



Report of Independent Auditors  
and Consolidated Financial Statements for

**Loma Linda University and  
Subsidiary**

June 30, 2016 and 2015

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Loma Linda University and Subsidiary

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Loma Linda University and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Loma Linda University and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their 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 consolidated financial statements as a whole. The consolidating statements of financial position, consolidating statements of activities and consolidating schedule of expenses by natural classification of Loma Linda University and Subsidiary, on pages 39–41, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Moss Adams LLP".

Los Angeles, California

December 12, 2016

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2016 and 2015**  
Amounts are presented in thousands

	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 7,766	\$ 7,867
Restricted cash	13,219	10,345
Accounts receivable, net	33,991	26,822
Student loans receivable, net	48,160	47,664
Pledges receivable, net	13,382	15,466
Irrevocable trusts	48,393	52,702
Investments	892,615	812,395
Inventories, prepaid expenses and other assets	25,384	25,324
Plant and equipment, net	319,955	297,131
	<u>319,955</u>	<u>297,131</u>
TOTAL ASSETS	<u>\$ 1,402,865</u>	<u>\$ 1,295,716</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 70,151	\$ 62,979
Deferred revenue	18,267	19,143
Investments held on behalf of others	391,967	330,476
Liabilities due under annuity and split-interest agreements	30,854	34,156
Notes and bonds payable	170,206	109,413
Other liabilities	31,815	32,631
Total Liabilities	<u>713,260</u>	<u>588,798</u>
Net assets:		
Unrestricted:		
Unrestricted – undesignated	80,185	90,384
Unrestricted – administration designated	70,812	62,129
Unrestricted – board designated	69,058	107,661
Total Unrestricted	<u>220,055</u>	<u>260,174</u>
Temporarily restricted	240,702	228,395
Permanently restricted	228,848	218,349
Total Net Assets	<u>689,605</u>	<u>706,918</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,402,865</u>	<u>\$ 1,295,716</u>

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**  
**Amounts are presented in thousands**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition and fees	\$ 159,497	\$ -	\$ -	\$ 159,497
Less student aid	(9,680)	-	-	(9,680)
Net tuition and fees	149,817	-	-	149,817
Gifts and subsidies	8,960	9,226	11,835	30,021
Sponsored support	25,475	-	-	25,475
Investment income	21,861	14,075	2,217	38,153
Sales and service income	15,237	-	-	15,237
Clinic and auxiliary income	52,432	-	-	52,432
Student loan interest and other	110	1,491	-	1,601
Releases, reclasses and redesignation of net assets	7,681	(10,155)	2,474	-
Total revenue and support	281,573	14,637	16,526	312,736
EXPENSES				
Instruction	125,344	-	-	125,344
Research	27,874	-	-	27,874
Public service	8,996	-	-	8,996
Academic support	32,034	-	-	32,034
Student services	5,471	-	-	5,471
Institutional administration	27,817	-	-	27,817
Physical plant	25,381	-	-	25,381
Student financial support	2,990	-	-	2,990
Independent operations	46,172	-	-	46,172
Total expenses	302,079	-	-	302,079
Change in net assets from operating activities	(20,506)	14,637	16,526	10,657
Unrealized losses on investments	(19,613)	(2,330)	(6,027)	(27,970)
Change in net assets	(40,119)	12,307	10,499	(17,313)
Net assets, beginning of year	260,174	228,395	218,349	706,918
Net assets, end of year	\$ 220,055	\$ 240,702	\$ 228,848	\$ 689,605

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**  
Amounts are presented in thousands

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Tuition and fees	\$ 154,931	\$ -	\$ -	\$ 154,931
Less student aid	(8,754)	-	-	(8,754)
Net tuition and fees	146,177	-	-	146,177
Gifts and subsidies	42,561	17,058	7,014	66,633
Sponsored support	30,514	-	-	30,514
Investment income	11,910	10,100	2,265	24,275
Sales and service income	14,412	-	-	14,412
Clinic and auxiliary income	54,309	-	-	54,309
Student loan interest and other	98	1,124	-	1,222
Net assets released from restriction - operating	6,656	(6,656)	-	-
Total revenue and support	306,637	21,626	9,279	337,542
<b>EXPENSES</b>				
Instruction	124,783	-	-	124,783
Research	32,337	-	-	32,337
Public service	5,934	-	-	5,934
Academic support	35,530	-	-	35,530
Student services	5,693	-	-	5,693
Institutional administration	24,671	-	-	24,671
Physical plant	23,914	-	-	23,914
Student financial support	1,235	-	-	1,235
Independent operations	29,225	-	-	29,225
Total expenses	283,322	-	-	283,322
Change in net assets from operating activities	23,315	21,626	9,279	54,220
Unrealized (losses) gains on investments	(5,425)	(795)	753	(5,467)
Change in net assets	17,890	20,831	10,032	48,753
Net assets, beginning of year	242,284	207,564	208,317	658,165
Net assets, end of year	\$ 260,174	\$ 228,395	\$ 218,349	\$ 706,918

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED June 30, 2016 and 2015**  
**Amounts are presented in thousands**

