Trust assumes all liability related to these claims as described in a contract between the Risk Management division of LLUAHSC and the University. If additional losses are realized by the Trust beyond those amounts estimated, additional premiums, as described for in the contract, will be required.

The funding requirements under the contract are based upon independent actuarial determinations. All payments to the Risk Management division of LLUAHSC are charged to expense as insurance premiums; amounts paid were \$18,427,229 and \$17,867,809 in fiscal years 2010 and 2009, respectively. The Risk Management division of LLUAHSC has a net surplus held for the University as prepaid expense of \$3,184,048 and \$3,513,985 as of June 30, 2010 and 2009, respectively.

14) Fair Values of Financial Instruments

The carrying value of the following financial instruments approximates their fair value: accounts receivable, student loans, notes receivable, annuities payable, trust liabilities, notes and loans payable, and bond payable.

Investments are pooled together when permitted by gift agreement and applicable government regulations. Pooled investments and allocation of income are accounted for using the unit market method. A portion of the assets held in pooled investments is held for others with a corresponding liability recorded in the accompanying financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of marketable debt and equity securities are based on quoted market prices from national security exchanges. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

GAAP describes three levels of inputs that may be used to measure fair value:

- | | |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include debt and fixed income and US and international equities. If quoted market prices are not available, then investments are classified as Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and that are redeemable within the near term. Level 2 securities include managed accounts and certain funds which are valued by the manager using the fair value of the underlying equity security investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Level 3 investments, which include private equity, are based on valuations provided by the external investment managers adjusted for receipts and disbursements of cash and distributions of securities if the date of valuation is prior to the University's fiscal year end. Such valuations generally consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The University believes the carrying amounts of these financial instruments are reasonable estimates of their fair value. For those investments that are not traded on a ready market, the estimates of their fair values may differ from the values that would have been used had a ready market for those investments existed.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

Investments consist of the following at June 30, 2010:

	Level 1	Level 2	Level 3	2010 Total
<u>Investments</u>				
Cash and short-term investments	\$ 31,459,152	\$ -	\$ -	\$ 31,459,152
Corporate bonds	107,821,767	-	-	107,821,767
U.S. government and agency securities	2,166,217	-	-	2,166,217
Bond funds	6,807,675	-	-	6,807,675
Common and preferred stock	25,287,648	-	-	25,287,648
US Equity funds	42,853,956	-	-	42,853,956
International equity funds	18,317,518	9,604,503	-	27,922,021
Mutual funds	19,355,242	-	-	19,355,242
Hedge funds	-	12,502,212	-	12,502,212
Notes receivable	-	-	62,477,733	62,477,733
Private equity	-	-	42,941,425	42,941,425
Real estate	-	-	67,415,681	67,415,681
Total investments	<u>254,069,175</u>	<u>22,106,715</u>	<u>172,834,839</u>	<u>449,010,729</u>
<u>Irrevocable trusts</u>				
Cash	2,620,046	-	-	2,620,046
Corporate bonds	7,268,390	-	-	7,268,390
U.S. government and agency securities	3,738,796	-	-	3,738,796
Mutual funds	12,065,289	-	-	12,065,289
Common stock	13,249,331	-	-	13,249,331
Notes receivable	-	-	13,156,416	13,156,416
Private equity	-	-	2,700,000	2,700,000
Real estate	-	-	2,395,731	2,395,731
Life insurance and other assets	-	-	13,067	13,067
Total irrevocable trusts	<u>38,941,852</u>	<u>-</u>	<u>18,265,214</u>	<u>57,207,066</u>
Totals	<u>\$ 293,011,027</u>	<u>\$ 22,106,715</u>	<u>\$ 191,100,053</u>	<u>\$ 506,217,795</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

Investments consist of the following at June 30, 2009:

	Level 1	Level 2	Level 3	2009 Total
<u>Investments</u>				
Cash and short-term investments	\$ 11,172,675	\$ -	\$ -	\$ 11,172,675
Corporate bonds	102,412,506	-	-	102,412,506
U.S. government and agency securities	3,601,945	-	-	3,601,945
Bond funds	29,669,157	-	-	29,669,157
Common and preferred stock	28,201,075	-	-	28,201,075
US Equity funds	33,941,203	-	-	33,941,203
Hedge funds	-	-	12,647,097	12,647,097
Notes receivable	-	-	69,430,629	69,430,629
Private equity	-	-	61,860,885	61,860,885
Real estate	-	-	85,338,439	85,338,439
Total investments	<u>208,998,561</u>	<u>-</u>	<u>229,277,050</u>	<u>438,275,611</u>
<u>Irrevocable trusts</u>				
Cash	3,770,455	-	-	3,770,455
Corporate bonds	3,296,836	-	-	3,296,836
Mutual funds	1,108,680	-	-	1,108,680
Common stock	33,152,429	-	-	33,152,429
Real estate	-	-	3,057,930	3,057,930
Notes receivable	223,069	-	11,746,701	11,969,770
Private equity	-	-	2,700,000	2,700,000
Life insurance and other assets	2,250	-	17,006	19,256
Total irrevocable trusts	<u>41,553,719</u>	<u>-</u>	<u>17,521,637</u>	<u>59,075,356</u>
Totals	<u>\$ 250,552,280</u>	<u>\$ -</u>	<u>\$ 246,798,687</u>	<u>\$ 497,350,967</u>

The following table presents a roll forward of the amounts for the year ended June 30, 2010 for assets classified as Level 3:

