



LOMA LINDA UNIVERSITY



AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2009 AND 2008



MOSS-ADAMS<sub>LLP</sub>



LOMA LINDA  
UNIVERSITY

FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009 AND 2008  
AND INDEPENDENT AUDITOR'S REPORT

LOMA LINDA UNIVERSITY  
FINANCIAL STATEMENTS  
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Table of Contents

INDEPENDENT AUDITOR'S REPORT .....	4
STATEMENTS OF FINANCIAL POSITION.....	5
STATEMENT OF ACTIVITIES 2009.....	6
STATEMENT OF ACTIVITIES 2008.....	7
STATEMENTS OF CASH FLOWS.....	8
NOTES TO FINANCIAL STATEMENTS.....	9
SUPPLEMENTAL SCHEDULES (UNAUDITED).....	29
COMBINING STATEMENTS OF FINANCIAL POSITION (UNAUDITED) .....	30
COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED) .....	31

**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, 2009 and 2008, 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 at June 30, 2009 and 2008, 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.

As described in Note 19 to the financial statements, the University has restated its financial statements as of and for the year ended June 30, 2008 to properly account for certain fixed assets, net assets and institutional administration expenses.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules included on page 29 through 32 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 the supplemental schedules.



Los Angeles, California  
December 28, 2009

LOMA LINDA UNIVERSITY

STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008 (Restated)</u>
<b>ASSETS:</b>		
Cash & cash equivalents	\$ 41,065,518	\$ 5,801,191
Restricted cash	10,338,267	22,306,657
Accounts receivable (net of allowance of \$7,849,287 in 2009 and \$4,133,528 in 2008)	32,218,328	41,890,440
Prepaid items & deferred charges	3,840,816	3,870,057
Inventory	4,070,107	4,456,394
Student loans receivable (net of allowance of \$4,108,590 in 2009 and \$4,078,731 in 2008)	37,179,741	36,707,590
Pledges receivable	5,484,974	8,144,727
Irrevocable trusts	59,075,356	71,059,502
Investments	438,275,610	586,224,462
Other assets	10,091,190	11,205,470
Plant and equipment (net)	245,315,124	206,118,560
<b>TOTAL ASSETS:</b>	<b><u>\$ 886,955,031</u></b>	<b><u>\$ 997,785,050</u></b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 28,184,720	\$ 29,742,898
Accrued expenses and other current liabilities	5,517,317	5,056,296
Deferred income	19,241,905	12,389,396
Notes & loans payable	27,483,681	25,727,684
Trust liabilities	37,351,527	41,403,546
Annuities payable	5,317,319	5,689,776
Non-operating liability	30,876,161	31,930,233
Amounts held on behalf of others	239,082,546	250,563,796
Bonds payable	35,490,000	36,095,000
<b>Total Liabilities:</b>	<b><u>428,545,176</u></b>	<b><u>438,598,625</u></b>
<b>Net assets:</b>		
Unrestricted:		
Unrestricted – undesignated	123,215,026	132,480,835
Unrestricted – board designated	35,421,903	71,897,799
Unrestricted – administration designated	24,151,835	19,611,181
Total unrestricted	182,788,764	223,989,815
Temporarily restricted	169,714,270	199,137,183
Permanently restricted	105,906,822	136,059,427
<b>Total Net Assets:</b>	<b><u>458,409,855</u></b>	<b><u>559,186,425</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 886,955,031</u></b>	<b><u>\$ 997,785,050</u></b>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>
<b>REVENUE AND SUPPORT</b>				
Tuition & 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 & 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	510,429	196,283	55,961,864
Subsidies	9,170,526			9,170,526
Sales income	4,515,198			4,515,198
Overhead costs allocation	6,070,865			6,070,865
Financial aid		1,280,682		1,280,682
Net assets released from restriction	25,964,234	(25,964,234)		
<b>Total revenue and support</b>	<b>292,162,565</b>	<b>(9,565,049)</b>	<b>5,594,544</b>	<b>288,192,060</b>
<b>EXPENSES</b>				
Instruction	102,056,516			102,056,516
Research	41,711,026			41,711,026
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	51,768,743			51,768,743
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
<b>Total expenses</b>	<b>296,167,322</b>			<b>296,167,322</b>
<b>Change in net assets from operating activities</b>	<b>(4,004,757)</b>	<b>(9,565,049)</b>	<b>5,594,544</b>	<b>(7,975,262)</b>
<i>Unrealized gains/(losses) on investments</i>	(37,196,294)	(19,857,865)	(35,747,149)	(92,801,308)
<b>Change in Net assets</b>	<b>(41,201,051)</b>	<b>(29,422,913)</b>	<b>(30,152,605)</b>	<b>(100,776,570)</b>
<i>Net assets at beginning of year (Restated)</i>	223,989,815	199,137,183	136,059,427	559,186,425