	2016	2015
Cash provided from operating activities		
Change in net assets	\$ (17,313)	\$ 48,753
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,141	19,758
Contribution of land and building	(232)	(17,767)
Allowance for doubtful accounts	(679)	(1,057)
Unrealized losses on investments	27,970	5,467
Actuarial adjustment on split-interest agreements	2,319	(456)
Deferred revenue	(876)	(10,757)
Changes in operating assets and liabilities:		
Accounts receivable	(6,479)	6,402
Pledges receivable	2,084	(13,936)
Inventories, prepaid expenses and other assets	(60)	(1,886)
Accounts payable and accrued expenses	7,172	4,012
Liabilities due under split-interest agreements	680	6,912
Other liabilities	(816)	381
Contributions restricted for long-term purposes	(5,654)	(3,367)
Net cash provided by operating activities	<u>27,257</u>	<u>42,459</u>
Cash flows from investing activities		
Proceeds from sales of investments	1,676,746	1,335,022
Purchases of investments	(1,784,991)	(1,364,865)
Change in restricted cash	(2,873)	(7,982)
Change in value of irrevocable trust agreements	1,923	(6,996)
Proceeds from new irrevocable trust agreements	943	4,209
Proceeds from irrevocable trust maturities	1,443	3,720
Proceeds from new split interest agreements	562	667
Purchases of plant and equipment	(41,692)	(41,707)
Repayments of loans from students	(991)	7,387
Disbursements of loans to students	497	(8,751)
Investments held on behalf of others	61,491	6,466
Net cash (used in) investing activities	<u>(86,942)</u>	<u>(72,830)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	5,654	3,367
Payments made under split-interest agreements	(6,863)	(5,740)
Proceeds from notes and bonds payable	61,618	37,296
Payments on notes and bonds payable	(825)	(2,758)
Net cash provided by financing activities	<u>59,584</u>	<u>32,165</u>
Net change in cash and cash equivalents	(101)	1,794
Cash and cash equivalents at beginning of year	<u>7,867</u>	<u>6,073</u>
Cash and cash equivalents at end of year	<u>\$ 7,766</u>	<u>\$ 7,867</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 5,659</u>	<u>\$ 5,230</u>



**LOMA LINDA UNIVERSITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 1 – Nature of Organization**

Loma Linda University (“LLU”) 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 LLU’s 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 LLU’s student body. LLU also offers distance education.

As its mission, LLU 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 LLU are conducted within two major divisions for financial reporting purposes.

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

LLUH-SB, Inc. (“LLUH-SB”) was incorporated on December 3, 2014 for purpose to deliver and maintain the land, buildings and infrastructure necessary for the successful operation of a community clinic and educational facilities in San Bernardino, California. LLUH-SB is a wholly-owned subsidiary of LLUH.

Loma Linda University Health (“LLUH”) is a religious nonprofit corporation that serves as the sole member of the University. Other corporations of which LLUH 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. LLUH also serves as a member of Loma Linda University Health Care, a religious nonprofit corporation.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies**

*a) Principles of Consolidation*

The consolidated financial statements include the accounts of Loma Linda University and LLUH-SB, Inc. (collectively referred to as the “University”). All significant transactions between entities have been eliminated in the consolidated financial statements.

*b) 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.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*c) 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 consolidated 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 and sponsored support are recognized as related expenses are incurred or administrative fees are earned. Other operating revenues and sales and service income 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.

*d) 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.

*e) 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 \$5.2 million and \$5.9 million at June 30, 2016 and 2015, respectively.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*f) 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 consolidated 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 \$707 thousand and \$709 thousand at June 30, 2016 and 2015, respectively.

*g) 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. No allowance considered necessary at June 30, 2016 and 2015.

*h) Inventories*

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.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*i) Plant and Equipment*

Plant facilities are stated at cost at the date of acquisition or at fair value (appraised 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 \$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 consolidated 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. Land and construction in progress are non-depreciable assets.

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 in other liabilities in the consolidated statements of financial position.

*j) 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, 2016 and 2015, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*k) Liabilities Due Under Annuity and Split-Interest Agreements*

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

*l) Split Interest Agreements*

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 available 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 5). The University's policy is to record the contribution of these gifts in its consolidated 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.

*m) 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.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*n) 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. Contributions that are identified to support the LLUH-SB's current period's activities are recorded as unrestricted support and revenue.

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.

*o) Fair Values of Financial Instruments*

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

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*p) Investments and Investment Income*

The University adopted the May 2015 accounting standards update related to Topic 820 – Fair Value Measurement promulgated by the Financial Accounting Standards Board (“FASB”). This update removes the requirement to categorize investments measured using the net asset value (“NAV”) per share/unit practical expedient within the fair value hierarchy. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

**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 the University to retain as a fund of perpetual duration. Deficiencies of \$2 thousands and \$51 thousands were reported on June 30, 2016 and 2015, respectively, because the market value of the assets are below cost.

**Return Objectives and Risk Parameters**

The 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. The 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, the 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**

The 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 AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*q) Endowment*

The Board of Trustees of the University interpret the California Uniform Prudent Management of Institutional Funds Act (CPMIFA) to state that the 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 in accordance with the original donor restriction. 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 the 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 the University
- (7) The investment policies of the University

*r) Advertising and Promotion*

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion expense amounted to approximately \$791 thousand and \$500 thousand for the years ended June 30, 2016 and 2015, respectively. Advertising and promotion expenses are presented within various functional expenses in the consolidated statements of activities.

