



Reports of Independent Auditors
and Single Audit Report
and Financial Statements for

Loma Linda University

June 30, 2011 and 2010

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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LOMA LINDA UNIVERSITY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010
AND REPORTS OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

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, 2011 and 2010, 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 audits 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 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2011 and 2010, 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 13, 2011 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 the 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.

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Such information has been subjected to the auditing procedures applied in the audits 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 35 through 38 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.

Moss Adams LLP

Los Angeles, California
December 13, 2011

LOMA LINDA UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
AT JUNE 30, 2011 AND 2010

	2011	2010
ASSETS:		
Cash and cash equivalents	\$ 9,241,192	\$ 14,004,443
Restricted cash	2,439,254	2,404,783
Accounts receivable (net of allowance of \$5,736,334 in 2011 and \$4,910,324 in 2010)	24,935,997	25,851,969
Prepaid items and deferred charges	3,047,006	3,409,798
Inventory	3,680,276	4,320,042
Student loans receivable (net of allowance of \$1,122,459 in 2011 and \$948,410 in 2010)	39,569,796	41,121,298
Pledges receivable	3,178,298	3,266,090
Irrevocable trusts	56,565,396	57,207,066
Investments	571,123,242	449,010,729
Other assets	10,165,699	9,833,838
Plant and equipment (net)	260,588,702	270,295,095
TOTAL ASSETS:	<u>\$ 984,534,858</u>	<u>\$ 880,725,151</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 28,619,743	\$ 32,588,999
Accrued expenses and other current liabilities	6,847,998	5,064,861
Deferred income	17,879,784	17,355,703
Notes and loans payable	49,812,349	40,321,820
Trust liabilities	32,604,765	32,812,797
Annuities payable	5,075,865	5,002,333
Non-operating liability	31,790,645	32,764,918
Amounts held on behalf of others	267,596,629	210,247,414
Bonds payable	34,200,000	34,860,000
Total Liabilities:	474,427,778	411,018,845
Net assets:		
Unrestricted:		
Unrestricted – undesignated	104,669,457	116,099,231
Unrestricted – board-designated	54,301,016	43,695,674
Unrestricted – administration-designated	27,000,718	19,435,172
Total unrestricted	185,971,191	179,230,077
Temporarily restricted	177,554,012	169,390,574
Permanently restricted	146,581,877	121,085,655
Total net assets:	<u>510,107,080</u>	<u>469,706,306</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 984,534,858</u>	<u>\$ 880,725,151</u>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Tuition and fees	\$ 124,512,483	\$ -	\$ -	\$ 124,512,483
Less student aid	<u>(7,090,758)</u>	<u>-</u>	<u>-</u>	<u>(7,090,758)</u>
Net tuition and fees	117,421,725	-	-	117,421,725
Gifts	5,710,262	9,349,952	8,972,513	24,032,727
Grants and contracts	39,118,284	-	-	39,118,284
Investment income (loss)	17,374,264	3,185,399	(1,078,627)	19,481,036
Other operating revenue (expense)	22,249,526	(452,410)	-	21,797,116
Non-operating revenue	43,676,137	8,448	127,731	43,812,316
Subsidies	12,865,735	-	-	12,865,735
Sales income	2,557,073	-	-	2,557,073
Financial aid	-	2,492,491	-	2,492,491
Net assets released from restriction - operating	<u>15,061,103</u>	<u>(15,061,103)</u>	<u>-</u>	<u>-</u>
Total revenue and support	276,034,109	(477,223)	8,021,617	283,578,503
EXPENSES				
Instruction	88,338,512	-	-	88,338,512
Research	36,964,867	-	-	36,964,867
Public service	3,574,232	-	-	3,574,232
Academic support	42,380,280	-	-	42,380,280
Student services	5,401,033	-	-	5,401,033
Institutional administration	31,244,314	-	-	31,244,314
Physical plant	5,478,827	-	-	5,478,827
Student financial support	1,485,449	-	-	1,485,449
Independent operations	25,347,650	-	-	25,347,650
Depreciation	<u>23,926,826</u>	<u>-</u>	<u>-</u>	<u>23,926,826</u>
Total expenses	264,141,990	-	-	264,141,990
Change in net assets from operating activities	<u>11,892,119</u>	<u>(477,223)</u>	<u>8,021,617</u>	<u>19,436,513</u>
<i>Unrealized gains (losses) on investments</i>	<i>(5,151,005)</i>	<i>8,640,661</i>	<i>17,474,605</i>	<i>20,964,261</i>
Change in net assets	6,741,114	8,163,438	25,496,222	40,400,774
<i>Net assets, beginning of year</i>	<u>179,230,077</u>	<u>169,390,574</u>	<u>121,085,655</u>	<u>469,706,306</u>
Net assets, end of year	<u>\$185,971,191</u>	<u>\$177,554,012</u>	<u>\$146,581,877</u>	<u>\$510,107,080</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	<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	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	<u>22,047,605</u>	<u>(22,047,605)</u>	<u>-</u>	<u>-</u>
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	<u>15,054,553</u>	<u>-</u>	<u>-</u>	<u>15,054,553</u>
Total expenses	288,013,293	-	-	288,013,293
Change in net assets from operating activities	<u>(10,782,218)</u>	<u>(5,804,294)</u>	<u>4,202,603</u>	<u>(12,383,909)</u>
<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>	<u>182,788,764</u>	<u>169,714,270</u>	<u>105,906,822</u>	<u>458,409,856</u>
Net assets, end of year	<u>\$179,230,077</u>	<u>\$169,390,574</u>	<u>\$121,085,655</u>	<u>\$469,706,306</u>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash provided from operating activities		
Change in net assets	\$ 40,400,774	\$ 11,296,450
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,926,826	15,054,553
Allowance for doubtful accounts	1,000,059	6,099,143
Unrealized (gains) on investments	(20,964,261)	(23,680,359)
Changes in operating assets and liabilities:		
Accounts receivable	89,962	267,216
Prepaid items and deferred charges	362,792	431,018
Inventory	639,769	(249,935)
Pledges receivable, net	87,792	2,218,884
Irrevocable trust agreements	641,670	1,868,290
Other assets	(331,861)	257,352
Accounts payable	(3,969,256)	4,404,279
Accrued expenses and other current liabilities	1,783,137	(530,468)
Deferred income	524,081	(1,886,202)
Trust liabilities	8,899,191	(1,194,261)
Annuities payable	1,577,171	64,055
Non-operating liability	(974,273)	1,888,757
Contributions restricted for long-term purposes	<u>(18,234,673)</u>	<u>(17,458,008)</u>
Net cash (used in) provided by operating activities	<u>35,458,900</u>	<u>(1,149,236)</u>
Cash flows from investing activities		
Proceeds from sales of investments	1,453,249,057	251,829,757
Purchases of investments	(1,554,397,310)	(238,884,516)
Withdrawals from (investments in) restricted cash	(34,471)	7,933,484
Purchases of plant facilities and construction in progress	(14,220,433)	(40,034,524)
Repayments of loans from students	5,988,304	4,931,005
Disbursements of loans to students	(4,610,853)	(8,872,562)
Amounts held on behalf of others	<u>57,349,215</u>	<u>(28,835,132)</u>
Net cash (used in) provided by investing activities	<u>(56,676,491)</u>	<u>(51,932,488)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	18,234,673	17,458,008
Contractual payments on annuities	(1,503,639)	(379,041)
Trust liabilities distribution	(9,107,223)	(3,344,469)
Proceeds from notes and loans payable	20,000,000	12,916,151
Payments on notes and loans payable	(10,509,471)	-
Principal payments on long-term debt	<u>(660,000)</u>	<u>(630,000)</u>
Net cash provided by financing activities	<u>16,454,340</u>	<u>26,020,649</u>
Net change in cash and cash equivalents	(4,763,251)	(27,061,075)
Cash and cash equivalent at beginning of year	<u>14,004,443</u>	<u>41,065,518</u>
Cash and cash equivalent at end of year	<u>\$ 9,241,192</u>	<u>\$ 14,004,443</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 2,202,723	\$ 1,883,621