<b>Net assets, end of year</b>	<b>\$ 182,788,764</b>	<b>\$ 169,714,270</b>	<b>\$ 105,906,822</b>	<b>\$ 458,409,855</b>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 (Restated)</u>
<b>REVENUE AND SUPPORT</b>				
Tuition & fees	\$ 101,840,572	\$	\$	\$ 101,840,572
Less student aid	(8,247,457)			(8,247,457)
Net tuition and fees	93,593,115			93,593,115
Gifts	12,807,761	14,427,813	7,318,796	34,554,370
Grants & contracts	41,893,110	(7,170)		41,885,940
Investment income	13,263,149	15,958,670	1,278,430	30,500,249
Other operating revenue	21,494,005	1,299,931		22,793,936
Non-operating revenue	55,622,375	495,522		56,117,897
Subsidies	10,343,226			10,343,226
Sales income	2,376,292	21,917		2,398,209
Overhead costs allocation	1,873,348			1,873,348
Financial aid	50,155	1,283,327		1,333,482
Net assets released from restriction	38,875,052	(38,875,052)		
<b>Total revenue and support</b>	<b>292,191,588</b>	<b>(5,395,042)</b>	<b>8,597,226</b>	<b>295,393,772</b>
<b>EXPENSES</b>				
Instruction	89,480,754			89,480,754
Research	40,660,472			40,660,472
Public Service	4,164,389			4,164,389
Academic support	36,782,759			36,782,759
Student services	2,648,258			2,648,258
Institutional administration	44,724,707			44,724,707
Physical plant	3,339,822			3,339,822
Student financial support	1,113,416			1,113,416
Independent operations	41,593,375			41,593,375
<b>Total expenses</b>	<b>264,507,951</b>			<b>264,507,951</b>
<b>Change in net assets from operating activities</b>	<b>27,683,636</b>	<b>(5,395,042)</b>	<b>8,597,226</b>	<b>30,885,821</b>
<i>Unrealized gains/(losses) on investments</i>	(3,733,383)	(7,592,870)	(8,395,135)	(19,721,388)
<b>Change in Net assets</b>	<b>23,950,253</b>	<b>(12,987,912)</b>	<b>202,091</b>	<b>11,164,433</b>
<i>Net assets at beginning of year</i>	196,718,881	207,015,724	135,857,336	539,591,941
<i>Prior year adjustment</i>	3,320,680	5,109,371		8,430,051
<b>Net assets, end of year</b>	<b>\$ 223,989,815</b>	<b>\$ 199,137,183</b>	<b>\$ 136,059,427</b>	<b>\$ 559,186,425</b>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENTS OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u> <u>(Restated)</u>
<b>Cash provided from operating activities</b>		
Change in Net Assets	\$(100,776,570)	\$ 11,164,433
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,518,887	13,066,347
Unrealized gains (losses) on Investments	92,801,308	19,721,388
Changes in operating assets and liabilities:		
Accounts receivable	5,926,493	(11,109,988)
Allowance for doubtful accounts	3,745,619	(2,336,912)
Prepaid items & deferred charges	29,241	(3,417,712)
Inventory	386,287	78,176
Pledges receivable, net	2,659,753	778,983
Irrevocable trust agreements	11,984,146	8,370,661
Other assets	1,114,280	1,319,132
Accounts payable	(1,558,178)	11,486,231
Accrued liabilities	461,021	(202,358)
Deferred income	6,852,509	(5,734,502)
Trust liabilities increase/(decrease)	(204,642)	(777,163)
Annuities payable increase/(decrease)	108,845	171,088
Non-operating liability	(1,054,072)	9,627,912
Amounts held on behalf of others	(11,481,250)	11,368,866
Contributions restricted for long-term purposes	(10,368,386)	(7,368,932)
<b>Net cash provided by (used in) operating activities</b>	<b><u>16,145,291</u></b>	<b><u>56,205,650</u></b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	884,618,244	217,311,729
Purchases of investments	(829,470,700)	(253,773,264)
Withdrawals from (investments in) restricted cash	11,968,390	(22,306,657)
Purchases of plant facilities and construction in progress	(54,715,451)	(70,638,349)
Repayments of loans from students	102,138,221	97,157,929
Disbursements of loans to students	(102,610,372)	(95,528,553)
<b>Net cash provided by (used in) investing activities</b>	<b><u>11,928,332</u></b>	<b><u>(127,777,165)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term purposes	10,368,386	7,368,932
Contractual payments on annuities	(481,302)	(319,950)
Trust liabilities distribution	(3,847,377)	(3,199,830)
Proceeds from notes and loans payable	1,755,997	25,481,425
Principal payments on long-term debt	(605,000)	
Proceeds from long term debt		36,095,000
<b>Net cash provided by financing activities</b>	<b><u>7,190,704</u></b>	<b><u>65,425,577</u></b>
Net change in cash and cash equivalents	35,264,327	(6,145,937)
Cash and cash equivalent at beginning of year	5,801,191	11,947,128
<b>Cash and cash equivalent at end of year</b>	<b><u>\$ 41,065,518</u></b>	<b><u>\$ 5,801,191</u></b>
<b>Supplemental cash flow information:</b>		
Debt issuance cost	\$ 71,272	\$ 227,110
Cash paid for interest	\$ 2,655,144	\$ 1,444,894

