



Report of Independent Auditors
and Financial Statements for

Loma Linda University

June 30, 2014 and 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Loma Linda University

Report on the Financial Statements

We have audited the accompanying financial statements of Loma Linda University, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MOSS ADAMS_{LLP}***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loma Linda University as of June 30, 2014 and 2013, and the change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of financial position, combining statements of activities and schedule of expenses by natural classification of Loma Linda University, on pages 39-42, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Los Angeles, California
December 9, 2014

LOMA LINDA UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
AT JUNE 30, 2014 and 2013
Amounts are presented in thousands

	2014	2013
ASSETS:		
Cash & cash equivalents	\$ 6,073	\$ 9,285
Restricted cash	2,363	2,379
Accounts receivable	32,171	27,032
Student loans receivable	46,296	41,267
Pledges receivable	1,530	1,911
Irrevocable trusts	53,635	53,244
Investments	788,019	679,049
Inventories, prepaid expenses and other assets	23,447	20,136
Plant and equipment, net	257,406	259,841
TOTAL ASSETS	\$ 1,210,940	\$ 1,094,144
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 58,967	\$ 48,437
Deferred revenue	29,900	23,474
Investments held on behalf of others	324,010	276,056
Liabilities due under annuity and split-interest agreements	32,773	33,053
Notes and bonds payable	74,875	84,887
Other liabilities	32,250	32,237
Total Liabilities	552,775	498,144
Net assets:		
Unrestricted:		
Unrestricted – undesignated	96,768	103,798
Unrestricted – board designated	84,328	77,055
Unrestricted – administration designated	61,188	42,680
Total unrestricted	242,284	223,533
Temporarily restricted	207,564	197,826
Permanently restricted	208,317	174,641
Total Net Assets	658,165	596,000
TOTAL LIABILITIES AND NET ASSETS	\$ 1,210,940	\$ 1,094,144

LOMA LINDA UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
Amounts are presented in thousands

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition & fees	\$ 153,236	\$ -	\$ -	\$ 153,236
Less student aid	(9,620)	-	-	(9,620)
Net tuition and fees	143,616	-	-	143,616
Gifts and subsidies	20,716	1,040	12,241	33,997
Sponsored support	29,912	-	-	29,912
Investment income	11,404	15,413	2,454	29,271
Sales and service income	25,256	-	-	25,256
Clinic and auxiliary income	40,784	-	-	40,784
Student loan interest and other	103	1,009	-	1,112
Net assets released from restriction - operating	11,110	(11,110)	-	-
Total revenue and support	282,901	6,352	14,695	303,948
EXPENSES				
Instruction	117,012	-	-	117,012
Research	29,248	-	-	29,248
Public service	4,493	-	-	4,493
Academic support	36,350	-	-	36,350
Student services	5,457	-	-	5,457
Institutional administration	24,302	-	-	24,302
Physical plant	4,315	-	-	4,315
Student financial support	1,187	-	-	1,187
Independent operations	28,177	-	-	28,177
Depreciation and amortization	19,169	-	-	19,169
Total expenses	269,710	-	-	269,710
Change in net assets from operating activities	13,191	6,352	14,695	34,238
Unrealized gains on investments	5,560	3,386	18,981	27,927
Change in net assets	18,751	9,738	33,676	62,165
Net assets, beginning of year	223,533	197,826	174,641	596,000
Net assets, end of year	\$ 242,284	\$ 207,564	\$ 208,317	\$ 658,165

LOMA LINDA UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
Amounts are presented in thousands

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition & fees	\$ 146,282	\$ -	\$ -	\$ 146,282
Less student aid	(7,785)	-	-	(7,785)
Net tuition and fees	138,497	-	-	138,497
Gifts and subsidies	19,248	7,944	5,637	32,829
Sponsored support	33,655	-	-	33,655
Investment income	14,255	9,658	1,791	25,704
Sales and service income	24,717	-	-	24,717
Clinic and auxiliary income	42,958	-	-	42,958
Student loan interest and other	96	1,145	-	1,241
Net assets released from restriction - operating	7,624	(7,624)	-	-
Total revenue and support	281,050	11,123	7,428	299,601
EXPENSES				
Instruction	108,943	-	-	108,943
Research	31,153	-	-	31,153
Public service	3,887	-	-	3,887
Academic support	37,033	-	-	37,033
Student services	5,758	-	-	5,758
Institutional administration	30,910	-	-	30,910
Physical plant	3,232	-	-	3,232
Student financial support	1,888	-	-	1,888
Independent operations	19,709	-	-	19,709
Depreciation and amortization	18,194	-	-	18,194
Total expenses	260,707	-	-	260,707
Change in net assets from operating activities	20,343	11,123	7,428	38,894
Unrealized gains on investments	10,700	5,674	17,668	34,042
Change in net assets	31,043	16,797	25,096	72,936
Net assets, beginning of year	192,490	181,029	149,545	523,064
Net assets, end of year	\$ 223,533	\$ 197,826	\$ 174,641	\$ 596,000

LOMA LINDA UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 and 2013
Amounts are presented in thousands