	Hedge Funds	Notes Receivable	Private Equity	Real Estate	Irrevocable Trusts	2010 Total
Balance at June 30, 2009	\$ 12,647,097	\$ 69,430,629	\$ 61,860,885	\$ 85,338,439	\$ 17,521,637	\$ 246,798,687
Transfers (to) from level 2	(12,647,097)	207,728	(26,485,863)	448,204	-	(38,477,028)
Purchases and sales	-	(7,160,624)	1,518,973	(12,869,136)	642,312	(17,868,475)
Gains and losses	-	-	6,047,430	(5,501,826)	101,265	646,869
<i>Included in investment income</i>	-	-	(3,005,483)	-	(805,659)	(3,811,142)
<i>Included in unrealized gains (losses) on investments</i>	-	-	9,052,913	(5,501,826)	906,924	4,458,011
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ 62,477,733</u>	<u>\$ 42,941,425</u>	<u>\$ 67,415,681</u>	<u>\$ 18,265,214</u>	<u>\$ 191,100,053</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

The following table presents a roll forward of the amounts for the year ended June 30, 2009 for assets classified as Level 3:

	Investments	Irrevocable Trusts	2010 Total
Balance at June 30, 2008	\$ 235,848,993	\$ 14,427,103	\$ 250,276,096
Purchases and sales	21,614,622	194,211	21,808,833
Gains and losses	(28,186,565)	2,900,323	(25,286,242)
<i>Included in investment income</i>	142,538	1,130,587	1,273,125
<i>Included in unrealized gains (losses) on investments</i>	<u>(28,329,103)</u>	<u>1,769,736</u>	<u>(26,559,367)</u>
Balance at June 30, 2009	<u>\$ 229,277,050</u>	<u>\$ 17,521,637</u>	<u>\$ 246,798,687</u>

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2010 relate principally to assets still held at June 30, 2010.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent):

	Fair Value at June 30, 2010	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity ^{a), b)}	\$42,941,425	\$11,671,425	None	N/A
Hedge Funds ^{c)}	12,502,212	-	N/A	30-90 days
Institutional Mutual Funds ^{d)}	<u>9,604,503</u>	<u>-</u>	N/A	30 days
Totals	<u>\$ 65,048,140</u>	<u>\$ 11,671,425</u>		

Private Equity Funds held at year-end have remaining lives ranging from three to five years with commitments due as follows:

Year Ending	Amount
2011	\$6,767,703
2012	4,187,887
2013	<u>715,835</u>
	<u>\$ 11,671,425</u>

- a) These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next three to five years.
- b) Diversified investments in various portfolio companies at different stages, industries or regions, providing venture capital and/or restructuring expertise and subsequently selling the company to generate returns.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

- c) Absolute return strategies seeking to achieve capital appreciation employing event driven investment strategies that generate attractive risk adjusted returns, and long/short equity strategies seeking to outperform the broader market averages while minimizing volatility and risk by investing in businesses trading at attractive valuations and short selling stocks in poorly performing, overvalued businesses.
- d) Unlisted equity fund investing in global equities.

15) Conditional Pledges

On August 1, 1995, the United States government has conditionally deeded 6.5 acres of land, including buildings from the former Norton Air Force Base, to Loma Linda University for the sum of one dollar. This property and facility is restricted for educational purposes and is subject to certain operational conditions and inspections by the government for a period of 30 years. The University will record the contribution at its fair value at the end of the 30-year period when all conditions to the transfer are met. The property and the facility are currently being used by the SACHS clinic.

16) Commitments and Contingencies

Loma Linda University has guaranteed to the State of California the payment of all workers' compensation liabilities of the Loma Linda University Medical Center, Loma Linda Behavioral Medicine Center and Faculty Practice Groups. For 2010 the total current funding of all these groups exceeds the estimated future liability.

The University is involved in legal actions in the normal course of business, some of which seek monetary damages, including claims for punitive damages, which are not covered by insurance. These actions, when finally concluded and determined, will not, in the opinion of management based in part on consultation with the University's legal counsel, have a material adverse effect on the University's financial position, results of operations, or cash flows.

17) Split-Interest Agreements

The University is the beneficiary in a number of split-interest arrangements with donors. Under these arrangements, the University may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the arrangement (usually upon the death of the donor or donor's designee) at which time the remaining assets are generally unrestricted for the University's use. When the University receives such assets, the fair value of the assets is recorded as irrevocable trust assets. Irrevocable Trust Assets have been recorded using the same investment valuation techniques as similar investments held by the University (see Footnote 3).

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

Irrevocable trust's assets, stated at fair value, consist of the following at June 30:

Irrevocable trust agreements:	2010	2009
Cash	\$ 2,839,797	\$ 3,933,102
Common stock	13,249,331	33,152,429
Corporate bonds	10,787,436	3,134,189
Mutual funds	12,065,289	1,108,680
Real estate	2,395,731	3,057,930
Trust deed loans	13,156,416	11,969,770
Private equity	2,700,000	2,700,000
Other assets	13,066	19,256
	<u>\$ 57,207,066</u>	<u>\$ 59,075,356</u>

The University's policy is to record the contribution of these gifts in its financial statements as temporarily restricted net assets (at market value) if the assets are controlled by the University even though the trust may become unrestricted or permanently restricted upon demise of the donor. At the time of the gift, the University records contribution income and a liability for amounts payable to income beneficiaries using an actuarial calculation, adjusted annually. The estimated net present value of the payments to beneficiaries is recorded as trust liabilities, and the estimated net present value of the payments which will be made to other remaindermen trusts is also recorded as trust liabilities. The annual payments to the beneficiaries are payable from the trust assets' investment earnings or in some cases, to the extent that amount is deficient, from principal. If the trust assets' investment earnings exceed the payments to the benefactor, such excess is added to the trust principal. The University uses discount rates considered appropriate for the time and risk factors of the gift instruments.