- See accompanying notes to financial statements

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

### 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, 2009. The losses of SACHS clinic accrued by the University during the years ended June 30, 2009 and 2008 were \$484,870 and \$681,000 respectively.

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

### 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 substantially 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.

#### d) *Accounts Receivable*

Accounts receivable includes, tuition receivable, non-student receivables (employee education notes, mortgage loans) and third-party receivables. It is stated at the amount management expects to collect

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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 (balance sheet) 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 balance 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.

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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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 Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124) in the statements of financial position. The non-marketable alternative investments consisting of limited partnerships and other private equity investments are carried at estimated fair value provided by the management of the non-marketable alternative investment partnerships or funds at the most current date available at year-end, and are adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2009. The University believes that the carrying amount of its non-marketable alternative investments is a reasonable estimate of fair value as of June 30, 2009. Because these alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. 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 \$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.

### **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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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 9 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 5 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 4 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 \$578,666 and \$796,791 for the years ended June 30, 2009 and 2008 respectively.

#### *k) Fundraising Activities*

The University has included fundraising costs in administration expenses in the accompanying Statement of Activities. The University incurred approximately \$2,060,313 and \$2,158,135 of fundraising costs in fiscal years 2008-09 and 2007-08 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, 2009 AND 2008

*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 5 to 15 years for land improvements, 25 to 75 years for buildings, 5 to 20 years for building improvements, and 3 to 5 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, 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 year ended June 30, 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, 2009 AND 2008

*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 will 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 adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on July 1, 2007. The University had no unrecognized tax benefits which would require an adjustment to the July 1, 2007 beginning balance of net assets. The University had no unrecognized tax benefits at June 30, 2009 and at June 30, 2008. If there were any, the University would recognize interest and penalties related to unrecognized tax benefits as an administrative expense. During the years ended June 30, 2009 and 2008, the University recognized no interest and penalties.

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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

- (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 2008 amounts have been reclassified to conform to the 2009 presentation.

### 3) Investments

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, "SFAS 157", which defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosure about fair value measurements. Investments consist of pooled investments, marketable securities, alternatives, and investments in real estate. Marketable securities include Common Stock, Preferred Stock, Mutual Funds, Corp Bonds and US Govt and Agency Securities, and are recorded at fair value in accordance with SFAS 157. Marketable securities acquired by gift or bequest are recorded at their estimated fair values on the date acquired. Investments are pooled together when permitted by gift agreement and/or applicable government regulations. Pooled investments and allocation of income are accounted for using the unit market method. Common Stock, Preferred Stock, Mutual Funds, Corp Bonds and US Govt and Agency Securities are recorded at the quoted market value from active exchanges. Real Estate is valued at fair value using appraisals or quotes for similar assets. Trust Deeds are valued at the face value of the original note minus principal payments received.