*s) Fundraising Activities*

The University has included fundraising costs in institutional administration expenses in the accompanying consolidated statements of activities. The University incurred \$2.9 million and \$2.5 million, of fundraising costs in fiscal years ended June 30, 2016 and June 30, 2015, respectively.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2 – Summary of Significant Accounting Policies (continued)**

*t) 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 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. Balances in the University's investment accounts exceed the Securities Investors Protection Corporation insured limit of up to \$500 thousand. 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 ("ED") 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 an ED 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 AND SUBSIDIARY**  
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**Note 2 – Summary of Significant Accounting Policies (continued)**

*u) Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, pledges receivable, trust liabilities and annuities payable and functional allocation of expenses.

*v) Functional Allocation of Expenses*

The costs of providing the various programs and activities have been summarized in the statement of activities on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.

*w) Income Tax Status*

The Internal Revenue Service has ruled that LLU and LLUH-SB qualify 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. LLU had no unrecognized tax benefits at June 30, 2016 and 2015. 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.

For LLUH-SB, the year ended June 30, 2016 and period December 3, 2014 (inception) through June 30, 2015, no provision for unrelated business income tax is required. LLUH-SB had no unrecognized tax benefits or liabilities at June 30, 2016 and 2015. LLUH-SB 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.

*x) Reclassifications*

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
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**Note 3 – 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, 2016 and 2015, student loans represented 3.43% and 3.67% of total assets, respectively.

Student loans consist of the following at June 30:

	2016	2015
Federal government programs	\$ 22,919	\$ 22,944
Institutional programs	25,948	25,429
	48,867	48,373
Less: allowance for doubtful accounts	(707)	(709)
Student loans receivable, net	<u>\$ 48,160</u>	<u>\$ 47,664</u>

Funds advanced by the Federal government of approximately \$22,919 and \$22,944 at June 30, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as other 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 (“ED”). Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the ED.

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

June 30,	1-30 Days	31-60 Days	61-90 Days	91+ Days	Total
2016	\$ 17	\$ 18	\$ 17	\$ 6,760	\$ 6,812
2015	\$ 28	\$ 13	\$ 36	\$ 6,616	\$ 6,693

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4 – 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, 2016 and 2015.

Pledges receivable at June 30 are:

	2016	2015
Gross unconditional pledges receivables	\$ 13,968	\$ 16,282
Less: unamortized discounts	(586)	(816)
	<u>\$ 13,382</u>	<u>\$ 15,466</u>
	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 6,824	\$ 5,622
One year to five years	6,558	9,844
	<u>\$ 13,382</u>	<u>\$ 15,466</u>

**Note 5 – Investments, Irrevocable Trusts and Fair Value Measurements**

Investments and irrevocable trusts 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 consolidated 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.

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

Investments are measured at fair value in the consolidated 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 consolidated 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 debt security investments, real estate and certain notes receivable. 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 AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts are presented in thousands

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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 Trustees, 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 a closely held entity and other assets for which valuations generally consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information.

Securities accounted for at net asset value ("NAV") include equity securities, hedge funds, private equity investments and real estate partnerships. NAV amounts provided by external investment managers are adjusted for receipts and disbursements of cash and securities subsequent to the most recently available NAV date.

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, 2016 and 2015. 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 has California Municipal Finance Authority ("CMFA") Revenue bonds that are reported at an amortized cost of \$30.4 million and \$31.3 million as of June 30, 2016 and 2015, respectively, in the consolidated statements of financial position. The CMFA Revenue bonds have an approximate fair value of \$31.3 and \$32.6 million as of June 30, 2016 and 2015, respectively. The University determined these CMFA Revenue bonds to be Level 2 measurements in the fair value hierarchy and is based on estimated discounted future cash flows.

Certain notes receivable in investments are reported at cost.

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

Investments consist of the following at June 30, 2016:

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2016 Total
<u>Investments - redeemable securities</u>					
Equity securities					
Real estate industry	\$ 1,489	\$ -	\$ -	\$ -	\$ 1,489
Oil and gas industry	42,502	-	-	-	42,502
Domestic	46,127	-	-	35,236	81,363
International	-	-	-	22,115	22,115
Total equity securities	90,118	-	-	57,351	147,469
Debt securities					
Residential mortgage backed	58,285	-	-	-	58,285
US treasury and government money market	63,038	-	-	-	63,038
Corporate bonds	-	72,579	-	-	72,579
Total debt securities	121,323	72,579	-	-	193,902
Hedge funds					
Equity long/short funds	-	-	-	7,924	7,924
Distressed debt funds	-	-	-	6,720	6,720
Total hedge funds	-	-	-	14,644	14,644
First trust deeds (mortgages)	-	87,298	-	-	87,298
Total redeemable securities	211,441	159,877	-	71,995	443,313
<u>Investments - nonredeemable securities</u>					
Private equity investments					
Distressed debt	-	-	-	27,571	27,571
Oil and energy	-	-	-	15,594	15,594
International	-	-	-	11,324	11,324
Domestic capital investments	-	-	-	1,091	1,091
Alternative strategies	-	-	-	10,328	10,328
Total private equity investments	-	-	-	65,908	65,908
Real estate partnerships	-	-	-	260,246	260,246
Commercial real estate	-	54,921	-	-	54,921
Cash and short term investments	5,137	-	-	-	5,137
Total nonredeemable securities	5,137	54,921	-	260,246	320,304
Investments at fair value	216,578	214,798	-	398,149	829,525
Notes receivable at cost					63,090
Total investments					<u>\$ 892,615</u>