18) Endowment

The net assets of the University include permanent endowment and funds functioning as endowment (collectively the "endowment"). Permanent endowment funds are subject to the restrictions of gifts instruments requiring that the principal be invested and the income only be utilized as provided under the California Uniform Prudent Management of Institutional Funds Act. While certain funds have been established by the Board of Trustees to function as endowment, any portion of such funds may be expended.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

Changes in the university's endowment for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010
Investment returns				
Investment income from pooled funds	\$ 1,116,403	\$ 338,755	\$ 134,317	\$ 1,589,475
Less investment returns appropriated for operation	<u>(5,827,560)</u>	<u>-</u>	<u>-</u>	<u>(5,827,560)</u>
Investment income, net of amount appropriated for operation	(4,711,157)	338,755	134,317	(4,238,085)
Change in realized/unrealized net appreciation of investments				
Net return in pooled investment fund	<u>1,920,650</u>	<u>(5,163,317)</u>	<u>7,448,745</u>	<u>4,206,078</u>
Net return in pooled investment fund	(2,790,507)	(4,824,562)	7,583,062	(32,007)
Investment income from separate investments	<u>40</u>	<u>(141,437)</u>	<u>117,852</u>	<u>(23,545)</u>
Total net investment returns	(2,790,467)	(4,965,999)	7,700,914	(55,552)
Other changes in endowed equity:				
Gifts	825,023	645,549	6,725,202	8,195,774
Transfers	<u>(668,628)</u>	<u>-</u>	<u>-</u>	<u>(668,628)</u>
Net change in endowed equity	(2,634,072)	(4,320,450)	14,426,116	7,471,594
Endowed equity, beginning of year	<u>61,490,224</u>	<u>40,122,525</u>	<u>98,061,717</u>	<u>199,674,466</u>
Endowed equity, end of year	<u>\$ 58,856,152</u>	<u>\$ 35,802,075</u>	<u>\$ 112,487,833</u>	<u>\$ 207,146,060</u>

At June 30, 2010, endowed equity consists of the following assets:

Investments	<u>\$ 58,856,152</u>	<u>\$ 35,802,075</u>	<u>\$ 112,487,833</u>	<u>\$ 207,146,060</u>
Total endowed equity	<u>\$ 58,856,152</u>	<u>\$ 35,802,075</u>	<u>\$ 112,487,833</u>	<u>\$ 207,146,060</u>

At June 30, net assets included endowed equity as follows:

Total unrestricted endowment (Board Designated)				<u>2010</u>
				<u>\$ 58,856,152</u>
Temporarily Restricted				
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:				
Without purpose restriction				35,802,075
With purpose restriction				<u>-</u>
Total temporarily restricted endowment funds				<u>\$ 35,802,075</u>
Permanently restricted endowment				<u>112,487,833</u>
Total endowment				<u>\$ 207,146,060</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

Changes in the university's endowment for the year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Investment returns				
Investment income from pooled funds	\$ 1,846,397	\$ 3,839,222	\$ 79,456	\$ 5,765,075
Less investment returns appropriated for operation	<u>(9,226,430)</u>	<u> -</u>	<u> -</u>	<u>(9,226,430)</u>
Investment income, net of amount appropriated for operation	(7,380,033)	3,839,222	79,456	(3,461,355)
Change in realized/unrealized net appreciation of investments	<u>(9,248,574)</u>	<u>(2,222,162)</u>	<u>(32,987,923)</u>	<u>(44,458,659)</u>
Net return in pooled investment fund	(16,628,607)	1,617,060	(32,908,467)	(47,920,014)
Investment income from separate investments	<u>2,417,437</u>	<u>134,751</u>	<u>196,283</u>	<u>2,748,471</u>
Total net investment returns	(14,211,170)	1,751,811	(32,712,184)	(45,171,543)
Other changes in endowed equity:				
Gifts	1,214,353	2,488,375	4,060,554	7,763,282
Transfers	<u>2,910,960</u>	<u>(349,675)</u>	<u>2,964,368</u>	<u>5,525,653</u>
Net change in endowed equity	(10,085,857)	3,890,511	(25,687,262)	(31,882,608)
Endowed equity, beginning of year	<u>71,576,081</u>	<u>36,232,014</u>	<u>123,748,979</u>	<u>231,557,074</u>
Endowed equity, end of year	<u>\$ 61,490,224</u>	<u>\$ 40,122,525</u>	<u>\$ 98,061,717</u>	<u>\$199,674,466</u>
At June 30, 2009, endowed equity consists of the following assets:				
Investments	<u>\$ 61,490,224</u>	<u>\$ 40,122,525</u>	<u>\$ 98,061,717</u>	<u>\$199,674,466</u>
Total endowed equity	<u>\$ 61,490,224</u>	<u>\$ 40,122,525</u>	<u>\$ 98,061,717</u>	<u>\$199,674,466</u>
At June 30, net assets included endowed equity as follows:				<u>2009</u>
Total unrestricted endowment (Board Designated)				<u>\$ 61,490,224</u>
Temporarily Restricted				
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:				
Without purpose restriction				40,122,525
With purpose restriction				<u> -</u>
Total temporarily restricted endowment funds				<u>\$ 40,122,525</u>
Permanently restricted endowment				<u>98,061,717</u>
Total endowment				<u>\$199,674,466</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

20) Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The University has evaluated subsequent events through December 14, 2010, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that need to be disclosed.