At June 30, 2009, certain of the University's marketable securities and pooled investments had decreased from their cost basis. Since the University has the ability and intent to hold the investments until maturity or until the investments increase in fair value, and the University expects to recover the unrealized losses, no other-than-temporary decline was recorded at June 30, 2009.

A portion of the assets held in pooled investments is held for others with a corresponding liability recorded in the accompanying financial statements.

Investment assets at fair value are summarized as follows at June 30:

	Pooled Investments	Other Investments	Total 2009
Cash and short-term investments	\$ 24,754,440	\$ 20,091	\$ 24,774,531
Common and preferred stock	26,549,474	1,592,644	28,142,118
Corporate bonds	102,337,139		102,337,139
U.S. government and agency securities	3,138,745	463,200	3,601,945
Mutual funds	14,255,973	212,473	14,468,446
Managed funds (mostly stocks)	26,357,927	5,464,669	31,822,596
Real estate	77,803,624	7,838,548	85,642,172

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

Collateralized mortgage obligations	75,368		75,368
Trust deed loans	69,638,356		69,638,356
Alternative investments	49,292,002	28,480,937	77,772,939
Total	\$ 394,203,048	\$ 44,072,562	\$ 438,275,610

	Pooled Investments	Other Investments	Total 2008
Cash and short-term investments	\$ 47,038,222	\$	\$ 47,038,222
Common and preferred stock	38,354,604	2,651,997	41,006,601
Corporate bonds	129,778,842		129,778,842
U.S. government and agency securities	43,499,290	1,434,345	44,933,635
Mutual funds	60,166,127	283,286	60,449,413
Managed funds (mostly stocks)	42,256,171	6,610,312	48,866,483
Real estate	76,980,297	7,488,836	84,469,133
Collateralized mortgage obligations	117,938		117,938
Trust deed loans	57,895,465		57,895,465
Alternative investments	34,176,162	37,492,568	71,668,730
Total	\$ 530,263,119	\$ 55,961,344	\$ 586,224,462

#### 4) Pledges Receivable

Pledges receivable are recorded at the amount of the pledge, less any reserve for uncollectible pledges. Based on the University's collection history, management determined that no reserve was necessary for pledges receivable at June 30, 2009 and 2008.

Pledges receivable are summarized as follows at June 30:

Unconditional promises expected to be collected in:	2009	2008
Less than one year	\$ 4,693,259	\$ 6,778,008
One year to five years	791,715	1,366,719
	\$ 5,484,974	\$ 8,144,727

#### 5) Plant Facilities

Plant facilities consist of the following at June 30:

	2009	2008 (Restated)
Land and improvements	\$ 25,655,990	\$ 23,296,391
Vehicles	234,009	185,869
Equipment	113,942,229	110,667,579
Buildings and improvements	169,588,218	163,722,333
	309,420,446	297,872,172
Less accumulated depreciation and amortization	(181,582,935)	(169,569,575)

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

Net plant facilities	127,837,511	128,302,597
Construction in progress	<u>117,477,613</u>	<u>77,815,963</u>
Plant and equipment, net	<u>\$ 245,315,124</u>	<u>\$ 206,118,560</u>

The University has various construction-in-progress projects open as of June 30, 2009, for the construction of facilities and other improvements. The University has budgeted approximately \$44 million (unaudited) for the completion of these projects and as of June 30, 2009, has commitments/funding of \$45 million (unaudited) on these projects.