	2014	2013
Cash provided from operating activities		
Change in net assets	\$ 62,165	\$ 72,936
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,169	18,194
Allowance for doubtful accounts	12	(872)
Unrealized losses (gains) on investments	(27,927)	(34,042)
Changes in operating assets and liabilities:		
Accounts receivable	(5,151)	(1,186)
Pledges receivable, net	381	435
Inventories, prepaid expenses and other assets	(3,311)	(2,646)
Accounts payable and accrued expenses	10,530	6,159
Deferred revenue	6,426	(770)
Liabilities due under split-interest agreements	8,364	5,102
Other liabilities	13	(138)
Contributions restricted for long-term purposes	(188)	(630)
Net cash provided by operating activities	<u>70,483</u>	<u>62,542</u>
Cash flows from investing activities		
Proceeds from sales of investments	1,177,240	3,005,258
Purchases of investments	(1,258,283)	(3,032,681)
Change in restricted cash	16	11
Change in irrevocable trust agreements	(391)	934
Purchases of plant facilities and construction in progress	(16,734)	(23,148)
Repayments of loans from students	5,944	6,188
Disbursements of loans to students	(10,973)	(7,745)
Investments held on behalf of others	47,954	(10,227)
Net cash (used in) investing activities	<u>(55,227)</u>	<u>(61,410)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	188	630
Payments made under split-interest agreements	(8,644)	(6,822)
Payments on notes and bonds payable	(10,012)	(2,574)
Net cash (used in) financing activities	<u>(18,468)</u>	<u>(8,766)</u>
Net change in cash and cash equivalents	(3,212)	(7,634)
Cash and cash equivalents at beginning of year	9,285	16,919
Cash and cash equivalents at end of year	<u>\$ 6,073</u>	<u>\$ 9,285</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 3,542</u>	<u>\$ 3,826</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 1 – Nature of Organization

Loma Linda University (the University) is a Seventh-day Adventist educational health-sciences institution with approximately 4,500 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, Behavioral Health, Dentistry, Medicine, Nursing, Pharmacy, Public Health, and Religion. 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, the 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 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 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. Grant revenues are recognized as related expenses are incurred or administrative fees are earned. Other operating revenues are derived from various University services such as food service, membership and wellness, events and royalties. Clinic revenues are derived from medical and dental services provided to general public. Revenues are recognized when services are provided.

Note 2 – Summary of Significant Accounting Policies (continued)

c) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include amounts held in certificates of deposit 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 is the reserve amount required by the bond agreement, see Footnote 8.

d) Accounts Receivable

Accounts receivable include tuition receivable, non-student receivables (employee education notes, mortgage loans) and third-party receivables. They are 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. The allowance for uncollectible receivables amounted to \$6.9 million at June 30, 2014 and 2013,.

e) Student Loans Receivable

Student loans consist of federal and private donated funds loaned to students. Private donated funds are recorded in accordance to the restrictions set by the donors. Federal funds are recorded as federal student loan obligations in the statements of financial position. Balances are recorded to the provision for doubtful accounts based on the aging of the receivables and are written off when deemed uncollectible. The University follows federal guidelines for determining when student loans are delinquent or past due for both federal and private donated funds. The provision for doubtful accounts amounted to \$712 thousand at June 30, 2014 and 2013.

f) 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 2 – Summary of Significant Accounting Policies (continued)

g) 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.

h) 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 \$2.5 thousand 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 when 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 lease. Maintenance and repairs are charged to expense as incurred.

Asset retirement obligations include 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. The asset retirement obligation is recorded as other liability in the Statement of Financial Position.

Note 2 – Summary of Significant Accounting Policies (continued)

i) 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, less selling costs. During the years ended June 30, 2014 and 2013, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

j) Liabilities Due Under Annuity and Split-Interest Agreements

Annuities are paid to individuals who have entered into annuity and split interest 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.

k) Split Interest Agreement

The University is the beneficiary in a number of split-interest arrangements with donors. Under these arrangements, the University controls 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 4). The University's policy is to record the contribution of these gifts in its financial statements as temporarily or permanently restricted net assets (at fair 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 liabilities due under annuity and split-interest agreements, and the estimated net present value of the payments which will be made to other remaindermen trusts is also recorded as liabilities due under annuity and split-interest agreements. 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 mortality rates considered appropriate for the time and risk factors of the gift instruments.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 2 – Summary of Significant Accounting Policies (continued)

l) 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.

m) 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 occurrence of events specified by the donors or by the change of restrictions specified by the donors.

n) Fair Values of Financial Instruments

The carrying value of the following financial instruments approximates their fair value: accounts receivable, student loans receivable, liabilities due under annuity and split-interest agreements, and notes payable.

Note 2 – Summary of Significant Accounting Policies (continued)

o) Investments and Investment Income

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. There were no such deficiencies on June 30, 2014 and 2013.