SUPPLEMENTAL SCHEDULES (UNAUDITED)

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
AS OF JUNE 30, 2010

	Educational Division	Foundation	Total
ASSETS			
Cash & cash equivalents	\$ 12,531,118	\$ 1,473,325	\$ 14,004,443
Restricted cash	2,404,783	-	2,404,783
Accounts receivable	28,221,655	2,235,792	30,457,447
Pledges receivable	-	3,266,090	3,266,090
Trust deed notes receivable	-	204,846	204,846
Student Loans / Financial Aid	42,069,708	-	42,069,708
Current Notes & Loans Receivable	100,000	-	100,000
Allowance for Doubtful Accounts	(5,858,734)	-	(5,858,734)
Inventory	2,008,528	2,311,514	4,320,042
Investments	23,039,144	425,971,585	449,010,729
Interdepartmental loans	(37,212,073)	37,212,073	-
Construction in progress	51,047,423	50,615	51,098,038
Plant and equipment, net	178,480,294	40,716,763	219,197,057
Prepaid items & deferred charges	3,331,849	77,949	3,409,798
Irrevocable trusts	-	57,207,066	57,207,066
Other Assets	34,183,339	(24,349,501)	9,833,838
Total Assets:	<u>\$ 334,347,034</u>	<u>\$ 546,378,117</u>	<u>\$ 880,725,151</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 31,090,185	\$ 1,498,814	\$ 32,588,999
Accrued expenses and other current liabilities	5,064,861	-	5,064,861
Deferred income	17,355,703	-	17,355,703
Notes & loans payable	38,421,034	1,900,786	40,321,820
Trust liabilities	-	32,812,797	32,812,797
Annuities payable	-	5,002,333	5,002,333
Non-operating liability	30,404,048	2,360,870	32,764,918
Amounts held on behalf of others	-	210,247,414	210,247,414
Bonds payable	34,860,000	-	34,860,000
Total Liabilities	157,195,831	253,823,014	411,018,845
Net assets:			
Unrestricted:			
Unrestricted – undesignated	115,422,860	676,371	116,099,231
Unrestricted – board designated	-	43,695,674	43,695,674
Unrestricted – administration designated	-	19,435,172	19,435,172
Total unrestricted	115,422,860	63,807,217	179,230,077
Temporarily restricted	61,728,343	107,662,231	169,390,574
Permanently restricted	-	121,085,655	121,085,655
Total net assets:	<u>177,151,203</u>	<u>292,555,103</u>	<u>469,706,306</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 334,347,034</u>	<u>\$ 546,378,117</u>	<u>\$ 880,725,151</u>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED)
YEAR ENDED JUNE 30, 2010

	Educational Division			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Tuition and fees	\$ 114,451,446	\$ -	\$ -	\$ 114,451,446
Less student aid	<u>(6,687,771)</u>	<u>-</u>	<u>-</u>	<u>(6,687,771)</u>
Net tuition and fees	107,763,675	-	-	107,763,675
Gifts	6,577,718	116,637	-	6,694,355
Grants and contracts	36,362,919	-	-	36,362,919
Investment income	419,034	4,237,102	-	4,656,136
Other operating revenue (expense)	11,255,988	(209,000)	-	11,046,988
Non-operating revenue	56,049,237	28,722	-	56,077,959
Subsidies	10,368,860	-	-	10,368,860
Sales income	2,081,296	-	-	2,081,296
Financial aid	111,664	1,470,115	-	1,581,779
Net assets released from restriction - operating	<u>15,666,004</u>	<u>(7,136,400)</u>	<u>-</u>	<u>8,529,604</u>
Total revenue and support	246,656,395	(1,492,824)	-	245,163,571
EXPENSES				
Instruction	101,382,654	-	-	101,382,654
Research	36,278,868	-	-	36,278,868
Public service	3,774,830	-	-	3,774,830
Academic support	43,779,372	-	-	43,779,372
Student services	5,346,548	-	-	5,346,548
Institutional administration	22,852,312	-	-	22,852,312
Physical plant	4,658,279	-	-	4,658,279
Student financial support	2,121,390	-	-	2,121,390
Independent operations	18,521,622	-	-	18,521,622
Depreciation	<u>15,054,553</u>	<u>-</u>	<u>-</u>	<u>15,054,553</u>
Total expenses	253,770,428	-	-	253,770,428
Change in net assets from operating activities	<u>(7,114,033)</u>	<u>(1,492,824)</u>	<u>-</u>	<u>(8,606,857)</u>
<i>Unrealized gains on investments</i>	-	-	-	-
Change in net assets	(7,114,033)	(1,492,824)	-	(8,606,857)
<i>Net assets, beginning of year</i>	<u>122,536,893</u>	<u>63,221,167</u>	<u>-</u>	<u>185,758,060</u>
Net assets, end of year	<u>\$ 115,422,860</u>	<u>\$ 61,728,343</u>	<u>\$ -</u>	<u>\$ 177,151,203</u>

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED), CONT'D
YEAR ENDED JUNE 30, 2010

	Foundation Division				Educational & Foundation Divisions Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE AND SUPPORT					
Tuition and fees	\$ -	\$ -	\$ -	\$ -	\$ 114,451,446
Less student aid	-	-	-	-	(6,687,771)
Net tuition and fees	-	-	-	-	107,763,675
Gifts	677,729	7,349,865	6,725,416	14,753,010	21,447,365
Grants and contracts	-	-	-	-	36,362,919
Investment income (loss)	3,689,106	3,223,617	(2,640,665)	4,272,058	8,928,194
Other operating revenue	19,825,997	-	-	19,825,997	30,872,985
Non-operating revenue	247	26,253	117,852	144,352	56,222,311
Subsidies	-	-	-	-	10,368,860
Sales income	-	-	-	-	2,081,296
Financial aid	-	-	-	-	1,581,779
Net assets released from restriction - operating	6,381,601	(14,911,205)	-	(8,529,604)	-
Total revenue and support	30,574,680	(4,311,470)	4,202,603	30,465,813	275,629,384
EXPENSES					
Instruction	-	-	-	-	101,382,654
Research	-	-	-	-	36,278,868
Public service	-	-	-	-	3,774,830
Academic support	-	-	-	-	43,779,372
Student services	-	-	-	-	5,346,548
Institutional administration	12,955,145	-	-	12,955,145	35,807,457
Physical plant	-	-	-	-	4,658,279
Student financial support	-	-	-	-	2,121,390
Independent operations	21,287,720	-	-	21,287,720	39,809,342
Depreciation	-	-	-	-	15,054,553
Total expenses	34,242,865	-	-	34,242,865	288,013,293
Change in net assets from operating activities	(3,668,185)	(4,311,470)	4,202,603	(3,777,052)	(12,383,909)
<i>Unrealized gains on investments</i>	7,223,531	5,480,598	10,976,230	23,680,359	23,680,359
Change in net assets	3,555,346	1,169,128	15,178,833	19,903,307	11,296,450
<i>Net assets, beginning of year</i>	<i>60,251,871</i>	<i>106,493,103</i>	<i>105,906,822</i>	<i>272,651,796</i>	<i>458,409,856</i>
Net assets, end of year	\$ 63,807,217	\$ 107,662,231	\$ 121,085,655	\$ 292,555,103	\$ 469,706,306