### 6) Notes and Loans Payable

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

	2009	2008
Notes to two individuals:		
<i>Collateralized by deed of trust, fixed rate, 7.5%, principal and interest monthly. Due in 2033</i>	\$ 1,358,878	
<i>Collateralized by deed of trust, variable rate, interest only payments monthly, (0.53% and 3.42% at June 30, 2009 and 2008, respectively) due upon death of both individuals</i>	400,000	\$ 400,000
Notes to individuals:		
<i>Mortgage notes, interest ranging from 5.5% to 10%, interest and payable monthly, quarterly and on demand, various due dates through 2009</i>	22,000	22,000
Capital Lease		
<i>US Express Leasing Company Inc; Cone Beam CT Imaging System; Monthly Payments</i>	78,012	140,958
Wachovia Securities Line of Credit ( <i>see note 7</i> )	<u>25,624,791</u>	<u>25,164,726</u>
Total notes and loans payable	<u>\$ 27,483,681</u>	<u>\$ 25,727,684</u>

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

	2009	2008
2010	\$ 25,699,237	\$ 25,239,173
2011	25,565	52,447
2012	-	36,064
2013	-	-
2014	-	-
2015 and thereafter	<u>1,758,878</u>	<u>400,000</u>
	<u>\$ 27,483,680</u>	<u>\$ 25,727,684</u>

Interest related to the notes and loans payable was \$92,689 and \$29,635 for the years ending June 30, 2009 and 2008 respectively.

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

### 7) Lines of Credit Agreement

The University has a \$5 million line of credit with Bank of America, with interest at prime. At June 30, 2009 and 2008, there were no borrowings under the line of credit agreement.

The University also has a balance of \$25,624,791 and \$25,164,726 as of June 30, 2009 and 2008 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%.

### 8) Annuity and Life Income Funds

#### *Revocable Trust Agreements*

At June 30, 2009 and 2008, the University held, as trustee, a total of 41 and 53 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$16,112,204 (unaudited) in 2009 and \$20,609,283 (unaudited) in 2008. Revocable trust agreements with assets totaling \$2,664,138 in 2009 and \$1,098,523 in 2008 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.

### 9) 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, 2009 and 2008 respectively was \$10,375,119 and \$10,340,116.

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 \$10,363,927 and \$10,615,969 for the year ended June 30, 2009 and 2008 respectively and are included in the Institutional Administration expense category in the Statement of Activities.

During the 2008-09 year, 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 7%. The balance at June 30, 2009 was \$22,304,187. 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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

Activities. Net accounts receivable from LLUAHSC entities were \$15,432,419 and \$10,314,000 at June 30, 2009 and 2008 respectively, and are included in Accounts Receivable in the statement of Financial Position.

### 10) 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, 2009 and 2008 respectively, the plan liabilities totaled \$4,466,599 and \$6,632,167. The assets are included in other assets and the liabilities are included in non-operating liability in the accompanying statements of financial position.

### 11) 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.

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 \$2,655,144 and \$1,455,394 and capitalized interest totaled \$578,387 and \$0 for the years ended June 30, 2009 and 2008, 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:

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2009 AND 2008

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

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

Maturity Date (April 1)	Amount
2010	\$ 630,000
2011	660,000
2012	685,000
2013	715,000
2014	750,000
Thereafter	32,050,000
	<u>\$ 35,490,000</u>

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

**12) 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:

2009	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
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
	<u>\$ 169,714,270</u>	<u>\$ 105,906,822</u>

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

2008	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>
Restricted for specific purposes	\$ 99,713,076	
Student Loans	30,156,030	
Endowment	36,232,014	\$ 123,748,979
Annuity and life income agreements	33,036,063	12,310,448
	<b>\$ 199,137,183</b>	<b>\$ 136,059,427</b>

### 13) 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 \$2,889,156 and \$2,812,373 to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2009 and 2008 respectively.

These plans are defined by the Financial Accounting Standards Board 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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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 \$2,142,693 and \$1,956,863 during the years ended June 30, 2009 and 2008 respectively.

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 \$3,452,443 and \$3,321,763 during the years ended June 30, 2009 and 2008 respectively.

### 14) 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 \$17,867,809 and \$17,146,877 in fiscal years 2009 and 2008 respectively. The Risk Management division of LLUAHSC has a net surplus held for the University as prepaid expense of \$3,513,985 and \$3,086,691 as of June 30, 2009 and 2008 respectively.