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

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2016 Total
<u>Irrevocable trusts - redeemable securities</u>					
Equity securities					
Domestic mutual funds	\$ 44,226	\$ -	\$ -	\$ -	\$ 44,226
Total equity securities	44,226	-	-	-	44,226
US treasury and government money market debt securities	47	-	-	-	47
Total irrevocable trusts redeemable securities	44,273	-	-	-	44,273
<u>Irrevocable trusts - nonredeemable securities</u>					
Commercial real estate	-	887	-	-	887
Closely held entity and other	-	-	3,233	-	3,233
Total irrevocable trusts nonredeemable securities	-	887	3,233	-	4,120
Total irrevocable trusts	\$ 44,273	\$ 887	\$ 3,233	\$ -	\$ 48,393

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

Investments consist of the following at June 30, 2015:

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2015 Total
<u>Investments - redeemable securities</u>					
Equity securities					
Real estate industry	\$ 1,912	\$ -	\$ -	\$ -	\$ 1,912
Oil and gas industry	50,782	-	-	-	50,782
Domestic	90,523	-	-	38,232	128,755
International	-	-	-	25,859	25,859
Total equity securities	143,217	-	-	64,091	207,308
Debt securities					
Residential mortgage backed	29,779	-	-	-	29,779
US treasury and government money market	14,293	-	-	-	14,293
Corporate bonds	-	62,572	-	-	62,572
Total debt securities	44,072	62,572	-	-	106,644
Hedge funds					
Equity long/short funds	-	-	-	8,437	8,437
Distressed debt funds	-	-	-	6,673	6,673
Total hedge funds	-	-	-	15,110	15,110
First trust deeds (mortgages)	-	78,454	-	-	78,454
Total redeemable securities	187,289	141,026	-	79,201	407,516
<u>Investments - nonredeemable securities</u>					
Private equity investments					
Distressed debt	-	-	-	30,484	30,484
Oil and energy	-	-	-	17,044	17,044
International	-	-	-	10,496	10,496
Domestic capital investments	-	-	-	1,431	1,431
Alternative strategies	-	-	-	10,454	10,454
Total private equity investments	-	-	-	69,909	69,909
Real estate partnerships	-	-	-	182,526	182,526
Commercial real estate	-	76,555	-	-	76,555
Cash and short term investments	14,200	-	-	-	14,200
Total nonredeemable securities	14,200	76,555	-	252,435	343,190
Investments at fair value	201,489	217,581	-	331,636	750,706
Notes receivable at cost					61,689
Total investments					<u>\$ 812,395</u>

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

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2015 Total
<u>Irrevocable trusts - redeemable securities</u>					
Equity securities					
Domestic mutual funds	\$ 45,348	\$ -	\$ -	\$ -	\$ 45,348
Total equity securities	45,348	-	-	-	45,348
US treasury and government money market debt securities	268	-	-	-	268
Total irrevocable trusts redeemable securities	45,616	-	-	-	45,616
<u>Irrevocable trusts - nonredeemable securities</u>					
Commercial real estate	-	3,562	-	-	3,562
Closely held entity and other	-	-	3,524	-	3,524
Total irrevocable trusts nonredeemable securities	-	3,562	3,524	-	7,086
Total irrevocable trusts	\$ 45,616	\$ 3,562	\$ 3,524	\$ -	\$ 52,702

The following table presents a roll forward of the amounts for the year ended June 30, 2016 for assets classified as Level 3:

	Balance at June 30, 2015	Purchases	Sales	Gains and (Losses)	Transfer In	Transfer Out	Balance at June 30, 2016
Irrevocable trusts:							
Closely held entity and other	\$ 3,524	\$ 46	\$ (337)	\$ -	\$ -	\$ -	\$ 3,233
Total	\$ 3,524	\$ 46	\$ (337)	\$ -	\$ -	\$ -	\$ 3,233

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2016 relate principally to assets still held at June 30, 2016.

The following table presents a roll forward of the amounts for the year ended June 30, 2015 for assets classified as Level 3:

	Balance at June 30, 2014	Purchases	Sales	Gains and (Losses)	Transfer In	Transfer Out	Balance at June 30, 2015
Irrevocable trusts:							
Closely held entity and other	\$ 3,770	\$ 178	\$ (302)	\$ (122)	\$ -	\$ -	\$ 3,524
Total	\$ 3,770	\$ 178	\$ (302)	\$ (122)	\$ -	\$ -	\$ 3,524

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**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, 2016</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity funds <sup>a)</sup>				
Domestic	\$ 35,236	\$ -	30 days	5 days
International	22,115	-	30 days	5-30 days
Hedge funds <sup>b)</sup>				
Equity long/short funds	7,924	-	30-90 days	30-65 days
Distressed debt funds	6,720	-	90 days	65 days
Private equity <sup>c)</sup>				
Distressed debt	27,571	5,501	180 days	60 days
Oil and energy	15,594	16,759	Not redeemable	N/A
International	11,324	3,446	90 days	65 days
Domestic capital investments	1,091	82	Not redeemable	N/A
Alternative strategies	10,328	3,022	Not redeemable	N/A
Real estate partnership <sup>d)</sup>	<u>260,246</u>	<u>376</u>	Not redeemable	N/A
Totals	<u>\$ 398,149</u>	<u>\$ 29,186</u>		

a) Unlisted equity fund investing in global and domestic equities.

b) 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.

c) 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.

d) Investments in residential and commercial real estate that seek to achieve high levels of consistent income along with capital appreciation over a full market cycle.