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 the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under these policies, 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). The 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 allowing for distributions up to five percent of the average fair value of the permanently restricted endowments as of the previous three calendar year-ends 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 2 – Summary of Significant Accounting Policies (continued)

p) 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 of 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, The 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 the University in a manner consistent with the standard of prudence prescribed by 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

q) Advertising and Promotion

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion expense amounted to approximately \$466 thousand and \$729 thousand for the years ended June 30, 2014 and 2013, respectively. Advertising and promotion expenses are presented within various functional expenses as presented in the Statements of Activities.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 2 – Summary of Significant Accounting Policies (continued)

r) Fundraising Activities

The University has included fundraising costs in institutional administration expenses in the accompanying Statements of Activities. The University incurred \$2.4 million and \$2.3 million, of fundraising costs in fiscal years ended June 30, 2014 and June 30, 2013, respectively.

s) 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 thousand. 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 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 2 – Summary of Significant Accounting Policies (continued)

t) 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 plant and equipment, allowances for uncollectible accounts for accounts receivable, student loans and pledges receivable as well as estimated trust liabilities and annuities payable.

u) 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, 2014 and 2013. The University 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 University is no longer subject to income tax examinations by taxing authorities for tax years before June 30, 2011 for its federal and June 30, 2010 for its state filings.

v) Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 3 – Pledges Receivable

The pledges receivable, net of estimated uncollectible amounts, are discounted to present value at a rate of 5.50%. Based on the University’s collection history, management determined that no allowance for doubtful accounts was necessary for pledges receivable at June 30, 2014 and 2013.

Pledges receivable at June 30 are:

	2014	2013
Gross unconditional pledges receivables	\$ 1,585	\$ 1,965
Less: unamortized discounts	(55)	(54)
	\$ 1,530	\$ 1,911
	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	\$ 892	\$ 1,276
One year to five years	638	635
	\$ 1,530	\$ 1,911

Note 4 – Credit Quality of Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience. At June 30, 2014 and 2013, student loans represented 3.82% and 3.77% of total assets, respectively.

Student loans consist of the following at June 30:

	2014	2013
Federal government programs	\$ 21,866	\$ 19,629
Institutional programs	25,142	22,350
	47,008	41,979
Less: allowance for doubtful accounts	(712)	(712)
Student loans receivable, net	\$ 46,296	\$ 41,267

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 4 – Credit Quality of Student Loans Receivable (continued)

Funds advanced by the Federal government of approximately \$21,902 at June 30, 2014 and 2013 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, the following amounts were past due under student loan programs:

<u>June 30,</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91+ Days</u>	<u>Total</u>
2014	\$ 29	\$ 17	\$ 16	\$ 6,379	\$ 6,441
2013	\$ 38	\$ 10	\$ 21	\$ 6,437	\$ 6,506

Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements

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.

Investment strategies for certain investments 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, and 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.

The University's policy is to recognize transfers in and transfers out at the end of the reporting period. This policy includes transfers in and transfers out of Level 1, Level 2, and Level 3.

Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

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. 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. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in unrestricted revenues support unless the income or loss is restricted by donor or law.

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 Statements 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

As part of the Level 3 securities valuation process, the Investment Management Committee, under the supervision of the University's Board of Directors, determines the fair value measurement policies and procedures in consultation with the University's third party investment advisors. These policies and procedures are reassessed periodically to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on the current market conditions and other third party information. Securities classified within Level 3 include private equity investments which are based on net asset values provided by the external investment managers adjusted for receipts and disbursements of cash and securities if the valuation date 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 following presents information about the level in the fair value hierarchy for the University's assets and liabilities that are not reported at fair value as of June 30, 2014 and 2013. Most financial assets and financial liabilities for which the carrying amount equals fair value are considered by the University to be Level 1 measurements in the fair value hierarchy. The University holds California Municipal Finance Authority ("CMFA") Revenue bonds that are reported at an amortized cost of \$32.1 million and \$32.8 million as of June 30, 2014 and 2013, respectively, in the Statements of Financial Position. These CMFA Revenue bonds have an approximate fair value of \$33.7 million and \$33.3 million as of June 30, 2014 and 2013, respectively. The University determined these CMFA Revenue bonds to be Level 2 measurements in the fair value hierarchy.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

Investments consist of the following at June 30, 2014:

	Level 1	Level 2	Level 3	2014 Total
<u>Investments - redeemable securities</u>				
Equity securities				
Real estate industry	\$ 2,731	\$ -	\$ -	\$ 2,731
Oil and gas industry	44,584	-	-	44,584
Domestic	117,466	37,220	-	154,686
International	-	27,978	-	27,978
Total equity securities	164,781	65,198	-	229,979
Debt securities				
US treasury & government money market	25,062	-	-	25,062
Corporate bonds	114,984	-	-	114,984
Total debt securities	140,046	-	-	140,046
Hedge funds				
Equity long/short funds	-	13,808	-	13,808
Distressed debt funds	-	6,628	-	6,628
Total hedge funds	-	20,436	-	20,436
Total redeemable securities	304,827	85,634	-	390,461
<u>Investments - nonredeemable securities</u>				
Private equity investments				
Distressed debt	-	-	33,409	33,409
Oil and energy	-	-	17,425	17,425
International	-	-	11,482	11,482
Domestic capital investments	-	-	1,602	1,602
Others	-	-	4,660	4,660
Total private equity investments	-	-	68,578	68,578
Real estate partnerships	-	-	135,424	135,424
Commercial real estate	-	40,618	-	40,618
Others	-	-	3,498	3,498
Total nonredeemable securities	-	40,618	207,500	248,118
Investments at fair value	304,827	126,252	207,500	638,579
Notes receivable at cost				149,440
Total investments				<u>\$ 788,019</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2014 Total</u>
<u>Irrevocable trusts - redeemable securities</u>				
Equity securities				
Domestic mutual funds	\$ 47,142	-	-	\$ 47,142
Total equity securities	47,142	-	-	47,142
US treasury & government money market debt securities	488	-	-	488
Total irrevocable trusts redeemable securities	47,630	-	-	47,630
<u>Irrevocable trusts - nonredeemable securities</u>				
Commercial real estate	-	-	2,235	2,235
Others	-	-	3,770	3,770
Total irrevocable trusts nonredeemable securities	-	-	6,005	6,005
Total irrevocable trusts	\$ 47,630	\$ -	\$ 6,005	\$ 53,635

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

Investments consist of the following at June 30, 2013:

	Level 1	Level 2	Level 3	2013 Total
<u>Investments - redeemable securities</u>				
Equity securities				
Real estate industry	\$ 2,576	\$ -	\$ -	\$ 2,576
Oil and gas industry	29,594	-	-	29,594
Domestic	61,554	30,285	-	91,839
International	8,703	22,644	-	31,347
Total equity securities	102,427	52,929	-	155,356
Debt securities				
US treasury & government money market	70,808	-	-	70,808
Corporate bonds	111,371	-	-	111,371
Total debt securities	182,179	-	-	182,179
Hedge funds				
Equity long/short funds	-	18,500	-	18,500
Distressed debt funds	-	6,027	-	6,027
Total hedge funds	-	24,527	-	24,527
Total redeemable securities	284,606	77,456	-	362,062
<u>Investments - nonredeemable securities</u>				
Private equity investments				
Distressed debt	-	-	32,839	32,839
Oil and energy	-	-	16,002	16,002
International	-	-	12,274	12,274
Domestic capital investments	-	-	1,541	1,541
Others	-	-	4,189	4,189
Total private equity investments	-	-	66,845	66,845
Real estate partnerships	-	-	60,678	60,678
Commercial real estate	-	34,956	-	34,956
Others	-	-	3,833	3,833
Total nonredeemable securities	-	34,956	131,356	166,312
Investments at fair value	284,606	112,412	131,356	528,374
Notes receivable at cost				150,675
Total investments				\$ 679,049

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	2013 Total
<u>Irrevocable trusts - redeemable securities</u>				
Equity securities				
Domestic mutual funds	\$ 46,343	\$ -	\$ -	\$ 46,343
International mutual funds	46	-	-	46
Total equity securities	46,389	-	-	46,389
US treasury & government money market debt securities	618	-	-	618
Total irrevocable trusts redeemable securities	47,007	-	-	47,007
<u>Irrevocable trusts - nonredeemable securities</u>				
Commercial real estate	-	-	2,518	2,518
Others	-	-	3,719	3,719
Total irrevocable trusts nonredeemable securities	-	-	6,237	6,237
Total irrevocable trusts	\$ 47,007	\$ -	\$ 6,237	\$ 53,244

The following table presents a roll forward of the amounts for the year ended June 30, 2014 for assets classified as Level 3:

	Balance at June 30, 2013	Purchases	Sales	Gains and (Losses)	Balance at June 30, 2014
Private equity:					
Distressed debt	\$ 32,839	\$ 5,207	\$ (6,624)	\$ 1,987	\$ 33,409
Oil and energy	16,002	4,760	(3,556)	219	17,425
International	12,274	3,871	(4,649)	(14)	11,482
Domestic capital investments	1,541	160	(191)	92	1,602
Others	4,189	2,730	(2,520)	261	4,660
Real estate partnership	60,678	76,073	(10,911)	9,584	135,424
Irrevocable trusts:					
Commercial real estate	2,518	-	(96)	(187)	2,235
Others	3,719	1,590	(1,539)	-	3,770
Short term investments (others)	3,833	697,895	(697,975)	(255)	3,498
Total	\$ 137,593	\$ 792,286	\$ (728,061)	\$ 11,687	\$ 213,505

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2014 relate principally to assets still held at June 30, 2014.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

The following table presents a roll forward of the amounts for the year ended June 30, 2013 for assets classified as Level 3:

	Balance at June 30, 2012	Purchases	Sales	Gains and (Losses)	Balance at June 30, 2013
Private equity:					
Distressed debt	\$ 32,453	\$ 8,986	\$ (12,132)	\$ 3,532	\$ 32,839
Oil and energy	14,748	6,530	(5,672)	396	16,002
International	12,490	808	(2,103)	1,079	12,274
Domestic capital investments	1,718	229	(212)	(194)	1,541
Others	5,222	372	(672)	(733)	4,189
Real estate partnership	28	55,306	-	5,344	60,678
Irrevocable trusts:					
Commercial real estate	2,572	454	(557)	49	2,518
Others	3,837	472	(613)	23	3,719
Short term investments (others)	4,170	1,454,753	(1,455,244)	154	3,833
Total	<u>\$ 77,238</u>	<u>\$ 1,527,910</u>	<u>\$ (1,477,205)</u>	<u>\$ 9,650</u>	<u>\$ 137,593</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