### 15) Fair Values of Financial Instruments

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

As defined in FASB Statement No. 157, fair value is based on the amounts 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. To increase consistency and comparability in fair value measurements, FASB Statement No. 157 establishes a three-tier fair value hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2009 Total</b>
Investments	\$ 205,310,392	\$ -	\$ 232,965,218	\$ 438,275,610
Irrevocable trusts	41,391,072	-	17,684,284	59,075,356
Totals	<u>\$ 246,701,464</u>	<u>\$ -</u>	<u>\$ 250,649,502</u>	<u>\$ 497,350,966</u>

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

	<b>Investments</b>	<b>Irrevocable Trusts</b>	<b>2009 Total</b>
Balance at June 30, 2008	\$ 239,537,161	\$ 14,589,750	\$ 254,126,911
Purchases and sales	21,614,622	194,211	21,808,833
Gains and losses			-
<i>Included in investment income</i>	142,538	1,130,587	1,273,125
<i>Included in unrealized gains (losses) on investments</i>	(28,329,103)	1,769,736	(26,559,367)
Balance at June 30, 2009	<u>\$ 232,965,218</u>	<u>\$ 17,684,284</u>	<u>\$ 250,649,502</u>

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2009 relate principally to assets still held at June 30, 2009.

### 16) 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 market 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.

### 17) 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 2009 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

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

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.

### 18) 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 market 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).

Irrevocable trusts assets, stated at fair value, consist of the following at June 30:

Irrevocable trust agreements:	2009	2008
Cash	\$ 3,933,102	\$ 3,351,075
Common stock	33,152,429	47,720,297
Corporate bonds	3,134,189	3,279,776
Mutual funds	1,108,680	1,417,566
Real estate	3,057,930	3,061,288
Trust deed loans	11,969,770	11,362,202
Alternative Investments	2,700,000	848,801
Other assets	19,256	18,497
	<u>\$ 59,075,356</u>	<u>\$ 71,059,502</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' investments 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. Included in temporarily restricted net assets of \$199,137,183 at June 30, 2008 are \$23,126,540 of irrevocable trusts administered by the University. At June 30, 2009, \$18,668,544 of irrevocable trusts are included in temporarily restricted net assets of \$169,714,270. Upon the demise of the donor, the University will distribute the assets in accordance with the agreements.

### 19) Prior Period Restatement

Unrestricted net assets as of July 1, 2008 have been decreased by \$15,525,785 for the net effect of an error discovered by management during the year ended June 30, 2009. The financial statements as of

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

and for the year ended June 30, 2008 presented herein have been restated to reduce the Plant and Equipment asset accounts, increase the Institutional Administration expenses account and decrease the change in net assets by the \$15,525,785 error.

### 20) 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.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</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	(9,226,430)			\$ (9,226,430)
Net Amount appropriated for operation	(7,380,033)	3,839,222	79,456	(3,461,355)
Change in realized/unrealized net appreciation of investments	(9,248,574)	(2,222,162)	(32,987,924)	\$ (44,458,659)
Net return in pooled investment fund	(16,628,607)	1,617,060	(32,908,467)	(47,920,014)
Investment income from separate investments	2,417,437	134,751	196,283	\$ 2,748,471
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	2,910,960	(349,674)	2,964,368	\$ 5,525,654
Net change in endowed equity	(10,085,857)	3,890,511	(25,687,262)	(31,882,607)
Endowed equity, beginning of year	71,576,081	36,232,014	123,748,979	\$ 231,557,074
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>

# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

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

	<b>2009</b>
Total unrestricted endowment (Board Designated)	61,490,224
Temporarily Restricted	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	\$ 40,122,525
With purpose restriction	
Total temporarily restricted endowment funds	\$ 40,122,525
Permanently restricted endowment	98,061,717
Total endowment	\$ 199,674,466

Changes in the university's endowment for the year ended June 30, 2008 were as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2008</b>
Investment returns				
Investment income from pooled funds	\$ 639,381	\$ 3,289,795	\$ 1,004,555	\$ 4,933,731
Less investment returns appropriated for operation	(10,138,646)			(10,138,646)
	(9,499,265)	3,289,795	1,004,555	(5,204,915)
Change in realized/unrealized net appreciation of investments	(2,589,321)	(1,382,748)	(7,452,734)	(11,424,803)
Net return in pooled investment fund	(12,088,586)	1,907,047	(6,448,179)	(16,629,718)
Investment income from separate investments	525,926	1,135	-	527,061
Total net investment returns	(11,562,660)	1,908,182	(6,448,179)	(16,102,657)
Other changes in endowed equity:				
Gifts	5,257,810	195,868	7,318,796	12,772,474
Transfers	12,350,684	(327,423)	(277,014)	11,746,247
Net change in endowed equity	6,045,834	1,776,627	593,603	8,416,064
Endowed equity, beginning of year	65,530,247	34,455,387	123,155,376	223,141,010
Endowed equity, end of year	\$ 71,576,081	\$ 36,232,014	\$ 123,748,979	\$ 231,557,074