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**Note 6 – Plant and Equipment**

Plant and equipment consist of the following at June 30:

	2016	2015
Land and improvements	\$ 58,714	\$ 55,506
Vehicles	1,321	1,262
Equipment	123,647	124,834
Buildings and improvements	398,721	368,861
	582,403	550,463
Less accumulated depreciation and amortization	(282,213)	(270,275)
Net plant and equipment	300,190	280,188
Construction in progress	19,765	16,943
Plant and equipment, net	<u>\$ 319,955</u>	<u>\$ 297,131</u>

The University has various construction in progress projects open as of June 30, 2016 for the construction of facilities and other improvements. It has budgeted \$143 million (unaudited) for the completion of these projects as of June 30, 2016.

**Note 7 – Trusts**

*Revocable Trust Agreements*

At June 30, 2016 and 2015, the University held, as trustee, a total of 24 and 27 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$7.2 million (unaudited) in 2016 and \$8.6 million (unaudited) in 2015. Revocable trust agreements with assets totaling \$716 thousand in 2016 and \$1.9 million in 2015 became irrevocable due to the passing 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. LLU does not have access to the number or value of these trusts, so that will not be reflected in the consolidated financial statements until such gifts are received by the University.

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**Note 8 – Notes and Bonds Payable**

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

	2016	2015
CMFA Revenue Bonds, Series 2007	\$ 30,440	\$ 31,265
Secured note to Bank at 4.5%, principal and interest monthly, matures February 17, 2030	18,710	19,634
Secured notes to individuals at fixed and variable interest rates of 0.15% to 8%, principal and interest monthly, matures in 2033 and upon the death of individuals	1,177	1,608
Line of Credit at prime plus 1.125%, interest monthly, collateralized by marketable securities	20,833	21,833
Line of credit at daily LIBOR plus 80bps, interest monthly, non-revolving draws totaling \$57 million available through and maturity on February 12, 2018	57,000	12,583
Line of credit at daily LIBOR plus 85bps, interest monthly, non-revolving draws totaling \$40 million available through and maturity on February 12, 2018	13,086	4,530
Notes to Bank at 1.0%, interest monthly through December 31, 2015, principal monthly beginning January 1, 2022, matures Jan. 29, 2045	9,800	9,800
Notes to Bank at 1.0%, interest monthly through December 31, 2015, principal monthly beginning June 1, 2022, matures June 1, 2045	8,160	8,160
Notes to Bank at 1.0%, interest monthly through December 31, 2015, principal monthly beginning January 2022, matures August 2045	11,000	-
Total notes and bonds payable	<u>\$ 170,206</u>	<u>\$ 109,413</u>

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

2017	\$ 2,910
2018	73,091
2019	3,097
2020	3,189
2021	3,197
2022 and thereafter	<u>84,722</u>
	<u>\$ 170,206</u>

Interest related to the notes and bonds payable was \$5.9 million and \$5.2 million for the years ending June 30, 2016 and 2015, respectively.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
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**Note 8 – Notes and Bonds Payable (continued)**

The University has a \$10 million unsecured line of credit with a financial institution, with interest at LIBOR plus 1.5%, which was approximately 1.97% at June 30, 2016. 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 May 1, 2017. There were no outstanding balances as of as of June 30, 2016 and 2015.

The University has received a secured commercial loan from a financial institution at a fixed rate of 4.5% payable in 15 years. The balance of the loan is \$18.7 million and \$19.6 million as of June 30, 2016 and 2015, respectively.

Secured loans from private individuals were also obtained by the University at fixed and variable interest rates of 0.15% to 8% payable in 25 years. The loans will mature in 2033 and upon the death of individuals. Loan balance is \$1.2 million and \$1.6 million as of June 30, 2016 and 2015 respectively.

The University has a balance of \$20.8 million and \$21.8 million as of June 30, 2016 and 2015, respectively, from a financial institution on a 10+ year term priority line of credit that is secured by securities held at a financial institution, with a margin rate of 1.125%.

On February 13, 2015, the University obtained non-revolving lines of credit with a financial institution in the amounts of \$57 million for construction of a clinic in San Bernardino, California (clinic) and \$40 million for improvements on the central utilities plant in Loma Linda, California (plant). The interest rates are at LIBOR daily floating rate plus 0.80% (clinic) and 0.85% (plant), which were approximately 1.27% and 1.32%, respectively, at June 30, 2016. The lines of credit are secured by a note receivable and assignment of rents from LLUH-SB, Inc. to LLU, a negative pledge by LLUH-SB, Inc., and a negative pledge on Protected Revenues as set forth in the 2007 CMFA Revenue Bonds, Series 2007.

The notes to a bank are New Market Tax Credit (NMTC) loans which qualify as qualified loan-income community investments under Section 45D of the Internal Revenue Code. These loans provide tax credits to investors under this program, which are indemnified by LLU. The Organization must operate a qualifying business in the financed facilities, meet certain additional operating covenants, and submit annual reports to lenders. Additional borrowing, including the loan from affiliate, may not exceed \$36.6 million as of June 30, 2016. The loans are unsecured. LLU has guaranteed the completion of the project and indemnity against environmental liabilities. Unspent proceeds (restricted cash) are held in restricted accounts to be used only for construction costs, compliance costs and reserves.