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

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 through June 30, 2010, 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. As of July 1, 2011, SACHS is no longer an affiliate of LLU. This will allow SACHS to make the transition to provide federally subsidized care, as discussed below.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

The University and LLUMC shared in the profits and losses of SACHS equally through June 30, 2010. Each agreed to provide SACHS additional funding as necessary to meet its cash flow needs through that date. The losses of SACHS clinic accrued by the University during the year ended June 30, 2010 were \$500,000. For the year ended June 30, 2011, the University provided \$500,000 to SACHS as a Community Service Grant not related to its profits.

SACHS continues to rotate LLU-trained health professions students and residents through its clinics as it transitions 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 its Medi-Cal services, which basically will cover the majority of the cost of providing care to the underserved community.

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 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 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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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. 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.

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 approach and the assessment of the current status of individual accounts.

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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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 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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

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 \$462,313 on June 30, 2011 and \$1,691,782 on June 30, 2010. 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 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 five percent of the average fair value of the endowments as of the calendar year-end preceding the fiscal year of distribution. In establishing this policy, the University considered the long-term expected return on its endowment, which it expects to grow at an average of four percent annually after distributions. This is consistent with the University'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.

j) Advertising and Promotion

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion expense amounted to \$427,338 and \$790,405 for the years ended June 30, 2011 and 2010, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

k) Fundraising Activities

The University has included fundraising costs in institutional administration expenses in the accompanying Statements of Activities. The University incurred approximately \$1,648,499 and \$1,934,954 of fundraising costs in fiscal years ending June 30, 2011 and June 30, 2010, 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.

m) Inventory

Inventory is valued at the lower of cost or market and accounted for on a first-in, first-out basis, and is 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 and vehicles. 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 Statements 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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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, 2011 and 2010, 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.

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, 2011 and at June 30, 2010. 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 for its federal and state filings, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

s) *Endowment*

The Board of Trustees of Loma Linda University interpret 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.

- (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 2010 amounts have been reclassified to conform to the 2011 presentation.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

3) Pledges Receivable

The pledges receivable, net of estimated uncollectible amounts, are discounted to present value at a rate of 5.25%. Based on the University's collection history, management determined that no reserve was necessary for pledges receivable at June 30, 2011 and 2010.

Pledges receivable due to be collected at June 30 are:

	2011	2010
Gross unconditional pledges receivables	\$ 3,261,132	\$ 3,389,391
Less: unamortized discounts	<u>(82,834)</u>	<u>(123,301)</u>
	<u>\$ 3,178,298</u>	<u>\$ 3,266,090</u>

Amounts due in:

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	\$ 841,608	\$ 1,791,311
One year to five years	<u>2,336,690</u>	<u>1,474,779</u>
	<u>\$ 3,178,298</u>	<u>\$ 3,266,090</u>

4) Plant Facilities

Plant facilities consist of the following at June 30:

	2011	2010
Land and improvements	\$ 34,712,349	\$ 30,047,522
Vehicles	542,401	437,391
Equipment	123,947,079	117,060,660
Buildings and improvements	<u>315,191,761</u>	<u>266,858,859</u>
	474,393,590	414,404,432
Less accumulated depreciation and amortization	<u>(218,169,785)</u>	<u>(195,207,375)</u>
Net plant facilities	256,223,805	219,197,057
Construction in progress	<u>4,364,897</u>	<u>51,098,038</u>
Plant and equipment, net	<u>\$ 260,588,702</u>	<u>\$ 270,295,095</u>

The University has various construction-in-progress projects open as of June 30, 2011 for the construction of facilities and other improvements. It has budgeted approximately \$11 million (unaudited) for the completion of these projects as of June 30, 2011.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

5) Notes and Loans Payable

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

	2011	2010
Notes to two individuals:		
Collateralized by deed of trust, fixed rate, 7.5%, principal and interest monthly. Due in 2033	\$ 1,456,456	\$ 1,478,786
Collateralized by deed of trust, variable rate, interest only payments monthly, (0.19% and 0.53% at June 30, 2011 and 2010, respectively) due upon death of both individuals	400,000	400,000
Notes to individuals:		
Mortgage notes, interest ranging from 5.5% to 10%, interest payable monthly, quarterly and on demand, various due dates through 2011	22,000	22,000
Note to Bank at 5.625%, principal and interest monthly	19,989,673	-
Line of credit (see note 6)	2,000,000	10,000,000
Line of credit (see note 6)	<u>25,944,220</u>	<u>28,421,034</u>
Total notes and loans payable	<u>\$ 49,812,349</u>	<u>\$ 40,321,820</u>

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

2012	\$ 29,112,173
2013	611,423
2014	647,870
2015	686,500
2016	724,718
2017 and thereafter	<u>18,029,665</u>
	<u>\$ 49,812,349</u>

Interest related to the notes and loans payable was \$623,310 and \$104,973 for the years ending June 30, 2011 and 2010, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

6) Lines of Credit

The University has a \$10 million unsecured line of credit with a financial institution, with interest at prime, which was 3.25% at June 30, 2011. As part of the unsecured line of credit agreement, the University is required to meet certain financial and non-financial covenants. The line of credit expires on April 1, 2012. The outstanding balances were \$2 million and \$10 million as of June 30, 2011 and 2010, respectively.

The University also has a balance of \$25,944,220 and \$28,421,034 as of June 30, 2011 and 2010, respectively, from a financial institution on a demand line of credit that is secured by securities held at a financial institution, with a margin rate of 2.375% (see Note 5).

7) Annuity and Life Income Funds

Revocable Trust Agreements

At June 30, 2011 and 2010, the University held, as trustee, a total of 37 and 42 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$17,768,395 (unaudited) in 2011 and \$17,416,303 (unaudited) in 2010. Revocable trust agreements with assets totaling \$575,886 in 2011 and \$0 in 2010 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, 2011 AND 2010

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, 2011 and 2010, respectively, were \$10,217,368 and \$10,377,866.

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 \$14,267,219 and \$10,656,264 for the years ended June 30, 2011 and 2010, respectively, and are included in the institutional administration expense category in the Statement of Activities.

On December 30, 2008 LLUMC borrowed \$24 million from the LLU investment pools with a five-year term. Principal and interest are due monthly at a rate of 7.0%. The balances at June 30, 2011 and 2010 were \$13,441,124 and \$18,027,245, respectively. The loan is secured by a trust deed and is included in the investments account on the Statements of Financial Position.