At June 30, 2008, endowed equity consists of the following assets:

Investments	\$ 71,576,081	\$ 36,232,014	\$ 123,748,979	\$ 231,557,074
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# LOMA LINDA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

Total endowed equity	\$ 71,576,081	\$ 36,232,014	\$ 123,748,979	\$ 231,557,074
At June 30, net assets included endowed equity as follows:				
				<b>2008</b>
Total unrestricted endowment (Board Designated)				\$ 71,576,081
Temporarily Restricted				
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:				
Without purpose restriction				\$ 36,232,014
With purpose restriction				
Total temporarily restricted endowment funds				\$ 36,232,014
Permanently restricted endowment				123,748,979
Total endowment				\$ 231,557,074

### 21) Subsequent Events

Subsequent to year end, the financial markets have been volatile. The University is a long-term investor and diversifies its investments to minimize the impact of market displacements. At this point in time it is not reasonably possible to assess the ongoing market conditions and effectiveness of efforts to bring stability back to the financial markets.

Subsequent events are events or transactions that occur after the balance sheet 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 balance sheet, 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 balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The University has evaluated subsequent events through December 28, 2009, 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, 2009

	<b>Educational Division</b>	<b>Foundation</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 8,855,941	\$ 32,209,577	\$ 41,065,518
Restricted cash	10,338,267		10,338,267
Accounts receivable	36,435,201	3,341,062	39,776,263
Pledges receivable		5,484,974	5,484,974
Trust deed notes receivable		209,354	209,354
Student Loans / Financial Aid	41,288,331		41,288,331
Current Notes & Loans Receivable	100,000		100,000
Allowance for Doubtful Accounts	(11,975,879)		(11,975,879)
Inventory	1,781,458	2,288,649	4,070,107
Investments	11,897,512	426,378,099	438,275,610
Interdepartmental loans	(18,969,739)	18,969,739	
Construction in progress	117,392,908		117,392,908
Plant and equipment, net	89,686,233	38,235,983	127,922,216
Prepaid items & deferred charges	3,762,057	78,759	3,840,816
Irrevocable trusts		59,075,356	59,075,356
Other Assets	37,446,933	(27,355,743)	10,091,190
<b>Total Assets:</b>	<b>\$ 328,039,223</b>	<b>\$ 558,915,808</b>	<b>\$ 886,955,031</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable	\$ 26,538,610	\$ 1,646,110	\$ 28,184,720
Accrued expenses and other current liabilities	5,517,317		5,517,317
Deferred income	19,241,905		19,241,905
Notes & loans payable	25,702,803	1,780,878	27,483,681
Trust liabilities		37,351,527	37,351,527
Annuities payable		5,317,319	5,317,319
Non-operating liability	29,790,528	1,085,633	30,876,161
Amounts held on behalf of others		239,082,546	239,082,546
Bonds payable	35,490,000		35,490,000
<b>Total Liabilities</b>	<b>142,281,163</b>	<b>286,264,013</b>	<b>428,545,176</b>
<b>Net assets:</b>			
Unrestricted:			
Unrestricted – undesignated	122,536,893	678,133	123,215,026
Unrestricted – board designated		35,421,903	35,421,903
Unrestricted – administration designated		24,151,835	24,151,835
Total unrestricted	122,536,893	60,251,871	182,788,764
Temporarily restricted	63,221,167	106,493,103	169,714,270
Permanently restricted		105,906,822	105,906,822
<b>Total Net Assets:</b>	<b>185,758,060</b>	<b>272,651,795</b>	<b>458,409,855</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 328,039,223</b>	<b>\$ 558,915,808</b>	<b>\$ 886,955,031</b>

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED)  
YEAR ENDED JUNE 30, 2009