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**Note 8 – Notes and Bonds Payable (continued)**

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.

*Optional redemption*

The Series 2007 Bonds maturing on April 1, 2017 through 2024 are subject to optional redemption at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium), as follows:

Maturity Date (April 1)	Amount	Maturity Date (April 1)	Amount
2017	\$ 865	2021	\$ 1,040
2018	910	2022	1,090
2019	950	2023	1,145
2020	990	2024	1,205

*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



**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**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, 2016 and 2015, the plan liabilities totaled \$2.0 million and \$2.3 million, respectively. The assets are included in other assets and the liabilities are included in other liabilities in the accompanying consolidated statements of financial position.

**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:

2016	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 128,393	\$ -
Student loans	42,401	-
Endowment	46,825	223,092
Annuity and split-interest agreements	23,083	5,756
	\$ 240,702	\$ 228,848
2015	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 125,753	\$ -
Student loans	41,208	-
Endowment	44,139	206,146
Annuity and split-interest agreements	17,295	12,203
	\$ 228,395	\$ 218,349

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**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.

Changes in the University’s endowment for the year ended June 30, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
Investment returns (loss)				
Investment income from pooled funds	\$ 378	\$ 176	\$ 1,478	\$ 2,032
Less investment returns appropriated for operation	(1,424)	-	-	(1,424)
Investment income (loss), net of amount appropriated for operation	(1,046)	176	1,478	608
Change in realized/unrealized net appreciation (depreciation) of investments	(350)	2,367	(4,749)	(2,732)
Net return in pooled investment fund	(1,396)	2,543	(3,271)	(2,124)
Investment income from separate investments	105	-	376	481
Total net investment returns	(1,291)	2,543	(2,895)	(1,643)
Other changes in endowed equity:				
Gifts	-	121	4,379	4,500
Transfers	(37,312)	22	15,462	(21,828)
Net change in endowed equity	(38,603)	2,686	16,946	(18,971)
Endowed equity, beginning of year	107,661	44,139	206,146	357,946
Endowed equity, end of year	<u>\$ 69,058</u>	<u>\$ 46,825</u>	<u>\$ 223,092</u>	<u>\$ 338,975</u>

At June 30, 2016, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
Investments	\$ 69,058	\$ 46,825	\$ 223,092	\$ 338,975
Total endowed equity	<u>\$ 69,058</u>	<u>\$ 46,825</u>	<u>\$ 223,092</u>	<u>\$ 338,975</u>

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

**Note 11 – Endowment (continued)**

At June 30, 2016, net assets included endowed equity as follows:

Unrestricted endowment (donor designated)	\$ (2)
Unrestricted endowment (board designated)	69,060
Total unrestricted endowment	<u>\$ 69,058</u>
Temporarily restricted (donor restricted)	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	<u>\$ 46,825</u>
Permanently restricted endowment (donor restricted)	<u>\$ 223,092</u>
Total endowment	<u>\$ 338,975</u>

Changes in the University's endowment for the year ended June 30, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
Investment returns				
Investment income from pooled funds	\$ 1,248	\$ 362	\$ (444)	\$ 1,166
Less investment losses appropriated for operation	(601)	-	-	(601)
Investment income (loss), net of amount appropriated for operation	647	362	(444)	565
Change in realized/unrealized net appreciation of investments	(830)	125	4,485	3,780
Net return in pooled investment fund	(183)	487	4,041	4,345
Investment income from separate investments	2,206	617	368	3,191
Total net investment returns	2,023	1,104	4,409	7,536
Other changes in endowed equity:				
Gifts	29,665	104	4,727	34,496
Transfers	(8,355)	4	(600)	(8,951)
Net change in endowed equity	23,333	1,212	8,536	33,081
Endowed equity, beginning of year	84,328	42,927	197,610	324,865
Endowed equity, end of year	<u>\$ 107,661</u>	<u>\$ 44,139</u>	<u>\$ 206,146</u>	<u>\$ 357,946</u>

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 11 – Endowment (continued)**

At June 30, 2015, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
Investments	\$ 107,661	\$ 44,139	\$ 206,146	\$ 357,946
Total endowed equity	<u>\$ 107,661</u>	<u>\$ 44,139</u>	<u>\$ 206,146</u>	<u>\$ 357,946</u>

At June 30, 2015 net assets included endowed equity as follows:

Unrestricted endowment (donor designated)	\$ (52)
Unrestricted endowment (board designated)	<u>107,713</u>
Total unrestricted endowment	<u>\$ 107,661</u>
Temporarily restricted (donor restricted)	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	<u>\$ 44,139</u>
Permanently restricted endowment (donor restricted)	<u>\$ 206,146</u>
Total endowment	<u>\$ 357,946</u>

**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 (the “GC”). Revenues received from GC in unrestricted gifts and subsidies for the years ended June 30, 2016 and 2015, respectively, were \$7.8 million and \$7.7 million.