The University also provides various services to LLUAHSC entities during the year. The revenues generated from these entities were \$17,728,204 and \$19,175,876 for the years ended June 30, 2011 and 2010, respectively and are mostly represented in non-operating revenue in the Statements of Activities. Net accounts receivable from LLUAHSC entities were \$12,878,492 and \$14,713,077 at June 30, 2011 and 2010, respectively, and are included in accounts receivable in the Statements 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, 2011 and 2010, the plan liabilities totaled \$5,037,734 and \$5,080,118, 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, 2011 AND 2010

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 \$1,700,088 and \$1,726,547 and capitalized interest totaled \$93,742 and \$345,309 for the years ended June 30, 2011 and 2010, respectively.

Mandatory redemption from sinking fund payments

The Series 2007 Bonds maturing on April 1, 2028, 2032, and 2037 are subject to redemption, in part, by lot, from mandatory sinking fund payments deposited in the Series 2007 Bond Account on each April 1, beginning 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

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

Maturity Date (April 1)	Amount
2012	\$ 685,000
2013	715,000
2014	750,000
2015	785,000
2016	825,000
Thereafter	30,440,000
	<u>\$ 34,200,000</u>

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

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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:

2011	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 80,127,149	\$ -
Student Loans	34,724,515	-
Endowment	37,209,978	138,631,746
Annuity and life income agreements	<u>25,492,370</u>	<u>7,950,131</u>
	<u>\$ 177,554,012</u>	<u>\$ 146,581,877</u>

2010	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 75,664,361	\$ -
Student Loans	30,888,880	-
Endowment	35,802,075	112,487,834
Annuity and life income agreements	<u>27,035,258</u>	<u>8,597,821</u>
	<u>\$ 169,390,574</u>	<u>\$ 121,085,655</u>

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 \$1,751,976 and \$3,174,231 to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2011 and 2010, respectively.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

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 \$2,359,602 and \$2,035,040 during the years ended June 30, 2011 and 2010, 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 \$3,454,373 and \$3,424,086 during the years ended June 30, 2011 and 2010, 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.

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NOTES TO FINANCIAL STATEMENTS
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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 \$19,292,005 and \$18,427,229 in fiscal years 2011 and 2010, respectively. The Risk Management division of LLUAHSC has a net surplus held for the University as prepaid expense of \$2,733,339 and \$3,184,048 as of June 30, 2011 and 2010, 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 bonds 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.

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.

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 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 equities, debt securities, government securities and government money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include managed accounts with short redemption periods and hedge funds which are valued by the manager using the fair value of the underlying equity or debt security investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Alternative investment valuations (Level 3), which include private equity investments and commercial real estate, are based on valuations provided by the external investment managers and recent appraisal on commercial real estate which is 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. Also included in the Level 3 category are first trust deeds (mortgages) whose estimated fair values are derived using discounted projected cash flows based on interest rates being offered for similar instruments with comparable durations considering the credit-worthiness of the issuer.

Investment strategies of the above funds include the use of margin and other forms of leverage including taking short positions, swaps, futures, options, warrants, private placements, forward contracts, trade claims and credit default swaps, real estate instruments, when deemed appropriate by the fund managers. Other strategies include macro analysis, merger arbitrage, distressed securities and special situations. All investment objectives and strategies used by the fund managers comply with the University's investment policy.

LOMA LINDA UNIVERSITY

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Investments consist of the following at June 30, 2011:

	Level 1	Level 2	Level 3	2011 Total
<u>Investments - redeemable securities</u>				
Equity securities				
Real estate industry	\$ 6,551,517	\$ -	\$ -	\$ 6,551,517
Oil and gas industry	12,554,878	-	-	12,554,878
Domestic equities	<u>103,614,182</u>	<u>-</u>	<u>-</u>	<u>103,614,182</u>
Total equity securities	122,720,577	-	-	122,720,577
Debt securities				
Residential mortgage backed	25,136,190	-	-	25,136,190
US treasury securities & government money market	31,350,559	-	-	31,350,559
Corporate bonds	<u>137,825,230</u>	<u>-</u>	<u>-</u>	<u>137,825,230</u>
Total debt securities	194,311,979	-	-	194,311,979
International other equity securities	30,158,498	-	-	30,158,498
Equity long/short hedge fund investments	-	20,791,385	-	20,791,385
Distressed debt hedge fund investments	<u>-</u>	<u>5,451,000</u>	<u>-</u>	<u>5,451,000</u>
Total redeemable securities	<u>347,191,053</u>	<u>26,242,385</u>	<u>-</u>	<u>373,433,438</u>
<u>Investments - nonredeemable securities</u>				
Global opportunities hedge fund investments	-	8,376,449	-	8,376,449
Private equity investments				
Distressed debt	-	-	23,938,527	23,938,527
Oil and energy	-	-	11,765,495	11,765,495
International private equity	-	-	7,120,879	7,120,879
Domestic venture capital investments	-	-	1,543,668	1,543,668
Private equity investments	<u>-</u>	<u>-</u>	<u>3,731,851</u>	<u>3,731,851</u>
Total private equity investments	-	-	48,100,421	48,100,421
First trust deeds (mortgages)	-	-	70,244,481	70,244,481
Commercial real estate	-	-	69,481,609	69,481,609
Others	<u>-</u>	<u>-</u>	<u>1,486,845</u>	<u>1,486,845</u>
Total nonredeemable securities	<u>-</u>	<u>8,376,449</u>	<u>189,313,356</u>	<u>197,689,804</u>
Total investments	<u>\$ 347,191,053</u>	<u>\$ 34,618,833</u>	<u>\$ 189,313,356</u>	<u>\$ 571,123,242</u>

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

	Level 1	Level 2	Level 3	2011 Total
<u>Irrevocable trusts - redeemable securities</u>				
Equity securities others	48,724,285	-	158,870	48,883,155
Debt securities	-	-	-	-
US treasury securities & government money market	435,572	48,277	-	483,849
Corporate bonds	(4,736)	-	-	(4,736)
Total debt securities	430,836	48,277	-	479,113
Total irrevocable trusts redeemable securities	<u>49,155,121</u>	<u>48,277</u>	<u>158,870</u>	<u>49,362,268</u>
<u>Irrevocable trusts - nonredeemable securities</u>				
Oil and gas private equity investment	-	-	2	2
Commercial real estate	-	-	2,991,873	2,991,873
Others	(1,900)	-	4,213,154	4,211,254
Total irrevocable trusts nonredeemable securities	<u>(1,900)</u>	<u>-</u>	<u>7,205,028</u>	<u>7,203,128</u>
Total irrevocable trusts	<u>\$ 49,153,221</u>	<u>\$ 48,277</u>	<u>\$ 7,363,898</u>	<u>\$ 56,565,396</u>

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NOTES TO FINANCIAL STATEMENTS
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Investments consist of the following at June 30, 2010:

	Level 1	Level 2	Level 3	2010
<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
U.S. 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>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

The following table presents a roll forward of the amounts for the year ended June 30, 2011 for assets classified as Level 3:

	Balance at June 30, 2010	Transfers to Level 2	Purchases and Sales	Gains and (Losses)	Included in Investment Income	Included in Unrealized Gains (Losses) on Investments	Balance at June 30, 2011
Private equity							
Distressed debt	\$ 20,863,577	\$ -	\$ 1,583,314	\$ 3,028,592	\$ (9,718)	(1,527,238)	\$ 23,938,527
Oil and energy	9,824,525	-	2,019,374	(524,368)	(2,275,463)	2,721,428	11,765,495
International private equity	6,084,794	-	533,123	519,093	(286,599)	270,468	7,120,879
Domestic venture capital investments	2,388,268	-	(89,673)	151,679	(393,475)	(513,131)	1,543,668
Private equity investments	3,780,261	-	(348,615)	291,709	(445,233)	453,729	3,731,851
Hedge Funds	-	-	-	-	-	-	-
Commercial real estate	67,415,681	-	6,441,524	(161,178)	-	(4,214,418)	69,481,609
Irrevocable trusts	18,265,214	-	(12,218,082)	-	(6,910,703)	8,227,470	7,363,899
First trust deeds (mortgages)	62,477,733	-	7,766,748	-	-	-	70,244,481
Short term investments (others)	-	-	356,635	(82,976)	-	1,213,186	1,486,845
2011 Total	<u>\$ 191,100,053</u>	<u>\$ -</u>	<u>\$ 6,044,348</u>	<u>\$ 3,222,551</u>	<u>\$ (10,321,191)</u>	<u>\$ 6,631,494</u>	<u>\$ 196,677,254</u>

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

	Balance at June 30, 2010	Transfers from (to) Level 2	Purchases and Sales	Gains and (Losses)	Included in Investment Income	Included in Unrealized Gains (Losses) on Investments	Balance at June 30, 2010
Hedge funds	\$ 12,647,097	\$(12,647,097)	\$ -	\$ -	\$ -	\$ -	\$ -
Note receivable	69,430,629	207,728	(7,160,624)	-	-	-	62,477,733
Private equity	61,860,885	(26,485,863)	1,518,973	6,047,430	(3,005,483)	9,052,913	42,941,425
Real estate	85,338,439	448,204	(12,869,136)	(5,501,826)	-	(5,501,826)	67,415,681
Irrevocable trusts	17,521,637	-	642,312	101,265	(805,659)	906,924	18,265,214
2010 Total	<u>\$ 246,798,687</u>	<u>\$(38,477,028)</u>	<u>\$(17,868,475)</u>	<u>\$ 646,869</u>	<u>\$ (3,811,142)</u>	<u>\$ 4,458,011</u>	<u>\$ 191,100,053</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2011 relate principally to assets still held at June 30, 2011.

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

	Fair Value at June 30, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity ^{a), b)}				
Distressed debt	\$ 23,938,527	\$ 4,352,014	None	N/A
Oil and Energy	11,765,495	12,058,875	None	N/A
International Private Equity	7,120,879	-	None	N/A
Domestic Venture Capital Investments	1,543,668	-	None	N/A
Private Equity Investments	3,731,851	-	None	N/A
Hedge Funds ^{c)}	34,618,833	-	N/A	30-90 days
Institutional Equity Funds ^{d)}	<u>12,363,428</u>	-	N/A	30 days
Total Private Equity	<u>\$ 95,082,682</u>	<u>\$ 16,410,889</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
2012	\$ 850,000
2013	6,700,000
2014	5,232,737
2015	2,944,247
2016	83,875
Liquidation	<u>600,030</u>
	<u>\$ 16,410,889</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.
- 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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

15) Conditional Pledges

On August 1, 1995, the United States government 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 University Behavioral Medicine Center and Faculty Practice Groups. For 2011, 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 14).

The University's policy is to record the contribution of these gifts in its financial statements as temporarily or permanently restricted net assets (at market value) if the assets are controlled by the University as indicated by 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.

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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.

Changes in the university's endowment for the year ended June 30, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011
Investment returns				
Investment income from pooled funds	\$ 1,473,296	\$ 31,240	\$ 204,349	\$ 1,708,885
Less investment returns appropriated for operation	<u>(2,266,155)</u>	<u>-</u>	<u>-</u>	<u>(2,266,155)</u>
Investment income, net of amount appropriated for operation	(792,859)	31,240	204,349	(557,270)
Change in realized/unrealized net appreciation of investments	<u>(1,793,408)</u>	<u>573,860</u>	<u>17,119,452</u>	<u>15,899,904</u>
Net return in pooled investment fund	(2,586,267)	605,100	17,323,801	15,342,634
Investment income from separate investments	<u>-</u>	<u>(114,490)</u>	<u>127,732</u>	<u>13,242</u>
Total net investment returns	(2,586,267)	490,610	17,451,533	15,355,876
Other changes in endowed equity:				
Gifts	514,878	917,293	8,692,379	10,124,550
Transfers	<u>(46,778)</u>	<u>-</u>	<u>-</u>	<u>(46,778)</u>
Net change in endowed equity	(2,118,167)	1,407,903	26,143,912	25,433,648
Endowed equity, beginning of year	<u>58,856,152</u>	<u>35,802,075</u>	<u>112,487,833</u>	<u>207,146,060</u>
Endowed equity, end of year	<u>\$ 56,737,985</u>	<u>\$ 37,209,978</u>	<u>\$ 138,631,745</u>	<u>\$ 232,579,708</u>
At June 30, 2011, endowed equity consists of the following assets:				
Investments	<u>\$ 56,737,985</u>	<u>\$ 37,209,978</u>	<u>\$ 138,631,745</u>	<u>\$ 232,579,708</u>
Total endowed equity	<u>\$ 56,737,985</u>	<u>\$ 37,209,978</u>	<u>\$ 138,631,745</u>	<u>\$ 232,579,708</u>
At June 30, net assets included endowed equity as follows:				<u>2011</u>
Total unrestricted endowment (board designated)				<u>\$ 56,737,985</u>
Temporarily restricted (donor restricted)				
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:				
Without purpose restriction				<u>37,209,978</u>
Total temporarily restricted endowment funds				<u>\$ 37,209,978</u>
Permanently restricted endowment (donor restricted)				<u>138,631,745</u>
Total endowment				<u>\$ 232,579,708</u>

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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

LOMA LINDA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

19) 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 13, 2011, which is the date the financial statements are available for issuance, and concluded that there were no additional events or transactions that need to be disclosed.

SUPPLEMENTAL SCHEDULES (UNAUDITED)

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
AT JUNE 30, 2011

	Educational Division	Foundation	Total
ASSETS			
Cash & cash equivalents	\$ 8,726,081	\$ 515,111	\$ 9,241,192
Restricted cash	2,439,254	-	2,439,254
Accounts receivable	27,970,554	1,481,763	29,452,317
Pledges receivable		3,178,298	3,178,298
Trust deed notes receivable		1,120,014	1,120,014
Student Loans / Financial Aid	40,692,255	-	40,692,255
Current Notes & Loans Receivable	100,000	-	100,000
Allowance for Doubtful Accounts	(6,858,793)	-	(6,858,793)
Inventory	1,959,795	1,720,481	3,680,276
Investments	18,251,655	552,871,587	571,123,242
Interdepartmental loans	(34,068,724)	34,068,724	-
Construction in progress	4,234,718	130,178	4,364,896
Plant and equipment, net	217,217,071	39,006,735	256,223,806
Prepaid items & deferred charges	3,034,569	12,437	3,047,006
Irrevocable trusts		56,565,396	56,565,396
Other Assets	30,505,326	(20,339,627)	10,165,699
Total Assets:	<u>\$ 314,203,761</u>	<u>\$ 670,331,097</u>	<u>\$ 984,534,858</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 27,390,611	\$ 1,229,132	\$ 28,619,743
Accrued expenses and other current liabilities	6,847,998	-	6,847,998
Deferred income	17,879,784	-	17,879,784
Notes & loans payable	27,944,219	21,868,130	49,812,349
Trust liabilities		32,604,765	32,604,765
Annuities payable		5,075,865	5,075,865
Non-operating liability	29,575,439	2,215,206	31,790,645
Amounts held on behalf of others		267,596,629	267,596,629
Bonds payable	34,200,000	-	34,200,000
Total Liabilities	143,838,051	330,589,727	474,427,778
Net assets:			
Unrestricted:			
Unrestricted – undesignated	103,993,475	675,982	104,669,457
Unrestricted – board-designated	-	54,301,016	54,301,016
Unrestricted – administration-designated	-	27,000,718	27,000,718
Total unrestricted	103,993,475	81,977,716	185,971,191
Temporarily restricted	66,372,235	111,181,777	177,554,012
Permanently restricted	-	146,581,877	146,581,877
Total net assets:	<u>170,365,710</u>	<u>339,741,370</u>	<u>510,107,080</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 314,203,761</u>	<u>\$ 670,331,097</u>	<u>\$ 984,534,858</u>