	Educational Division			2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUE AND SUPPORT</b>				
Tuition & 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	6,110,526	194,446		6,304,972
Grants & contracts	32,958,126			32,958,126
Investment income	6,280,907	5,526,331		11,807,238
Other operating Revenue	15,100,773	3,000		15,103,773
Non-operating revenue	55,255,152	143,540		55,398,692
Subsidies	9,170,526			9,170,526
Sales income	1,816,135			1,816,135
Overhead costs allocation	6,070,865			6,070,865
Financial aid		1,280,682		1,280,682
Net asset released from restriction	22,973,497	(9,518,568)		13,454,929
<b>Total revenue and support</b>	<b>254,782,186</b>	<b>(2,370,569)</b>		<b>\$ 252,411,617</b>
<b>EXPENSES</b>				
Instruction	102,056,516			102,056,516
Research	41,711,026			41,711,026
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	40,621,879			40,621,879
Physical plant	4,963,920			4,963,920
Student financial support	1,779,034			1,779,034
Independent operations	21,387,325			21,387,325
<b>Total expenses</b>	<b>264,413,224</b>			<b>\$ 264,413,224</b>
<b>Change in net assets from operating activities</b>	<b>(9,631,038)</b>	<b>(2,370,569)</b>		<b>(12,001,607)</b>
<i>Unrealized gains/(losses) on investments</i>	368,250			368,250
<b>Change in Net assets</b>	<b>(9,262,788)</b>	<b>(2,370,569)</b>		<b>(11,633,357)</b>
<i>Net assets at beginning of year (Restated)</i>	131,799,681	65,591,736		197,391,417
<b>Net assets, end of year</b>	<b>\$ 122,536,893</b>	<b>\$ 63,221,167</b>	<b>\$</b>	<b>\$ 185,758,060</b>

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED), CONT'D  
YEAR ENDED JUNE 30, 2009

	Foundation			2009	Educational & Foundation Divisions Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUE AND SUPPORT</b>					
Tuition & Fees	\$	\$	\$	\$	\$ 106,153,716
Less student aid					(7,108,037)
Net tuition and fees					99,045,679
Gifts	8,773,923	628,412	4,060,554	13,462,889	19,767,861
Grants & contracts					32,958,126
Investment income	2,464,617	8,255,885	1,337,707	12,058,209	23,865,447
Other operating Revenue	20,452,039			20,452,039	35,555,812
Non-operating revenue		366,889	196,283	563,172	55,961,864
Subsidies					9,170,526
Sales income	2,699,063			2,699,063	4,515,198
Overhead costs allocation					6,070,865
Financial aid					1,280,682
Net asset released from restriction	2,990,737	(16,445,666)		(13,454,929)	
<b>Total revenue and support</b>	<b>37,380,379</b>	<b>(7,194,480)</b>	<b>5,594,544</b>	<b>35,780,443</b>	<b>\$ 288,192,060</b>
<b>EXPENSES</b>					
Instruction					102,056,516
Research					41,711,026
Public Service					3,492,999
Academic support					44,203,326
Student services					4,197,199
Institutional administration	11,146,864			11,146,864	51,768,743
Physical plant					4,963,920
Student financial support					1,779,034
Independent operations	20,607,234			20,607,234	41,994,559
<b>Total expenses</b>	<b>31,754,098</b>			<b>31,754,098</b>	<b>\$ 296,167,322</b>
<b>Change in net assets from operating activities</b>	<b>\$ 5,626,281</b>	<b>(7,194,480)</b>	<b>5,594,544</b>	<b>4,026,345</b>	<b>\$ (7,975,262)</b>
<i>Unrealized gains/(losses) on investments</i>	(37,564,544)	(19,857,865)	(35,747,149)	(93,169,558)	(92,801,308)
<b>Change in Net assets</b>	<b>(31,938,263)</b>	<b>(27,052,344)</b>	<b>(30,152,605)</b>	<b>(89,143,213)</b>	<b>(100,776,570)</b>
<i>Net assets at beginning of year (Restated)</i>	92,190,134	133,545,447	136,059,427	361,795,008	559,186,425
<b>Net assets, end of year</b>	<b>\$ 60,251,871</b>	<b>\$ 106,493,103</b>	<b>\$ 105,906,822</b>	<b>\$ 272,651,795</b>	<b>\$ 458,409,855</b>