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
RESEARCH AND DEVELOPMENT				
<u>National Aeronautics and Space Administration</u>				
Research Opportunities Soliciting		43.XXX	NNJ05HF38A	\$ 30,940
Space Radiation Health Research Program		43.XXX	NNX10AB09G	1,016,985
NSCOR - Progressive Alterations		43.XXX	NNJ04HC90G	675,772
Cooperative Research in Proton Space Radiation		43.XXX	NNX08AP21G	806,431
NSCOR - Carcinogenesis and Central Epigenetic Control of Radiogenic Damage Processing in C. elegans		43.XXX	NNX10AD59G	256,343
		43.XXX	NNX08AC79G	219,353
Space Radiation and Bone Loss: Lunar Outpost Mission Critical Scenarios & Countermeasures	National Space Biomedical Research Institute	43.XXX	NCC9-58	34,504
Inflammation in the Brain	Regents of the University of California	43.XXX	NNJ05HE33G	56,012
Total National Aeronautics and Space Administration				<u>3,096,340</u>
<u>Department of Defense</u>				
Pre-Clinically Testing G-CSF Treatment in Neonatal Brain Injury	National Medical Technology TestBed	12.XXX	DAMD17-97-2-7016	944,093
PACER	Johns Hopkins University	12.300	N00014-06-1-0991	1,199

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Diabetes and Wellness Outcomes	Canvasback Missions	12.431	WX81XWH-05-1-0547	197
Synchrotron-Based Technology		12.420	W81XWH-06-1-0675	173,125
Synchrotron-Based Technology		12.420	W81XWH-07-1-0680	4,035,780
PIM-1: A Molecular Target to Modulate Resistance to Therapy in Prostate Cancer		12.420	W81XWH-04-1-0887	207,782
CURE		12.420	W81XWH-05-1-0596	79,993
DISCOVERIES		12.420	W81XWH-07-2-0105	27,135
Cell and Molecular Study of Skeletal Augmentation and Repair		12.420	W81XWH-08-0967	1,999,433
Neuroprotective Strategies after Repetitive Mild Traumatic Brain Injury		12.420	W81XWH-09-1-0426	225,484
Synchrotron-Based Scanning Research		12.420	W81XWH-09-1-0544	150,948
Tuberous Sclerosis Complex Natural		12.420	W81XWH-06-1-0538	2,000
				<u>6,901,680</u>
				<u>7,847,169</u>
<u>Department of Health and Human Services</u>				
Preparedness and Emergency Response Research Centers	Regents - University of California	93.061	1P01TP000303-01	212,407
Supporting the scale-up of high quality	University of Malawi	93.067	3U2GPS001965	51,551
Studies in Virulence Regulation in Porphyromonas		93.121	2 R01 DE013664	417,500
Testing of Computer Aided Dental		93.121	1 R15 DE017625	67,577
Mechanisms for Adaptation		93.121	1R01DE019730	549,758
				<u>1,034,835</u>

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
RCT of SAME in Alcoholic Liver Disease		93.273	5 R21 AA014269	100,536
Multicenter Pilot Studies for ED Tobacco Interventions	Massachusetts General Hospital	93.279	1 R21 DA020771	554
Treating EBD Children in Foster Care - The Role of Residential Group Care		93.281	K01MH077732	138,111
Centers for Public Health Preparedness		93.283	5 U90 TP924259	646,719
Researchers & Their Communities	Association for Prevention Teaching & Research	93.283	5U50CD300860-21	20,730
				<u>667,449</u>
LLU Center for Health Disparities		93.307	5P20MD001632	1,428,921
Pain and Hypoxia in Premature		93.361	1R01NR011209	359,679
Infidelity of Cytosine Methylation		93.393	5 R01 CA084487	264,989
Chemical Pathology of 5-aza-2 Deoxy		93.393	5 R01 CA097043	122,387
Mechanisms of Psychosocial		93.393	1R21CA116698	171,958
				<u>559,334</u>
Evaluation of a Social-Networking Children's Cancer Group		93.395	1 R03 CA137391	52,108
		93.395	5 U10 CA13539	354,972
National Surgical Adjuvant Breast/NSABP Foundation	NSABP Foundation	93.395	U10 CA12027	129,259

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
The Rapamycin Renel Study/Brigham and Women's Hospital, Inc.	Brigham and Women's Hospital, Inc.	93.395	1 R01 CA107164	3,190
				<u>539,530</u>
Minority Predoctoral Fellowship		93.398	5 F31 CA117742	1,620
Community Clinical Oncology Program/NSABP Foundation	NSABP Foundation	93.399	U10 CA37377	75,205
Select/Southwest Oncology Group	Southwest Oncology	93.399	CA37429	81,657
				<u>156,862</u>
ARRA - Salt Appetite & Vascular		93.701	1R01HL090920	278,396
ARRA - Neural Regulation of Prepartum		93.701	3R01HD054931	72,160
ARRA - NIH-LLU Initiative for Maximizing Student Diversity		93.701	3R25GM060507	155,342
ARRA - Pediatric TBI and DAI: Normal		93.701	3R01NS054001	35,167
ARRA - Clinical Study Funding Rider		93.701	3U10CA098543	762
ARRA - Febrile Seizure Model - Neuronal In	Regents of the University of California	93.701	NS035439	41,842
ARRA - Mechanism of Action of Omega-3	Louisiana State University	93.701	RC2AT005909	12,863
				<u>596,533</u>
Maturation of Cerebrovascular		93.837	5 R01 HL064867	193,203
Maturation & Myogenic Reactivity of		93.837	5 R01 HL069078-04	64
Prenatal Cocaine Exposure and Cardiac Programming		93.837	5 R01 HL082779	304,238
Maternal Hypoxia and Programming of Fetal Heart		93.837	1 R01 HL083966	356,154
Steroid Hormones and Uterine		93.837	1 R01 HL089012	265,914
Role of Nitrate and Hemoglobin		93.837	1R01HL095973	275,717