- See accompanying notes to financial statements

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED)
YEAR ENDED JUNE 30, 2011

	Educational Division			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Tuition and fees	\$ 124,512,483	\$ -	\$ -	\$ 124,512,483
Less student aid	(7,090,758)	-	-	(7,090,758)
Net tuition and fees	117,421,725	-	-	117,421,725
Gifts	2,291,690	191,984	-	2,483,674
Grants and contracts	39,118,284	-	-	39,118,284
Investment income	1,240,540	5,080,208	-	6,320,748
Other operating revenue (expense)	11,331,090	(452,410)	-	10,878,680
Non-operating revenue	43,676,117	-	-	43,676,117
Subsidies	12,865,735	-	-	12,865,735
Sales income	2,557,073	-	-	2,557,073
Financial aid	-	2,492,491	-	2,492,491
Net assets released from restriction - operating	7,320,432	(2,668,381)	-	4,652,051
Total revenue and support	237,822,686	4,643,892	-	242,466,578
EXPENSES				
Instruction	88,338,512	-	-	88,338,512
Research	36,964,867	-	-	36,964,867
Public service	3,574,232	-	-	3,574,232
Academic support	42,380,280	-	-	42,380,280
Student services	5,401,033	-	-	5,401,033
Institutional administration	27,939,217	-	-	27,939,217
Physical plant	5,478,827	-	-	5,478,827
Student financial support	1,485,449	-	-	1,485,449
Independent operations	16,028,983	-	-	16,028,983
Depreciation	21,660,671	-	-	21,660,671
Total expenses	249,252,071	-	-	249,252,071
Change in net assets from operating activities	(11,429,385)	4,643,892	-	(6,785,493)
<i>Unrealized gains on investments</i>	-	-	-	-
Change in net assets	(11,429,385)	4,643,892	-	(6,785,493)
<i>Net assets, beginning of year</i>	<i>115,422,860</i>	<i>61,728,343</i>	<i>-</i>	<i>177,151,203</i>
Net assets, end of year	\$ 103,993,475	\$ 66,372,235	\$ -	\$ 170,365,710

LOMA LINDA UNIVERSITY

COMBINING STATEMENTS OF ACTIVITIES (UNAUDITED), CONT'D
YEAR ENDED JUNE 30, 2011

	Foundation Division			Total	Educational & Foundation Divisions Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT					
Tuition and fees	\$ -	\$ -	\$ -	\$ -	\$ 124,512,483
Less student aid	-	-	-	-	(7,090,758)
Net tuition and fees	-	-	-	-	117,421,725
Gifts	3,418,572	9,157,968	8,972,513	21,549,053	24,032,727
Grants and contracts	-	-	-	-	39,118,284
Investment income (loss)	16,133,724	(1,894,809)	(1,078,627)	13,160,288	19,481,036
Other operating revenue	10,918,436	-	-	10,918,436	21,797,116
Non-operating revenue	20	8,448	127,731	136,199	43,812,316
Subsidies	-	-	-	-	12,865,735
Sales income	-	-	-	-	2,557,073
Financial aid	-	-	-	-	2,492,491
Net assets released from restriction - operating	7,740,671	(12,392,722)	-	(4,652,051)	-
Total revenue and support	38,211,423	(5,121,115)	8,021,617	41,111,925	283,578,503
EXPENSES					
Instruction	-	-	-	-	88,338,512
Research	-	-	-	-	36,964,867
Public service	-	-	-	-	3,574,232
Academic support	-	-	-	-	42,380,280
Student services	-	-	-	-	5,401,033
Institutional administration	3,305,097	-	-	3,305,097	31,244,314
Physical plant	-	-	-	-	5,478,827
Student financial support	-	-	-	-	1,485,449
Independent operations	9,318,667	-	-	9,318,667	25,347,650
Depreciation	2,266,155	-	-	2,266,155	23,926,826
Total expenses	14,889,919	-	-	14,889,919	264,141,990
Change in net assets from operating activities	23,321,504	(5,121,115)	8,021,617	26,222,006	19,436,513
<i>Unrealized gains on investments</i>	(5,151,005)	8,640,661	17,474,605	20,964,261	20,964,261
Change in net assets	18,170,499	3,519,546	25,496,222	47,186,267	40,400,774
<i>Net assets, beginning of year</i>	<i>63,807,217</i>	<i>107,662,231</i>	<i>121,085,655</i>	<i>292,555,103</i>	<i>469,706,306</i>
Net assets, end of year	\$ 81,977,716	\$ 111,181,777	\$ 146,581,877	\$ 339,741,370	\$ 510,107,080

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER				
<u>National Aeronautics and Space Administration</u>				
Direct Programs:				
Space Radiation Health Research Program		43.UNKNOWN	NNX10AB09G	\$ 1,753,479
Functional Decline in Mice with Alzheimer's-Type Neurodegeneration		43.UNKNOWN	NNX11AE41G	53,612
NSCOR - Carcinogenesis and Central		43.UNKNOWN	NNX10AD59G	1,417,833
Cooperative Research in Proton Space Radiation		43.UNKNOWN	NNX10AJ31G	973,507
Epigenetic Control of Radiogenic Damage Processing in C. elegans		43.UNKNOWN	NNX08AC79G	274,348
Subtotal Direct Programs				<u>4,472,780</u>
Passed Through Programs				
Space Radiation and Bone Loss: Lunar Outpost Mission Critical Scenarios & Countermeasures	National Space Biomedical Research Institute	43.UNKNOWN	NCC9-58	49,160
Subtotal Passed Through Programs				<u>49,160</u>
Total National Aeronautics and Space Administration				<u>4,521,940</u>
<u>Department of Defense</u>				
Direct Programs:				
<i>Military Medical Research and Development</i>				
Synchrotron-Based Technology		12.420	W81XWH-07-1-0680	3,569,960
CURE		12.420	W81XWH-05-1-0596	19,096
Cell and Molecular Study of Skeletal Augmentation and Repair		12.420	W81XWH-08-0967	1,700,948
Neuroprotective Strategies after Repetitive Mild Traumatic Brain Injury		12.420	W81XWH-09-1-0426	4,544
Synchrotron-Based Scanning Research		12.420	W81XWH-09-1-0544	2,756,708
Radiation Medicine Central Nervous System Studies		12.420	W81XWH-10-2-0192	869,952
Targeted Stem Cell-Gene Therapy for Inflammatory Brain Disease		12.420	W81XWH-11-2-0052	193,827
Research to Treat Cancerous Brain Tumors Using Neural Stem Cells		14.420	W81XWH-11-1-0352	1,393
Subtotal Direct Programs				<u>9,116,429</u>
Passed Through Programs				
Pre-Clinically Testing G-CSF Treatment in Neonatal Brain Injury	National Medical Technology TestBed	12.UNKNOWN	DAMD17-97-2-7016	516,920
Subtotal Passed Through Programs				<u>516,920</u>
Total Department of Defense				<u>9,633,349</u>

