



*REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS*

FOR

**LOMA LINDA UNIVERSITY
AND SUBSIDIARY**

June 30, 2017 and 2016

MOSSADAMS.COM

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Moss Adams LLP

Los Angeles, California
November 17, 2017

Loma Linda University and Subsidiary
Consolidated Statements of Financial Position
June 30, 2017 and 2016
Amounts Are Presented in Thousands

	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 8,688	\$ 7,766
Restricted cash	56,898	13,219
Accounts receivable, net	53,722	33,991
Student loans receivable, net	46,701	48,160
Pledges receivable	11,600	13,382
Irrevocable trusts	45,359	48,393
Investments	952,429	892,615
Inventories, prepaid expenses and other assets	25,779	24,011
Plant and equipment, net	336,909	319,955
TOTAL ASSETS	\$ 1,538,085	\$ 1,401,492
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 72,169	\$ 70,151
Deferred revenue	35,120	18,267
Investments held on behalf of others	405,182	391,967
Liabilities due under annuity and split-interest agreements	26,212	30,854
Notes and bonds payable	237,226	168,833
Other liabilities	30,300	31,815
Total Liabilities	806,209	711,887
Net assets:		
Unrestricted:		
Unrestricted – undesignated	76,047	80,185
Unrestricted – administration-designated	82,833	70,812
Unrestricted – board-designated	52,800	69,058
Total Unrestricted	211,680	220,055
Temporarily restricted	259,409	240,702
Permanently restricted	260,787	228,848
Total Net Assets	731,876	689,605
TOTAL LIABILITIES AND NET ASSETS	\$ 1,538,085	\$ 1,401,492

Loma Linda University and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2017
Amounts Are Presented in Thousands

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Tuition and fees	\$ 160,052	\$ -	\$ -	\$ 160,052
Less student aid	(10,596)	-	-	(10,596)
Net tuition and fees	149,456	-	-	149,456
Gifts and subsidies	11,754	9,367	4,886	26,007
Sponsored support	24,441	-	-	24,441
Investment income	7,232	16,271	4,461	27,964
Sales and service income	19,391	-	-	19,391
Clinic and auxiliary income	52,718	-	-	52,718
Student loan interest and other	103	1,283	-	1,386
Releases, reclasses and redesignation of net assets	11,289	(11,289)	-	-
Total revenue and support	276,384	15,632	9,347	301,363
EXPENSES				
Instruction	119,631	-	-	119,631
Research	23,818	-	-	23,818
Public service	9,840	-	-	9,840
Academic support	46,821	-	-	46,821
Student services	5,504	-	-	5,504
Institutional administration	16,654	-	-	16,654
Physical plant	25,921	-	-	25,921
Student financial support	1,040	-	-	1,040
Independent operations	42,767	-	-	42,767
Total expenses	291,996	-	-	291,996
Change in net assets from operating activities	(15,612)	15,632	9,347	9,367
Unrealized gains on investments	7,237	3,075	22,592	32,904
Change in net assets	(8,375)	18,707	31,939	42,271
Net assets, beginning of year	220,055	240,702	228,848	689,605
Net assets, end of year	\$ 211,680	\$ 259,409	\$ 260,787	\$ 731,876

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
Net assets released from restriction - operating	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 Statements of Cash Flows
Years Ended June 30, 2017 And 2016
Amounts Are Presented in Thousands

	2017	2016
Cash provided from operating activities		
Change in net assets	\$ 42,271	\$ (17,313)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,514	19,141
Contribution of land and building	(62)	(232)
Allowance for doubtful accounts	(1,171)	(679)
Unrealized (gains) losses on investments	(32,904)	27,970
Actuarial adjustment on split-interest agreements	4,437	2,319
Deferred revenue	16,853	(876)
Contributions restricted for long-term purposes	(1,662)	(5,654)
Changes in operating assets and liabilities:		
Accounts receivable	(18,560)	(6,479)
Pledges receivable	1,783	2,084
Inventories, prepaid expenses and other assets	(3,545)	(60)
Accounts payable and accrued expenses	2,018	7,172
Liabilities due under split-interest agreements	1,536	680
Other liabilities	(1,514)	(816)
Net cash provided by operating activities	<u>30,994</u>	<u>27,257</u>
Cash flows from investing activities		
Proceeds from sales of investments	1,169,638	1,676,746
Purchases of investments	(1,196,551)	(1,784,991)
Change in value of irrevocable trust agreements	(3,015)	1,923
Proceeds from new irrevocable trust agreements	1,778	943
Proceeds from irrevocable trust maturities	2,730	1,443
Proceeds from new split interest agreements	1,541	562
Purchases of plant and equipment	(38,356)	(41,692)
Repayments of loans from students	6,368	497
Disbursements of loans to students	(4,908)	(991)
Investments held on behalf of others	13,215	61,491
Net cash (used in) investing activities	<u>(47,560)</u>	<u>(84,069)</u>
Cash flows from financing activities		
Capitalized finance costs	(13)	-
Proceeds from contributions restricted for long-term purposes	1,662	5,654
Payments made under split-interest agreements	(10,616)	(6,863)
Proceeds from notes and bonds payable	160,764	61,618
Payments on notes and bonds payable	(90,630)	(825)
Net cash provided by financing activities	<u>61,167</u>	<u>59,584</u>
Net change in cash, cash equivalents and restricted cash	44,601	2,772
Cash, cash equivalent and restricted cash at beginning of year	<u>20,985</u>	<u>18,213</u>
Cash, cash equivalent and restricted cash at end of year	<u>\$ 65,586</u>	<u>\$ 20,985</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 6,505</u>	<u>\$ 5,659</u>