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA or Pass Through Contract Number	Grantor's Number	Expenditures
STICH - Surgical Treatment for SCCOR	Duke University University of Pittsburgh	93.837 93.837	1 U01 HL69015 5 P50 HL074732	848 42,146
STICH - Trail Cardiovascular	University of Southern California	93.837	5U01HL072683	<u>29,294</u> <u>1,467,577</u>
Molecular and Clinical Biology	Medical College Of Wisconsin	93.839	5 PO1 HL00081588	2,000
Predocctoral Fellowship - Regulation		93.846	1 F31 AR054722	4,617
Research Fellowship Award - Regulation of Oxidative Stress Induced Apoptosis in Osteoblasts		93.846	1 F31 AR056204	42,438
Role of Osteoactivin		93.846	5R03AR055135	<u>64,516</u> <u>111,571</u>
Intravitreal Ranibizumab or/Jaeb Center	Jaeb Center	93.847	5 U10 EY014231	101,879
Focal Segemental Glomeruloscleroris (FSGS) in Young Patients	Research Foundation at SUNY	93.849	5 U01 DK63385	1,600
Pediatric TBI and DAI		93.853	1 R01 NS054001	371,090
Mechanisms of Hyperbaric Oxygen Induced Brain Protection		93.853	5 R01 NS043338	43,397
Neurovascular Protection for Subarachnoid Hemorrhage		93.853	5 R01 NS053407	393,261
Mechanisms of EPO-Induced Neonatal Brain Ischemia: Neuroimaging as a Basis for Rational Stem Cell Therapy		93.853	5 R01 NS054685	347,379
Mechanisms of G-CSF-Induced		93.853	1 R01 NS059770	422,027
		93.853	1R01NS060936	193,311

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Gene Targets for IVH	Yale University	93.853	1 R01 NS053865	490
				<u>1,770,956</u>
Prospective Multicenter of Bronchio	Massachusetts General Hospital	93.855	1 U01 AI0676793	1,064
Sensory Transduction in Bacteria		93.859	5 R01 GM029481	46,052
Hydrolytic and Free Radical Mediate		93.859	5 R01 GM050351	226,524
LLU - NIH Initiative for Minority Students Program		93.859	5 R25 GM060507	660,691
Protocolized Care for Early Septic Shock/University of Pittsburgh-DBMI	University of Pittsburgh	93.859	1 P50 GM76659	958
				<u>934,225</u>
Cerebrovascular Adrenergic		93.865	5 R01 HD003807	2,134
Mechanisms of Acclimatization; Fetus and Adult		93.865	5 P01 HD031226	942,737
Neural Regulation of Prepartum		93.865	1 R01 HD054931	339,100
Oxygen Therapy in Neonatal Hypoxia-Ischemia		93.865	5 R01 HD043120	55,596
Leptin and Hypothalamo-Pituitary-Adrenal Function in the Long-Term Hypoxic Fetus		93.865	1R01HD051951	310,348
AQP4 and JNK Inhibition Together		93.865	1R01HD061946	214,886
Improving Outcomes in Acute Rehabilitation for TBI	International Severity Information Systems, Inc.	93.865	5 R01 HD050439	69,895
				<u>1,934,696</u>
Biological and Psychosocial		93.866	5 R01 AG026348	121,107
Oxytocin and Social Behavior Over	Claremont Graduate University	93.866	1R21AG029871	18,576

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
				139,682
Standard Care Versus Corticosteroid/University of Wisconsin, Madison	University of Wisconsin - Madison	93.867	5 U10 EY014351	1,691
Residency Training in Primary Care		93.884	1 D58HP08292	238,894
Academic Administrative Units in Primary Care		93.884	6 D54HP10355	167,470
Pre-Doctoral Training in Primary Care		93.884	1 D56HP15239	195,681
				602,046
Community Based Dental Partnership		93.924	5 H65HA00004	365,479
Asian Leadership Training for Tobacco Control Research Design and Validation of a Tobacco Survey for the Multiethnic population in Laos		93.989	5 R01 TW005964	47,877
		93.989	5 R03 TW007345	5,067
				52,943
Botulism Antitoxin Effects on Paralysis Induced by Type A and Type B Botulinum Neurotoxins in the Extensor Digitorum Brevis Muscle	Chesapeake Biological Laboratories, Inc.		HHSO-100-2006-00017C	365,485
Age-Related Eye Disease Study II	EMMES Corporation		HHS-N-260-2005-00007-C	19,778
				13,720,595
Total Department of Health and Human Services				13,720,595
<u>Department of Energy</u>				
Enhanced Proton Therapy for Adult		81.XXX	DE-FG02-06CH11465	84,279