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

	<u>Fair Value at June 30, 2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity ^{a), b)}				
Distressed debt	\$ 33,409	\$ 8,899	180 days	60 days
Oil and energy ^{c)}	17,425	13,735	None	N/A
International	11,482	5,948	365 days	65 days
Domestic capital investments	1,602	108	None	N/A
Others	4,660	4,585	None	N/A
Real estate partnership	135,424	-	None	N/A
Hedge funds ^{d)}				
Equity long/short funds	13,808	-	30-90 days	30-65 days
Distressed debt funds	6,628	-	90 days	65 days
Equity funds ^{e)}				
Domestic	37,220	-	30 days	5 days
International	27,978	-	30 days	5-30 days
Totals	<u>\$ 289,636</u>	<u>\$ 33,275</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) One limited partner agreement provides for capital calls during the liquidation period under certain limited circumstances. The fund advisor has substantial remaining assets which the general partner expects will be sufficient to fully fund future capital requirements, if any. While the general partner reserves the right to rely on these provisions as circumstance warrants, it does not expect to call for any further capital from limited partners. The recallable distribution in excess of the unfunded commitment for this fund totaled \$4.8 million at June 30, 2014.

LOMA LINDA UNIVERSITY
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Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements (continued)

- d) 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.
- e) Unlisted equity fund investing in global equities.

Note 6 – Plant and Equipment

Plant and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 42,140	\$ 41,244
Vehicles	885	714
Equipment	121,116	117,167
Buildings and improvements	<u>332,965</u>	<u>329,360</u>
	497,106	488,485
Less accumulated depreciation and amortization	<u>(251,700)</u>	<u>(232,781)</u>
Net plant facilities	245,406	255,704
Construction in progress	<u>12,000</u>	<u>4,137</u>
Plant and equipment, net	<u>\$ 257,406</u>	<u>\$ 259,841</u>

The University has various construction in progress projects open as of June 30, 2014 for the construction of facilities and other improvements. It has budgeted \$80 million (unaudited) for the completion of these projects as of June 30, 2014.

Note 7 – Trusts

Revocable Trust Agreements

At June 30, 2014 and 2013, the University held, as trustee, a total of 30 and 34 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$11.6 million (unaudited) in 2014 and \$12.5 million (unaudited) in 2013. Revocable trust agreements with assets totaling \$212 thousand in 2014 and \$337 thousand in 2013 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 7 – Trusts (continued)

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

Note 8 – Notes and Bonds Payable

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

	<u>2014</u>	<u>2013</u>
CMFA Revenue Bonds, Series 2007	\$ 32,050	\$ 32,800
Secured note to Bank at 5.625%, principal and interest monthly, 20-year amortization, due June 17, 2021	18,213	18,833
Secured note to Bank at 5.0%, principal and interest monthly, 20-year amortization, due September 19, 2021	-	7,614
Notes to individuals, collateralized by deed of trust, fixed and variable interest rates are ranging from 0.15% to 8%, principal and interest payable monthly. due in 2033 and upon the death of individuals	1,779	1,807
Line of credit	<u>22,833</u>	<u>23,833</u>
Total notes and bonds payable	<u>\$ 74,875</u>	<u>\$ 84,887</u>

Aggregate principal maturities of notes and bonds payable for the years ending June 30, are as follows:

2015	\$ 24,845
2016	1,550
2017	1,636
2018	1,727
2019	1,862
2020 and thereafter	<u>43,255</u>
	<u>\$ 74,875</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 8 – Notes and Bonds Payable (continued)

Interest related to the notes and bonds payable was \$3.4 million and \$3.7 million for the years ending June 30, 2014 and 2013, respectively.

The University has a \$10 million unsecured line of credit with a financial institution, with interest at LIBOR plus 1.5%, which was approximately 1.65% at June 30, 2014. 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 will expire on April 1, 2015. There were no outstanding balances as of as of June 30, 2014 and 2013.

The University has a balance of \$22.8 million and \$23.8 million as of June 30, 2014 and 2013, 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 1.125%.

California Municipal Finance Authority Revenue Bonds, Loma Linda University Series 2007, totaling \$36.1 million, were issued pursuant to the provisions of the Joint Exercise of Powers Act, Title 1, Division 7, Chapter 5 of the California Government Code. The University used the proceeds of the Series 2007 Bonds for student housing, power plant upgrades and related projects, funding a Reserve Account, and costs of issuance. The Series 2007 Bonds are unsecured with a negative pledge on tuition and certain other revenues and on certain properties owned by the University. The University must also maintain certain financial ratios.