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
<u>Department of Health and Human Services</u>				
Direct Programs:				
<i>Oral Diseases and Disorders Research</i>				
Studies in Virulence Regulation in Porphyromonas		93.121	2 R01 DE013664	494,862
Testing of Computer Aided Dental		93.121	1 R15 DE017625	94,810
Mechanisms for Adaptation		93.121	1R01DE019730	375,556
				965,229
Alcohol Research Programs		93.273	5 R21 AA014269	15,858
Mental Health National Research Service Awards for Research Training		93.281	K01MH077732	128,130
<i>Centers for Disease Control and Prevention_ Investigations and Technical Assistance</i>				
Centers for Public Health Preparedness		93.283	5 U90 TP924259	182,711
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	1R01EB013118	19,989
Trans-NIH Research Support		93.310	1R21NS073059	109,679
Advanced Nursing Education Traineeships		93.358	1 A10HP18204	32,730
Nursing Research		93.361	1R01NR011209	371,058
<i>Cancer Cause and Prevention Research</i>				
Infidelity of Cytosine Methylation		93.393	5 R01 CA084487	68,281
Damaged DNA Recognition as a Cancer		93.393	5 R01 CA112293	9,108
Chemical Pathology of 5-aza-2 Deoxycytidine		93.393	5 R01 CA097043	1
Use of Natural Language Processing to Identify Linguistic Markers of Coping		93.393	1R21CA143642	105,565
				182,954
<i>Cancer Treatment Research</i>				
Evaluation of a Social-Networking		93.395	1 R03 CA137391	40,222
Children's Cancer Group		93.395	5 U10 CA13539	204,444
ACOSOG		93.395	7U10CA76001	25
				244,691
Cancer Research Manpower		93.398	1F31CA153999	20,221

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
<i>Trans-NIH Recovery Act Research Support</i>				
ARRA - Salt Appetite & Vascular		93.701	1R01HL090920	252,195
ARRA - NIH-LLU Initiative for Maximizing Student Diversity		93.701	3R25GM060507	53,552
ARRA - Pediatric TBI and DAI: Normal		93.701	3R01NS054001	173,410
ARRA - LTQ-Orbitrap-XL-ETD Mass Spectrometer for LLU Mass Spectrometry Facility		93.701	1S10RR027643	500,000
ARRA - Non-Human Primate Models for Human Xenotransplantation		93.701	7R01AI052079	144,514
ARRA - Clinical Study Funding Rider		93.701	3U10CA098543	14,057
				1,137,728
<i>Cardiovascular Disease Research</i>				
Maturation of Cerebrovascular		93.837	5 R01 HL064867	63,302
Prenatal Cocaine Exposure and Cardiac Programming		93.837	5 R01 HL082779	79,711
Maternal Hypoxia and Programming of Fetal Heart		93.837	1 R01 HL083966	324,731
Steroid Hormones and Uterine		93.837	1 R01 HL089012	313,221
Role of Nitrate and Hemoglobin		93.837	1R01HL095973	372,448
Vessel Remodeling During Ductus		93.837	R01 HL046691	29
				1,153,441
<i>Arthritis, Musculoskeletal and Skin Disease Research</i>				
Research Fellowship Award - Regulation of Oxidative Stress Induced Apoptosis in Osteoblasts		93.846	1 F31 AR056204	37,703
Role of Osteoactivin		93.846	5R03AR055135	57,725
				95,427
<i>Extramural Research Programs in the Neurosciences and Neurological Disorders</i>				
Pediatric TBI and DAI		93.853	1 R01 NS054001	336,446
Mechanisms of Hyperbaric Oxygen Induced Brain Protection		93.853	2 R0 1NS043338	251,665
Neurovascular Protection for Subarachnoid Hemorrhage		93.853	5 R01 NS053407	264,400
Mechanisms of EPO-Induced		93.853	5 R01 NS054685	569,914
Neonatal Brain Ischemia: Neuroimaging as a Basis for Rational Stem Cell Therapy		93.853	1 R01 NS059770	346,157
Mechanisms of G-CSF-Induced		93.853	1R01NS060936	362,697
Understanding Neuronal and Axonal Degeneration in a Murine Model of Human MS		93.853	R01NS062830	125,038
				2,256,317
<i>Allergy, Immunology and Transplantation Research</i>				
Highly Innovative Tactics to Interrupt Transmission of HIV (HIT-IT)		93.855	1 R01 AI090659	478,063

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
<i>Biomedical Research and Research Training</i>				
Sensory Transduction in Bacteria		93.859	5 R01 GM029481	346,128
Hydrolytic and Free Radical Mediate		93.859	5 R01 GM050351	48,590
LLU - NIH Initiative for Minority Students Program		93.859	5 R25 GM060507	588,267
				<u>982,984</u>
<i>Child Health and Human Development Extramural Research</i>				
Cerebral Artery Alpha 1 Adrenergic and PKC Regulatory Mechanisms		93.865	R01 HD003807	25,565
Mechanisms of Acclimatization; Fetus and Adult		93.865	5 P01 HD031226	4,704
Mechanisms of Acclimatization; Fetus and Adult		93.865	2P01HD031226	1,175,756
Neural Regulation of Prepartum		93.865	1 R01 HD054931	60,842
Leptin and Hypothalamo-Pituitary-Adrenal Function in the Long-Term Hypoxic Fetus		93.865	1R01HD051951	436,049
AQP4 and JNK Inhibition Together		93.865	1R01HD061946	368,186
				<u>2,071,103</u>
<i>Aging Research</i>				
Biological and Psychosocial		93.866	5 R01 AG026348	129,990
<i>Grants for Training in Primary Care Medicine and Dentistry</i>				
Residency Training in Primary Care		93.884	1 D58HP08292	3,673
Academic Administrative Units in Primary Care		93.884	6 D54HP10355	120,963
Pre-Doctoral Training in Primary Care		93.884	1 D56HP15239	184,727
				<u>309,363</u>
Ryan White HIV/AIDS Dental Reimbursements Community Based Dental Partnership		93.924	5 H65HA00004	262,632
<i>International Research and Research Training</i>				
Asian Leadership Training for Tobacco Control Research		93.989	5 R01 TW005964	87,470
Design and Validation of a Tobacco Survey for the Multiethnic population in Laos		93.989	5 R03 TW007345	69,717
				<u>157,186</u>
Subtotal Direct Programs				<u>11,307,483</u>
<i>Passed Through Programs</i>				
Innovations in Applied Public Health Research	Regents - University of California	93.061	1P01TP000303-01	378,508
Global AIDS	University of Malawi	93.067	3U2GPS001965	482,089
Public Health Training Centers Grant Program	San Diego State University Research Foundation	93.249	1 UBGHP20202	59,574