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
The Cell Gene Expression		81.049	DE-FG02-07ER64345	237,966
The Contribution of Tissue Level Organization to Genomic Stability Following Low Dose/Low Dose Rate Gamma and Proton Irradiation		81.049	DE-FG02-07ER64348	285,983
Low Dose Ionizing Radiation Modulat		81.049	DE-SC0001832	162,309
				<u>686,258</u>
				<u>770,536</u>
Total Department of Energy				<u>770,536</u>
<u>National Science Foundation</u>				
Inter-University Technology Bundlin		47.041	650347	201,049
MRI: Acquisition of a multiphoton		47.074	DBI-0923559	842,722
Total National Science Foundation				<u>1,043,771</u>
<u>Department of Agriculture</u>				
Professional Services Agreement	Public Health Institute	10.56	08-85580	73,192
Total Department of Agriculture				<u>73,192</u>
				<u>26,551,604</u>
Total Research and Development Cluster				<u>26,551,604</u>
<u>Department of Health and Human Services</u>				
Child Welfare - Full Time	Regents of the University of California	93.658	09-2008	1,186,849

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>United States Agency for International Development (USAID)</u>				
Cooperative Agreement, WAKH/USAID		98.001	306-A-00-07-00505-00	389,218
Palestinian Health Sector Reform and Development Project		98.001	294-C-00-08-00225-00-LLU	<u>624,340</u>
Total United States Agency for International Development (USAID)				<u>1,013,558</u>
<u>U.S. Department of Education</u>				
Individualized Planning for the First Year Following Acute Rehabilitation	The Ohio State University	84.133	H133A080023	73,971
STUDENT FINANCIAL ASSISTANCE CLUSTER				
<u>Department of Health and Human Services</u>				
Scholarships for Disadvantaged Students				
Scholarships for Disadvantaged Students		93.925	T08HP13201-01-00	539,840
ARRA - Scholarships for Disadvantaged Students		93.407	1 T0AHP15988-01-00	239,119
Total Department of Health and Human Services				<u>778,959</u>

LOMA LINDA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Pass through Grantor</u>	<u>Federal CFDA or Pass Through Contract Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>				
Federal Supplemental Educational Opportunity Grants		84.007	PO07A030445	426,796
Federal Direct Loans		84.268		94,458,837
Federal Work-Study Program		84.033	PO33A030445	593,403
ARRA - Federal Work-Study Program		84.033	PO33A030445	235,325
Federal Pell Grant Program		84.063	PO63P031147	1,316,721
Total Student Financial Assistance Cluster				<u>97,810,041</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 127,426,269</u>

LOMA LINDA UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Federal awards expended are reported on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States as described in the Notes to Financial Statements.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the University provides federal awards to subrecipients as follows:

Federal Grantor/Program Title	Federal CFDA	Pass Through Contract Number	Expenditures
Synchrotron-Based Technology	12.420	W81XWH-06-1-0675	17,465
Synchrotron-Based Technology	12.420	W81XWH-07-1-0680	2,897,617
PIM-1: A Molecular Target to Modulate Resistance to Therapy in Prostate Cancer	12.420	W81XWH-04-1-0887	207,782
CURE	12.420	W81XWH-05-1-0596	36,641
NSCOR - Progressive Alterations	43.XXX	NNJ04HC90G	310,685
Research Opportunities Soliciting	43.XXX	NNJ05HF38A	296
Epigenetic Control of Radiogenic Damage Processing in C. elegans	43.XXX	NNX08AC79G	31,349
NSCOR - Carcinogenesis and Central	43.XXX	NNX10AD59G	74,328
Inter-University Technology Bundlin	47.041	650347	120,379
Low Dose Ionizing Radiation Modulat	81.049	DE-SC0001832	2,054
RCT of SAME in Alcoholic Liver Disease	93.273	5 R21 AA014269	2,700
Damaged DNA Recognition as a Cancer	93.393	5 R01 CA112293	3,234
Steroid Hormones and Uterine	93.837	1 R01 HL089012	25,839
Mechanisms of Acclimatization; Fetus and Adult	93.865	5 P01 HD031226	16,066
Prenatal Cocaine Exposure and Cardiac Programming	93.837	5 R01 HL082779	21,491
Role of Nitrate and Hemoglobin	93.837	1R01HL095973	64,090
Neonatal Brain Ischemia: Neuroimaging as a Basis for Rational Stem Cell Therapy	93.853	1 R01 NS059770	67,328
Leptin and Hypothalamo-Pituitary-Adrenal Function in the Long-Term Hypoxic Fetus	93.865	1R01HD051951	110,301
Biological and Psychosocial	93.866	5 R01 AG026348	<u>16,000</u>
			<u>4,025,645</u>

LOMA LINDA UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2010

NOTE 3 – FEDERAL LOAN PROGRAMS

The Schedule of Expenditures of Federal Awards includes the loan activity of the following student loan programs, which are funded through financial institutions:

U.S. Department of Education (D.O.E.)-
Parents Loans for Undergraduate Students (PLUS)
Graduate PLUS
Stafford Loans

\$94,458,837 of PLUS, Graduate PLUS and Federal Stafford Loans were awarded and accepted during the 2010 fiscal year.

The Federal campus-based programs student loan receivables are as follows:

	Loans Outstanding at June 30, 2009	Loans Awarded During Fiscal 2010	Loan Principal Repaid/Cancelled Written Off/ Assigned Fiscal 2010	Loans Outstanding at June 30, 2010
U.S. Department of Health and Human Services				
Health Professions Student Loan - Medicine (Primary Care Loan)	\$ 1,858,585	\$ -	\$ (118,372)	\$ 1,740,213
Health Professions Student Loan - Dentistry	5,578,360	408,952	(508,320)	5,478,992
Loans for Disadvantaged Students- Medicine	1,430,014	217,500	(32,244)	1,615,270
Loans for Disadvantaged Students- Dentistry	1,064,571	128,000	(48,431)	1,144,140
Nurse Faculty Loan	100,678	-	(19,708)	80,970
Nursing Student Loan - Graduate	80,352	-	(16,021)	64,331
Nursing Student Loan - Undergraduate	2,137,565	196,977	(212,683)	2,121,859
U.S. Department of Education:				
Perkins Loan	7,836,240	788,246	(982,395)	7,642,091
	<u>\$20,086,365</u>	<u>\$1,739,675</u>	<u>\$ (1,938,174)</u>	<u>\$19,887,866</u>

NOTE 4 – ADMINISTRATIVE COST ALLOWANCE RECEIVED

During the year ended June 30, 2010, the University claimed \$123,284 of Administrative Cost Allowance for its campus based programs; amounts are included with other program expenditures on the Schedule.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Loma Linda University

We have audited the financial statements of Loma Linda University (the University) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned cost as item 2010-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moss Adams, LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
December 14, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Independent Auditor's Report

To the Board of Trustees
Loma Linda University

COMPLIANCE

We have audited the University's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2010. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with the requirements governing Student Loan Billing and Due Diligence in Collection compliance requirements specified by the Federal Perkins Loan Program and described in the *OMB Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the University's compliance with those requirements, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are

required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-2.