The Series 2007 Bonds mature at varying dates through April 1, 2037. Certain lots 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 have mandatory redemption provisions on each April 1, and after April 1, 2019, April 1, 2023, and April 1, 2028.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 8 – Notes and Bonds Payable (continued)

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, starting with 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	2029	\$ 1,535	2033	\$ 1,850
2026	1,325	2030	1,610	2034	1,940
2027	1,390	2031	1,685	2035	2,035
*2028	1,460	*2032	1,765	2036	2,140
				*2037	2,245

* Maturity dates

Note 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, 2014 and 2013, the plan liabilities totaled \$6.0 million and \$5.9 million. The assets are included in other assets and the liabilities are included in other liabilities in the accompanying Statements of Financial Position.

LOMA LINDA UNIVERSITY
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Note 10 – 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:

2014	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 103,016	\$ -
Student loans	39,523	-
Endowment	42,927	197,610
Annuity and split-interest agreements	22,098	10,707
	<u>\$ 207,564</u>	<u>\$ 208,317</u>

2013	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 97,269	\$ -
Student loans	38,115	-
Endowment	38,933	165,313
Annuity and split-interest agreements	23,509	9,328
	<u>\$ 197,826</u>	<u>\$ 174,641</u>

Note 11 – 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 gift instruments requiring that the principal be invested and the income only be utilized as provided under the California Uniform Prudent Management of Institutional Funds Act. While certain funds have been established by the Board of Trustees to function as endowment, any portion of such funds may be expended.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 11 – Endowment (continued)

Changes in the University’s endowment for the year ended June 30, 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
Investment returns				
Investment income from pooled funds	\$ 2,468	\$ 2,407	\$ 232	\$ 5,107
Less investment returns appropriated for operation	(2,611)	-	-	(2,611)
Investment income, net of amount appropriated for operation	(143)	2,407	232	2,496
Change in realized/unrealized net appreciation of investments	4,416	2,476	19,378	26,270
Net return in pooled investment fund	4,273	4,883	19,610	28,766
Investment (loss) income from separate investments	(16)	(516)	222	(310)
Total net investment returns	4,257	4,367	19,832	28,456
Other changes in endowed equity:				
Gifts	111	136	11,665	11,912
Transfers	2,905	(509)	800	3,196
Net change in endowed equity	7,273	3,994	32,297	43,564
Endowed equity, beginning of year	77,055	38,933	165,313	281,301
Endowed equity, end of year	<u>\$ 84,328</u>	<u>\$ 42,927</u>	<u>\$ 197,610</u>	<u>\$ 324,865</u>

At June 30, 2014, endowed equity consists of the following assets:

Investments	\$ 84,328	\$ 42,927	\$ 197,610	\$ 324,865
Total endowed equity	<u>\$ 84,328</u>	<u>\$ 42,927</u>	<u>\$ 197,610</u>	<u>\$ 324,865</u>

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

	2014
Total unrestricted endowment (board designated)	<u>\$ 84,328</u>
Temporarily restricted (donor restricted)	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	<u>\$ 42,927</u>
Permanently restricted endowment (donor restricted)	<u>\$ 197,610</u>
Total endowment	<u>\$ 324,865</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Note 11 – Endowment (continued)

Changes in the University’s endowment for the year ended June 30, 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013
Investment returns				
Investment income from pooled funds	\$ 2,196	\$ 303	\$ 1,811	\$ 4,310
Less investment returns appropriated for operation	-	(1,821)	-	(1,821)
Investment income, net of amount appropriated for operation	2,196	(1,518)	1,811	2,489
Change in realized/unrealized net appreciation of investments	7,884	3,559	16,521	27,964
Net return in pooled investment fund	10,080	2,041	18,332	30,453
Investment (loss) income from separate investments	523	-	149	672
Total net investment returns	10,603	2,041	18,481	31,125
Other changes in endowed equity:				
Gifts	7	108	5,557	5,672
Transfers	474	391	-	865
Net change in endowed equity	11,084	2,540	24,038	37,662
Endowed equity, beginning of year	65,971	36,393	141,275	243,639
Endowed equity, end of year	<u>\$ 77,055</u>	<u>\$ 38,933</u>	<u>\$ 165,313</u>	<u>\$ 281,301</u>

At June 30, 2013, endowed equity consists of the following assets:

Investments	\$ 77,055	\$ 38,933	\$ 165,313	\$ 281,301
Total endowed equity	<u>\$ 77,055</u>	<u>\$ 38,933</u>	<u>\$ 165,313</u>	<u>\$ 281,301</u>

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

	2013
Total unrestricted endowment (board designated)	<u>\$ 77,055</u>
Temporarily restricted (donor restricted)	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	<u>\$ 38,933</u>
Permanently restricted endowment (donor restricted)	<u>\$ 165,313</u>
Total endowment	<u>\$ 281,301</u>

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 12 – 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 (GCSDA). Revenues received from GCSDA in unrestricted contributions for the years ended June 30, 2014 and 2013, respectively, were \$8.0 million and \$9.1 million.

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 among other LLUAHSC organizations. Total expenses paid to LLUAHSC for shared services were \$11 million and \$8.4 million for the years ended June 30, 2014 and 2013, respectively, and are included in the institutional administration expense category in the Statements of Activities.