In addition, the University shares certain service functions and has a close relationship with LLUMC as a teaching hospital. LLUMC’s outstanding accounts receivable balances for the years ended June 30, 2016 and 2015, respectively, were \$2.4 million and \$2.5 million. In addition, the majority of the University’s investments held for others are primarily for LLUMC in the amount of \$318.6 million and \$263.0 million at June 30, 2016 and 2015, respectively. Services are also shared among other LLUH organizations. Total expenses paid to LLUH for shared services were \$10 million and \$12 million for the years ended June 30, 2016 and 2015, respectively, and are included in the institutional administration expense category in the consolidated statements of activities.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 12 – Related Party Transactions (continued)**

The University also provides various services to LLUH entities during the year. The revenues generated from these entities were \$20.3 million and \$20.5 million for the years ended June 30, 2016 and 2015, respectively, and are mostly represented in clinic, sales and other operating revenue in the consolidated statements of activities. Net accounts receivable from LLUH entities were \$6.1 million and \$5.0 million at June 30, 2016 and 2015, respectively, and are included in accounts receivable in the consolidated statements of financial position. Net accounts payable to LLUH entities were \$15.9 million and \$11.5 million at June 30, 2016 and 2015, respectively, and are included in accounts payable in the consolidated statements of financial position.

The University made loans to LLUH as part of an arrangement to transfer real estate held by LLU but used by LLUH 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, 2016 and 2015 was \$61.8 million and \$60.2 million, respectively, and is included in notes receivable within investments and are reported at cost.

**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 GC 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 GC in Silver Spring, Maryland, and is exempt from ERISA as a multiple-employer plan of a church-related agency.

The University contributed \$3.0 million and \$2.9 million to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2016 and 2015, 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.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 13 – Retirement Plans (continued)**

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*

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 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 \$3.0 million and \$3.0 million for the years ended June 30, 2016 and 2015, respectively.

Faculty does not participate in the retirement plan that is administered by the GC, 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 \$4.4 million and \$4.3 million during the years ended June 30, 2016 and 2015, respectively.

**Note 14 – Self-Insurance Plans**

The University is covered through the Risk Management division of LLUH 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 LLUH 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, a captive insurance company wholly owned by LLUH, 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 AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**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 LLUH totaling \$25.4 million and \$24.0 million in fiscal years 2016 and 2015, respectively, were charged to expense as insurance premiums. The Risk Management division of LLUH has a net surplus held for the University as prepaid expense of \$14.0 million and \$12.8 million as of June 30, 2016 and 2015, respectively.

**Note 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 LLU 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**

The 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 2016, 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.

LLUH-SB 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. The construction of the building was recorded by the County of San Bernardino as substantially completed on June 27, 2016. Total amounts committed under these contracts amount to \$68 million at June 30, 2016 and 2015, and the remaining commitment is \$12 million at June 30, 2016.

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Amounts are presented in thousands

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**Note 17 – Leasing Operations**

LLUH-SB leases space to a community health clinic under an operating lease with an initial rate of \$2.80 per square foot. The lease rate increases by fixed and indexed amounts over an initial term of 20 years, and two options to extend for an additional five years. LLUH-SB also leases equipment to the community health clinic under an operation lease with a rate of \$1 per year for 8 to 15 years.

Future minimum rental to be collected from leases with unrelated tenant for the years ending June 30 are as follows:

2017	\$	3,457
2018		3,457
2019		3,457
2020		3,668
2021		3,668
Thereafter		<u>58,345</u>
	\$	<u><u>76,052</u></u>

**Note 18 – Subsequent Events**

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

The University has evaluated subsequent events through December 12, 2016, which is the date the consolidated financial statements are available for issuance. The following subsequent event was identified in that evaluation.



## **SUPPLEMENTAL SCHEDULES**

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**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016**

Amounts are presented in thousands

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,438	\$ 2,922	\$ 406	\$ -	\$ 7,766
Restricted cash	2,366	-	10,853	-	13,219
Accounts receivable, net	32,467	1,418	146	(40)	33,991
Student loans receivable, net	48,160	-	-	-	48,160
Pledges receivable, net	5,178	8,204	-	-	13,382
Irrevocable trusts	-	48,393	-	-	48,393
Investments	17,284	875,331	-	-	892,615
Due from intercompany	33,708	-	-	(33,708)	-
Advances to affiliate	-	32,592	-	(32,592)	-
Inventories, prepaid expenses and other assets	18,816	5,195	1,373	-	25,384
Plant and equipment, net	222,250	39,247	58,458	-	319,955
<b>TOTAL ASSETS</b>	<b>\$ 384,667</b>	<b>\$ 1,013,302</b>	<b>\$ 71,236</b>	<b>\$ (66,340)</b>	<b>\$ 1,402,865</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 68,815	\$ 1,093	\$ 283	\$ (40)	\$ 70,151
Due to intercompany	-	33,708	-	(33,708)	-
Deferred revenue	18,260	7	-	-	18,267
Investments held on behalf of others	-	391,967	-	-	391,967
Liabilities due under annuity and split-interest agreements	-	30,854	-	-	30,854
Advances from affiliate	1,829	-	30,763	(32,592)	-
Notes and bonds payable	121,307	19,939	28,960	-	170,206
Other liabilities	26,850	4,965	-	-	31,815
<b>Total Liabilities</b>	<b>237,061</b>	<b>482,533</b>	<b>60,006</b>	<b>(66,340)</b>	<b>713,260</b>
<b>Net assets:</b>					
<b>Unrestricted:</b>					
Unrestricted – undesignated	56,489	12,466	11,230	-	80,185
Unrestricted – administration designated	-	70,812	-	-	70,812
Unrestricted – board designated	-	69,058	-	-	69,058
<b>Total unrestricted</b>	<b>56,489</b>	<b>152,336</b>	<b>11,230</b>	<b>-</b>	<b>220,055</b>
Temporarily restricted	91,117	149,585	-	-	240,702
Permanently restricted	-	228,848	-	-	228,848
<b>Total Net Assets</b>	<b>147,606</b>	<b>530,769</b>	<b>11,230</b>	<b>-</b>	<b>689,605</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 384,667</b>	<b>\$ 1,013,302</b>	<b>\$ 71,236</b>	<b>\$ (66,340)</b>	<b>\$ 1,402,865</b>