INTERNAL CONTROL OVER COMPLIANCE

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

We did not consider internal control over compliance with the Student Loan Billing and Due Diligence in Collection compliance requirements specified by the Federal Perkins Loan Program and described in the *OMB Circular A-133 Compliance Supplement*. Internal control over this compliance requirement was considered by the other auditor referred to above; and our report, insofar as it relates to the University's internal control over this compliance requirement, is based solely upon the report of the other auditor.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response, and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Los Angeles, California
December 14, 2010

**LOMA LINDA UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Multiple	Research and Development Cluster
Multiple	Student Financial Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? _____ yes X no

LOMA LINDA UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings

FINDING 2010-1: Financial Close and Reporting Process – Significant Deficiency (Repeat Finding)

Criteria: Management is responsible for preparing the financial statements and footnotes in accordance with Generally Accepted Accounting principles in the United States of America (GAAP).

Condition: During the audit process, numerous revisions were made to the financial statements and the Schedule of Expenditures of Federal Awards (SEFA) to correctly state them in accordance with GAAP.

Cause and Effect: The revisions resulted primarily from 1) lack of timeliness in the preparation of the financial statements and the related footnotes, 2) untimely reconciliations of certain accounts and 3) unidentified intra-company elimination entries.

Recommendation: We recommend that management conduct an overall review and revision of its financial close and reporting processes. That review should ensure that new policies and procedures are put in place to properly and timely conduct account reconciliations. In addition, we recommend that those responsible for financial reporting keep current on GAAP.

We recommend the University develop and implement policies to ensure the preparation of the SEFA is complete and accurate. Such a policy should include mechanisms for timely and accurately identifying federal funds received from all sources and a review of those funds to ensure they are properly identified in the SEFA.

Management's Response: A monthly close process has been implemented that will mirror the annual close process. The familiarity which that will bring to the auditors' requirements should drastically improve the annual close process.

Section III - Federal Award Findings and Questioned Costs

FINDING 2010-2: Student Status Changes: Timeliness of Report – Significant Deficiency in Internal Control and Instance of Noncompliance (Repeat Finding)

Federal Program: Student Financial Assistance Cluster

Federal Agency: Department of Education

**LOMA LINDA UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2010**

Award Year: 2009-2010

Criteria: Per 34 CFR 682.610(c), schools must complete and return within 30 days of receipt the Student Status Confirmation Reports (SSCR) sent by the Department of Education, unless the school expects to complete its next SSCR within 60 days.

Condition: In several instances, the University did not provide updated student data to the Department of Education with the required time frame.

Questioned Costs: None noted.

Context: During our testing of the student status change and reporting processes, we noted that 6 of the 25 students selected for testing had status changes that were not communicated to the National Student Loan Data System (NSLDS) in a timely manner.

Cause: The late notifications are due to a lack of proper monitoring of student status change rosters submitted to the National Student Clearinghouse (NSC) by the University and the submission from the NSC to the NSLDS to ensure changes were submitted with the required timeframe.

Effect: Non-timely submission of reports could result in lenders not being able to begin the repayment process.

Recommendation: We recommend the University develop and implement a policy to specify the procedures and responsibilities for reporting the student status changes to NSLDS in a timely manner. The policy should also include procedures for monitoring the timeliness of information communicated to the NSLDS on behalf of the University by the NSC

Management's Response: Of the 6 students referred to above:

Students were reported as graduated within the 60 days permitted. In two of these cases, the NSC (National Student Clearinghouse) did not report this information on to the NSLDS for another three weeks, resulting in a late reporting. One of the student's did not get picked up in the graduation report to the NSLDS because a graduation report had been submitted to the NSC prior to the posting of this student's degree. Had LLU been reporting directly to the NSLDS, these three students would have been reported on time.

The posting of the graduation date for the other 3 students is the result of internal processing issues that were addressed following last year's audit. However, these were summer and autumn 2009 graduates so the problem had already been created before the audit revealed the problem. At that time, University Records had already had a few conversations with NSC regarding the

**LOMA LINDA UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2010**

reporting of graduates and were not satisfied with their position. For this reason we had decided to switch to reporting directly to the NSLDS.

The internal problems have been addressed and appear to have been resolved. We began reporting directly to the NSLDS during our spring 2010 term. However, we have had a couple of glitches with technology in reporting to the NSLDS, one being a Banner (student information database) bug that has now been fixed, which did affect the reporting of graduates this past summer. We will continue to monitor the data submitted to the NSLDS to ensure that graduates are being reported appropriately.

**LOMA LINDA UNIVERSITY
SUMMARY SCHEDULE OF PRIOR FINDINGS
YEAR ENDED JUNE 30, 2010**

FINDING 2009- 2: Student Status Changes Instance of Noncompliance – *Significant Deficiency*

Federal Program: Student Financial Assistance Cluster

Federal Agencies: Department of Education

Condition: The University did not provide updated student data to the Department of Education with the required time frame throughout the entire fiscal year.

Recommendation: We recommended the University develop and implement controls to ensure that student status changes are reported to NSLDS within the required timeframe.

Status of Finding: *See current year finding 2010-2*