The University also provides various services to LLUAHSC entities during the year. The revenues generated from these entities were \$20.3 million and \$23.1 million for the years ended June 30, 2014 and 2013, respectively, and are mostly represented in clinic, sales and other operating revenue in the Statements of Activities. Net accounts receivable from LLUAHSC entities were \$5.3 million and \$12.1 million at June 30, 2014 and 2013, respectively, and are included in accounts receivable in the Statements of Financial Position. Net accounts payable from LLUAHSC entities were \$8.8 million and \$9.4 million at June 30, 2014 and 2013, respectively, and are included in accounts payable in the Statements of Financial Position.

The University made loans to LLUAHSC as part of an arrangement to transfer real estate held by LLU but used by LLUAHSC in its operations. Loans totaling \$78 million were made in 2013 secured by three properties. Two of these loans were paid down by \$21.6 million in 2014 in exchange for subordination to new loans from a bank. Additional loans totaling \$22.5 million were made in 2014 secured by two additional properties. Interest is due on each loan monthly at a rate of 5.5% and the principal is all due in five years from the loan date. The outstanding balance on these loans as of June 30, 2014 and 2013 was \$54.8 and \$72.7 million, respectively, and is included in notes receivable within investments.

The University made loans totaling \$16.3 million to LLUMC – Murrieta Hospital, unsecured, for operating cash. The loans bear interest at 5.5% and are all due in March 2015. The outstanding balance as of these loans as of June 30, 2014 was \$16.3 million and is included in notes receivable within investments.

Note 13 – Retirement Plans

a) *Defined Benefit Plans*

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

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

The University contributed \$2.6 million and \$2.7 million to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2014 and 2013, respectively.

These plans are defined by the FASB as multiple 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.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 13 – Retirement Plans (continued)

b) Defined Contribution Plan

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 \$2.8 million and \$2.6 million for the years ended June 30, 2014 and 2013, 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 \$4.2 million and \$3.6 million during the years ended June 30, 2014 and 2013, respectively.

Note 14 – Self-Insurance Plans

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

The University is also covered by the LLUAHSC Professional and General Liability Trust (the Trust) for professional and general liability exposures up to a limit of \$4 million per occurrence. University Insurance Company of Vermont (UICV), a captive insurance company wholly owned by LLUAHSC, provides excess liability coverage with limits of \$25 million per occurrence and annual aggregate in excess of \$4 million. Risk Management has purchased additional insurance from commercial carriers to cover claims in excess of \$29 million and up to \$175 million per occurrence and in the aggregate.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 14 – Self-Insurance Plans (continued)

The funding requirements under the contract are based upon independent actuarial determinations. Payments made to the Risk Management division of LLUAHSC totaling \$23.5 million and \$22.5 million in fiscal years 2014 and 2013, respectively, were charged to expense as insurance premiums. The Risk Management division of LLUAHSC has a net surplus held for the University as prepaid expense of \$11.1 million and \$7.9 million as of June 30, 2014 and 2013, respectively.

Note 15 – Conditional Pledges

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 Social Action Community Health System clinic.

Note 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 2014, 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, change in net assets, or cash flows.

The University has entered into agreements for the design and construction of an approximately 150,000 square foot medical office and education building in the city of San Bernardino. The building will be partially leased by SACHS and partially used by LLU for educational programs. Completion is scheduled for June 2016. Total amounts committed under these contracts amounted to \$67 million at June 30, 2014.

LOMA LINDA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Amounts are presented in thousands

Note 17 – 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 9, 2014, 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, except as follows:

The University has committed to financing totaling \$97 million to be used for the construction of a building in San Bernardino (see Note 16) and for renovations and upgrades to an existing cogeneration facility operated by the University. A loan with a financial institution will bear interest at a floating rate of LIBOR plus 62 bps and will be all due three years from the closing date, which is expected to be in December 2014.

SUPPLEMENTAL SCHEDULES

LOMA LINDA UNIVERSITY
COMBINING STATEMENTS OF FINANCIAL POSITION
AT JUNE 30, 2014
Amounts are presented in thousands

	Educational Division	Foundation	Total
ASSETS			
Cash & cash equivalents	\$ 5,798	\$ 275	\$ 6,073
Restricted cash	2,363	-	2,363
Accounts receivable	29,903	2,268	32,171
Student loans receivable	46,296	-	46,296
Pledges receivable	-	1,530	1,530
Irrevocable trusts	-	53,635	53,635
Investments	21,622	766,397	788,019
Interdivision loans	(37,259)	37,259	-
Inventories, prepaid expenses and other assets	51,023	(27,576)	23,447
Plant and equipment, net	218,729	38,677	257,406
TOTAL ASSETS	\$ 338,475	\$ 872,465	\$ 1,210,940
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	\$ 55,722	\$ 3,245	\$ 58,967
Deferred revenue	29,893	7	29,900
Investments held on behalf of others	-	324,010	324,010
Liabilities due under annuity and split-interest agreements	-	32,773	32,773
Notes & bonds payable	54,883	19,992	74,875
Other liabilities	30,238	2,012	32,250
Total Liabilities	170,736	382,039	552,775
Net assets:			
Unrestricted:			
Unrestricted – undesignated	89,463	7,305	96,768
Unrestricted – board designated	-	84,328	84,328
Unrestricted – administration designated	-	61,188	61,188
Total unrestricted	89,463	152,821	242,284
Temporarily restricted	78,276	129,288	207,564
Permanently restricted	-	208,317	208,317
Total Net Assets	167,739	490,426	658,165
TOTAL LIABILITIES AND NET ASSETS	\$ 338,475	\$ 872,465	\$ 1,210,940