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
<i>Centers for Disease Control and Prevention_ Investigations and Technical Assistance</i>				
Researchers & Their Communities	Association for Prevention Teaching & Research	93.283	5U50CD300860-21	9,258
<i>Cancer Treatment Research</i>				
TFED	NSABP Foundation	93.395	U10 CA12027	88
The Rapamycin Renel Study/Brigham and Women's Hospital, Inc.	Brigham and Women's Hospital, Inc.	93.395	1 R01 CA107164	214
				302
<i>Cancer Control</i>				
TIND	NSABP Foundation	93.399	U10 CA37377	90
Select	Southwest Oncology	93.399	CA37429	1,119
				1,209
<i>Trans-NIH Recovery Act Research Support</i>				
ARRA - Febrile Seizure Model - Neuronal In	Regents of the University of California	93.701	NS035439	11,019
ARRA - Mechanism of Action of Omega-3	Louisiana State University	93.701	RC2AT005909	329,945
				340,964
<i>Cardiovascular Disease Research</i>				
Optimizing Outcome After Pediatric Heart Transplantation - SCCOR	University of Pittsburgh	93.837	5 P50 HL074732	23,272
Therapeutic Hypothermia After Pediatric Cardiac Arrest 'THAPCA' Trials	Regents - University of Michigan	93.837	U01HL094345	18,323
				41,595
Kidney Diseases, Urology and Hematology Research	Research Foundation at SUNY	93.849	5U01DK6338506	1,600
<i>Extramural Research Programs in the Neurosciences and Neurological Disorders</i>				
Gene Targets for IVH	Yale University	93.853	1 R01 NS053865	2,421
Validation of the NIH Stroke Scale in Children	Children's Hospital of Philadelphia	93.853	1R01NS050488	29,643
Clinical Trial of Ceftriaxone	Massachusetts General Hospital	93.853	5U01NS049640-05	12,804
				44,868
<i>Allergy, Immunology and Transplantation Research</i>				
Screening Test for HPV Positive (+) Head and Neck Cancer	High Throughput Genomics, Inc.	93.855	1 R43 AI082815	57,344
<i>Child Health and Human Development Extramural Research</i>				
Improving Outcomes in Acute Rehabilitation for TBI	International Severity Information Systems, Inc.	93.865	5 R01 HD050439	22,092
<i>Aging Research</i>				
Oxytocin and Social Behavior Over	Claremont Graduate University	93.866	1R21AG029871	20,583

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
Vision Research	Jaeb Center	93.867	5 U10 EY014231	135,619
National Children's Study	Regents of the University of California	93.UNKNOWN	HHSN26720070021C	306,427
Botulism Antitoxin Effects on Paralysis Induced by Type A and Type B Botulinum Neurotoxins in the Extensor Digitorum Brevis Muscle	Chesapeake Biological Laboratories, Inc.	93.UNKNOWN	HHSO-100-2006-00017C	392
Age-Related Eye Disease Study II	EMMES Corporation	93.UNKNOWN	HHS-N-260-2005-00007-C	15,819
Subtotal Passed Through Programs				1,918,242
Total Department of Health and Human Services				13,225,725
<u>Department of Energy</u>				
Direct Programs:				
Enhanced Proton Therapy for Adult		81.UNKNOWN	DE-FG02-06CH11465	79,174
<i>Office of Science Financial Assistance Program</i>				
The Cell Gene Expression		81.049	DE-FG02-07ER64345	211,602
The Contribution of Tissue Level Organization to Genomic Stability Following Low Dose/Low Dose Rate Gamma and Proton Irradiation		81.049	DE-FG02-07ER64348	152,510
Expansion of Proton Facilities		81.049	DE-FG02-08CH11513	1,913,000
Low Dose Ionizing Radiation Modulat		81.049	DE-SC0001832	191,551
				2,468,663
Subtotal Direct Programs				2,547,837
Total Department of Energy				2,547,837
<u>National Science Foundation</u>				
Direct Programs:				
Engineering Grants		47.041	650347	163,115
Biological Sciences		47.074	DBI-0923559	99,125
Total National Science Foundation				262,240

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor /Program Title	Pass through Grantor	Number	Grantor's Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Passed Through Programs				
Healthy Homes Demonstration Grants (Recovery Act Funded)	County of Riverside	14.908	CALHH0128-04	23,013
Total U.S. Department of Housing and Urban Development				23,013
<u>Department of Agriculture</u>				
Direct Programs:				
Grants for Agricultural Research, Special Research Grants		10.200	2010-38938-20924	247,433
Subtotal Direct Programs				247,433
Passed Through Programs:				
Incorporating Hass Avocados in Meals: Effects on Glycemic Index	Hass Avocado Board	10.UNKNOWN		151,204
Subtotal Passed Through Programs				151,204
Total Department of Agriculture				398,638
Total R&D Direct Programs				27,954,201
Total R&D Passed Through Programs				2,658,539
Total Research and Development Cluster				30,612,740
<u>Department of Health and Human Services</u>				
Passed Through Programs				
Foster Care_Title IV-E	Regents of the University of California	93.658	10-2031	1,158,728
Total Department of Health and Human Services				1,158,728
<u>Agency for International Development</u>				
Passed Through Programs				
USAID Foreign Assistance for Programs Overseas	Chemonics International Inc.	98.001	294-C-00-08-00225-00-LLU	657,960
Food for Peace Development Assistance Program (DAP)	Adventist Development and Relief Agency International	98.007	AID-FFP-A-10-00017	41,211
Total United States Agency for International Development (USAID)				699,171

LOMA LINDA UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2011

Federal Grantor/Program Title	Pass through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
STUDENT FINANCIAL AID CLUSTER				
<u>Department of Health and Human Services</u>				
Direct Programs:				
ARRA - Scholarships for Disadvantaged Students		93.407	TOAHP18470	222,481
Scholarships for Health Professions Students from Disadvantaged Backgrounds		93.925	T08HP18770-01-00	337,024
Total Department of Health and Human Services				559,505
<u>Department of Education</u>				
Direct Programs:				
Federal Supplemental Educational Opportunity Grants		84.007	P007A030445	355,196
Federal Work-Study Program		84.033	P033A030445	946,026
Federal Perkins Loan Program		84.038	P038A030445	1,100,235
Federal Pell Grant Program		84.063	P063P031147	1,382,268
Federal Direct Student Loans		84.268		103,786,051
Academic Competitiveness Grants		84.375		19,931
Total Department of Education				107,589,707
Total Student Financial Aid Cluster				108,149,212
<u>OTHER PROGRAMS</u>				
Direct Programs:				
Safe and Drug-Free Schools and Communities_National Program		84.184	Q184Z090032	33,091
Passed Through Programs				
National Institute on Disability and Rehabilitation Research	The Ohio State University	84.133	H133A080023	34,170
Total Expenditures of Direct Programs				136,136,505
Total Expenditures of Passed Through Programs				4,550,607
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 140,687,112

LOMA LINDA UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Loma Linda University (the University) under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 - FEDERAL STUDENT LOAN PROGRAMS

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2011 consists of:

CFDA Number		Loans Outstanding at June 30, 2010	Loans Awarded During Fiscal 2011	Loan Principal Repaid/Cancelled Written Off/Assigned Fiscal 2011	Loans Outstanding at June 30, 2011
	U.S. Department of Health and Human Services				
93.342	Health Professions Student Loan - Medicine (Primary Care Loan)	\$ 1,740,213	\$ 169,073	\$ (166,960)	\$ 1,742,326
93.342	Health Professions Student Loan - Dentistry	5,478,992	404,900	(846,068)	5,037,824
93.925	Loans for Disadvantaged Students- Medicine	1,615,270	740,187	(35,996)	2,319,461
93.925	Loans for Disadvantaged Students- Dentistry	1,144,140	97,000	(159,101)	1,082,039
93.408	ARRA - Nurse Faculty Loan	80,970	-	(13,116)	67,854
93.964	Nursing Student Loan - Graduate	64,331	3,000	(17,904)	49,427
93.964	Nursing Student Loan - Undergraduate	2,121,859	166,166	(314,163)	1,973,862
	U.S. Department of Education:				
84.038	Perkins Loan	7,642,091	981,131	(1,279,908)	7,343,314
		<u>\$ 19,887,866</u>	<u>\$ 2,561,457</u>	<u>\$ (2,833,217)</u>	<u>\$ 19,616,106</u>

LOMA LINDA UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

NOTE 4 - 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	Expenditures
Synchrotron-Based Technology	12.420	W81XWH-07-1-0680	\$ 2,316,757
CURE	12.420	W81XWH-05-1-0596	11,846
Synchrotron-Based Scanning Research	12.420	W81XWH-09-1-0544	2,517,802
Radiation Medicine Central Nervous System Studies	12.420	W81XWH-10-2-0192	89,412
Epigenetic Control of Radiogenic Damage Processing in <i>C. elegans</i>	43.XXX	NNX08AC79G	96,064
NSCOR - Carcinogenesis and Central	43.XXX	NNX10AD59G	889,340
Inter-University Technology Bundlin	47.041	650347	90,907
Low Dose Ionizing Radiation Modulat	81.049	DE-SC0001832	2,054
Enhanced Proton Therapy for Adult	81.XXX	DE-FG02-06CH11465	3,703
HTS Screening for Inhibitors of HPV 16 E6/Caspase 8 Binding	93.31	1R21NS073059	50,000
Use of Natural Language Processing to Identify Linguistic Markers of Coping	93.393	1R21CA143642	46,399
Steroid Hormones and Uterine	93.837	1 R01 HL089012	29,535
Role of Nitrate and Hemoglobin	93.837	1R01HL095973	89,822
Neonatal Brain Ischemia: Neuroimaging as a Basis for Rational Stem Cell Therapy	93.853	1 R01 NS059770	40,206
Highly Innovative Tactics to Interrupt Transmission of HIV (HIT-IT)	93.855	1 R01 AI090659	275,349
Mechanisms of Acclimatization; Fetus and Adult	93.865	2P01HD031226	23,247
Leptin and Hypothalamo-Pituitary-Adrenal Function in the Long-Term Hypoxic Fetus	93.865	1R01HD051951	210,026
Asian Leadership Training for Tobacco Control Research	93.989	5 R01 TW005964	65,181
Design and Validation of a Tobacco Survey for the Multiethnic population in Laos	93.989	5 R03 TW007345	52,935
			<u>\$ 6,900,582</u>

NOTE 5 – ADMINISTRATIVE COST ALLOWANCE RECEIVED

During the year ended June 30, 2011, the University claimed \$128,296 of Administrative Cost Allowance for its campus based programs; amounts are included with other program expenditures on the Schedule.

**REPORT OF INDEPENDENT AUDITORS 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, 2011, and have issued our report thereon dated December 13, 2011. 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

Management of the University is responsible for establishing and maintaining effective 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 a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-01 to be a significant deficiency 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.

MOSS ADAMS_{LLP}**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 management, the Board of Trustees, others within the entity, pass-through entities, and the federal awarding agencies 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 13, 2011

REPORT OF INDEPENDENT AUDITORS 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

To the Board of Trustees
Loma Linda University

Compliance

We have audited Loma Linda University's (the University) 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 the University's major federal programs for the year ended June 30, 2011. 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 its major federal programs are the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 its major federal programs for the year ended June 30, 2011. 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 2011-2.

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.

MOSS ADAMS LLP

Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-2. 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 management, the Board of Trustees, others within the entity, pass-through entities, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Los Angeles, California
December 13, 2011

LOMA LINDA UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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 no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? 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? yes no

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
Various	Student Financial Assistance Cluster
93.658	Foster Care_Title IV-E

Dollar threshold used to distinguish between type A and type B programs: \$1,057,240

Auditee qualified as low-risk auditee? yes no

LOMA LINDA UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Section II – Financial statement findings

FINDING 2011-1: Transfer of Assets from Construction in Progress (CIP) into Fixed Assets – Significant Deficiency

Criteria: Management is responsible for tracking capital projects in CIP and appropriately transferring assets to depreciable fixed asset categories when the capital project has been completed and placed in service.

Condition: During the audit process, we noted that assets were not transferred from the CIP category into depreciable fixed asset categories on the date the assets were placed into service. Further, some of the assets transferred were not classified to the correct category.

Cause and Effect: This indicates that management does not have an effective process for monitoring, recording and properly transferring CIP assets. As a result, assets were not appropriately classified and depreciation on CIP assets that were placed into service were not recorded correctly.

Recommendation: We recommend that management conduct an overall review and revision of their CIP monitoring and recording processes. That review should ensure that new policies and procedures are put in place to properly and timely conduct CIP reconciliations.

Management's Response: The cause of these errors was a combination of staffing changes, insufficient documentation of procedures and a misunderstanding of the role of the Construction department in determining projected completion dates. Our response will address each of these errors, as follows.

We will now prepare a schedule each quarter of uncompleted projects and send this to Construction for review. We will work with them to identify projects which have been placed in service within the meaning of GAAP, even if they have not been formally closed from a construction standpoint.

We will review activity for each project on a quarterly basis. If a project does not have significant activity for more than one quarter, Construction or the appropriate project manager will be contacted to determine if the project has been placed in service and, if so, on what date.

Accounting office operating procedure manuals will be updated to reflect these processes. The updated processes will be clearly communicated to the accountant responsible for fixed assets.

LOMA LINDA UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-2: 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

Award Year: 2010-2011

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

Condition: The University did not complete and return within 60 days of receipt the Student Status Confirmation Reports sent by the Department of Education.

Questioned Costs: None noted.

Context: During our testing of student status change and reporting processes, we noted that 2 of the 13 Student Status Confirmation Reports sent by the Department of Education to the University were not updated and submitted to the DOE within 60 days.

Cause: The late notifications are due to a lack of oversight.

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.

Management's Response: In order to focus on the enrollment reporting process and other compliance related items, the University records office has added an additional Assistant Director as of the beginning of November 2011. This new Assistant Director position will be fully responsible for ensuring compliance policies are upheld, including NSLDS reporting and the monitoring of student status changes. Our policy for reporting to NSLDS is to return the SSCR within 30 days and respond to any errors within 10 days.

LOMA LINDA UNIVERSITY

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011

FINDING 2010-2: Student Status Changes Instance of Noncompliance – Significant Deficiency

Federal Program: Student Financial Assistance Cluster

Federal Agency: Department of Education

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

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.

Status of Finding: Not corrected.