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**  
**Amounts are presented in thousands**

	Educational Division				Foundation Division				LLUH-SB				Eliminations	All Divisions
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
REVENUE AND SUPPORT														
Tuition and fees	\$ 159,497	\$ -	\$ -	\$ 159,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159,497
Less student aid	(9,680)	-	-	(9,680)	-	-	-	-	-	-	-	-	-	(9,680)
Net tuition and fees	149,817	-	-	149,817	-	-	-	-	-	-	-	-	-	149,817
Gifts and subsidies	8,960	857	-	9,817	-	8,369	11,835	20,204	7,231	-	-	7,231	(7,231)	30,021
Sponsored support	25,475	-	-	25,475	-	-	-	-	-	-	-	-	-	25,475
Investment income	315	7,618	-	7,933	21,546	6,457	2,217	30,220	-	-	-	-	-	38,153
Sales and service income	14,881	-	-	14,881	244	-	-	244	152	-	-	152	(40)	15,237
Clinic and auxiliary income	40,587	-	-	40,587	11,845	-	-	11,845	-	-	-	-	-	52,432
Student loan interest and other	110	1,491	-	1,601	-	-	-	-	-	-	-	-	-	1,601
Releases, reclasses and redesignation of net assets	14,471	(3,133)	-	11,338	(6,790)	(7,022)	2,474	(11,338)	-	-	-	-	-	-
Total revenue and support	254,616	6,833	-	261,449	26,845	7,804	16,526	51,175	7,383	-	-	7,383	(7,271)	312,736
EXPENSES														
Instruction	125,344	-	-	125,344	-	-	-	-	-	-	-	-	-	125,344
Research	27,874	-	-	27,874	-	-	-	-	-	-	-	-	-	27,874
Public service	8,996	-	-	8,996	-	-	-	-	-	-	-	-	-	8,996
Academic support	32,034	-	-	32,034	-	-	-	-	-	-	-	-	-	32,034
Student services	5,471	-	-	5,471	-	-	-	-	-	-	-	-	-	5,471
Institutional administration	27,817	-	-	27,817	-	-	-	-	-	-	-	-	-	27,817
Physical plant	23,803	-	-	23,803	1,422	-	-	1,422	156	-	-	156	-	25,381
Student financial support	2,990	-	-	2,990	-	-	-	-	-	-	-	-	-	2,990
Independent operations	18,700	-	-	18,700	33,702	-	-	33,702	1,041	-	-	1,041	(7,271)	46,172
Total expenses	273,029	-	-	273,029	35,124	-	-	35,124	1,197	-	-	1,197	(7,271)	302,079
Change in net assets from operating activities	(18,413)	6,833	-	(11,580)	(8,279)	7,804	16,526	16,051	6,186	-	-	6,186	-	10,657
Unrealized (losses) gains on investments	(17)	-	-	(17)	(19,596)	(2,330)	(6,027)	(27,953)	-	-	-	-	-	(27,970)
Change in net assets	(18,430)	6,833	-	(11,597)	(27,875)	5,474	10,499	(11,902)	6,186	-	-	6,186	-	(17,313)
Net assets, beginning of year	74,919	84,284	-	159,203	180,211	144,111	218,349	542,671	5,044	-	-	5,044	-	706,918
Net assets, end of year	\$ 56,489	\$ 91,117	\$ -	\$ 147,606	\$ 152,336	\$ 149,585	\$ 228,848	\$ 530,769	\$ 11,230	\$ -	\$ -	\$ 11,230	\$ -	\$ 689,605

**LOMA LINDA UNIVERSITY AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF EXPENSES BY NATURAL CLASSIFICATION**  
**YEAR ENDED JUNE 30, 2016**  
**Amounts are presented in thousands**

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
Salaries and benefits	\$ 171,830	\$ 1,820	\$ 23	\$ -	\$ 173,673
Plant repairs and replacements	8,558	1,951	697	-	11,206
Supplies and printing services	14,675	86	-	-	14,761
Professional development / training	2,201	79	-	-	2,280
Travel and entertainment	4,746	20	-	-	4,766
Purchased services	23,162	634	98	-	23,894
Cost of goods sold	6,704	2,712	-	-	9,416
Technology and telecommunications	3,479	45	-	-	3,524
Utilities	8,036	978	-	-	9,014
General expenses	7,666	23,569	223	(7,271)	24,187
Interest and taxes	4,409	1,808	-	-	6,217
Depreciation and amortization	17,563	1,422	156	-	19,141
<b>Total expenses</b>	<b>\$ 273,029</b>	<b>\$ 35,124</b>	<b>\$ 1,197</b>	<b>\$ (7,271)</b>	<b>\$ 302,079</b>