LOMA LINDA UNIVERSITY
COMBINING STATEMENTS OF ACTIVITIES
AT JUNE 30, 2014
Amounts are presented in thousands

	Educational Division			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Tuition & fees	\$ 153,236	\$ -	\$ -	\$ 153,236
Less student aid	(9,620)	-	-	(9,620)
Net tuition and fees	143,616	-	-	143,616
Gifts and subsidies	10,052	380	-	10,432
Sponsored support	29,912	-	-	29,912
Investment income	612	7,784	-	8,396
Sales and service income	14,220	-	-	14,220
Clinic and auxiliary income	40,784	-	-	40,784
Student loan interest and other	103	1,009	-	1,112
Net assets released from restriction - operating	6,925	(4,210)	-	2,715
Total revenue and support	246,224	4,963	-	251,187
EXPENSES				
Instruction	117,012	-	-	117,012
Research	29,248	-	-	29,248
Public service	4,493	-	-	4,493
Academic support	36,350	-	-	36,350
Student services	5,457	-	-	5,457
Institutional administration	22,757	-	-	22,757
Physical plant	4,315	-	-	4,315
Student financial support	1,187	-	-	1,187
Independent operations	18,096	-	-	18,096
Depreciation and amortization	16,854	-	-	16,854
Total expenses	255,769	-	-	255,769
Change in net assets from operating activities	(9,545)	4,963	-	(4,582)
Unrealized gains on investments	93	-	-	93
Change in net assets	(9,452)	4,963	-	(4,489)
Net assets, beginning of year	98,915	73,313	-	172,228
Net assets, end of year	\$ 89,463	\$ 78,276	\$ -	\$ 167,739

LOMA LINDA UNIVERSITY
COMBINING STATEMENTS OF ACTIVITIES (CONTINUED)
AT JUNE 30, 2014
Amounts are presented in thousands

	Foundation Division				Educational & Foundation Divisions Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE AND SUPPORT					
Tuition & fees	\$ -	\$ -	\$ -	\$ -	\$ 153,236
Less student aid	-	-	-	-	(9,620)
Net tuition and fees	-	-	-	-	143,616
Gifts and subsidies	10,664	660	12,241	23,565	33,997
Sponsored support	-	-	-	-	29,912
Investment income	10,792	7,629	2,454	20,875	29,271
Sales and service income	11,036	-	-	11,036	25,256
Clinic and auxiliary income	-	-	-	-	40,784
Student loan interest and other	-	-	-	-	1,112
Net assets released from restriction - operating	4,185	(6,900)	-	(2,715)	-
Total revenue and support	36,677	1,389	14,695	52,761	303,948
EXPENSES					
Instruction	-	-	-	-	117,012
Research	-	-	-	-	29,248
Public service	-	-	-	-	4,493
Academic support	-	-	-	-	36,350
Student services	-	-	-	-	5,457
Institutional administration	1,545	-	-	1,545	24,302
Physical plant	-	-	-	-	4,315
Student financial support	-	-	-	-	1,187
Independent operations	10,081	-	-	10,081	28,177
Depreciation and amortization	2,315	-	-	2,315	19,169
Total expenses	13,941	-	-	13,941	269,710
Change in net assets from operating activities	22,736	1,389	14,695	38,820	34,238
Unrealized gains on investments	5,467	3,386	18,981	27,834	27,927
Change in net assets	28,203	4,775	33,676	66,654	62,165
Net assets, beginning of year	124,618	124,513	174,641	423,772	596,000
Net assets, end of year	\$ 152,821	\$ 129,288	\$ 208,317	\$ 490,426	\$ 658,165

LOMA LINDA UNIVERSITY
SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION
AT JUNE 30, 2014
Amounts are presented in thousands

	Educational Division	Foundation	Total
Salaries and benefits	\$ 159,138	\$ 1,736	\$ 160,874
Plant repairs and replacements	5,117	1,501	6,618
Supplies and printing services	13,469	93	13,562
Professional development / training	2,109	47	2,156
Travel and entertainment	5,018	10	5,028
Purchased services	20,920	565	21,485
Cost of goods sold	7,934	3,353	11,287
Technology and telecommunications	3,362	58	3,420
Utilities	8,957	684	9,641
General expenses	8,634	1,774	10,408
Interest and taxes	4,257	1,805	6,062
Depreciation and amortization	16,854	2,315	19,169
Total expenses	\$ 255,769	\$ 13,941	\$ 269,710