Loma Linda University and Subsidiary Notes to Consolidated Financial Statements

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. LLU’s intent is to financially support LLUH-SB in order to carry out its purpose necessary for the operation of a community health clinic and education facilities. Due to LLUH-SB’s fiscal dependence on LLU, its financial statements are reported as a division of LLU’s consolidated financial statements. See supplemental schedules.

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

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 consolidated 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.

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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

	2017	2016
Cash and cash equivalents	\$ 8,688	\$ 7,766
Restricted cash	56,898	13,219
Total cash, cash equivalents and restricted cash as shown in the statement of cash flows	<u>\$ 65,586</u>	<u>\$ 20,985</u>

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 \$4.7 million and \$5.2 million at June 30, 2017 and 2016, respectively.

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 \$706 thousand and \$707 thousand at June 30, 2017 and 2016, respectively.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2017 and 2016.

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.

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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2017 and 2016, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

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. The University uses mortality rates based on the IRS Life Expectancy table at 8% discount rate.

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. The University uses mortality rates based on the IRS Life Expectancy table at 8% discount rate.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

p) Investments and Investment Income

Investments are generally held at fair value, and some are closely held at cost.

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 \$44 thousand and \$2 thousand were reported on June 30, 2017 and 2016, respectively, because the market value of the assets are below cost.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

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 \$764 thousand and \$791 thousand for the years ended June 30, 2017 and 2016, 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 \$2.8 million and \$2.9 million, of fundraising costs in fiscal years ended June 30, 2017 and June 30, 2016, respectively.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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.

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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2017 and 2016. 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 years ended June 30, 2017 and 2016, no provision for unrelated business income tax is required. LLUH-SB had no unrecognized tax benefits or liabilities at June 30, 2017 and 2016. 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 2016 amounts have been reclassified to conform to the 2017 presentation.

y) Recently Adopted Accounting Pronouncements

In August 2014, FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under accounting principles generally accepted in the United States of America, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The University has adopted ASU 2014-15 as of and for the year ended June 30, 2017.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The University adopted the April 2015 accounting standards update related to Topic 835 – Imputation of Interest promulgated by the FASB. This update simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

In November 2016, FASB issued ASU 2016-18, Restricted Cash. The amendments in ASU 2016-18 are intended to minimize diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU provides guidance to an organization's management on how to classify and present changes in amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows and the related footnote disclosures. The University has adopted ASU 2016-18 as of and for the year ended June 30, 2017. This update has been applied retrospectively and prior year's statement of cash flows has been revised accordingly.

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, 2017 and 2016, student loans represented 2.99% and 3.43% of total assets, respectively.

Student loans consist of the following at June 30:

	2017	2016
Federal government programs	\$ 22,210	\$ 22,919
Institutional programs	25,197	25,948
	47,407	48,867
Less: allowance for doubtful accounts	(706)	(707)
Student loans receivable, net	\$ 46,701	\$ 48,160

Funds advanced by the Federal government of approximately \$22,210 thousand and \$22,919 thousand at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as other liabilities in the consolidated statements of financial position.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 3 – Credit Quality of Student Loans Receivable (continued)

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 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
2017	\$ 16	\$ 18	\$ 19	\$ 7,115	\$ 7,168
2016	\$ 17	\$ 18	\$ 17	\$ 6,760	\$ 6,812

Note 4 – Pledges Receivable

The pledges receivable, net of estimated uncollectible amounts, are discounted to present value at a rates of 1.29% to 3.99% based on the pledged gift date. Based on the University's collection history, management determined that no allowance for doubtful accounts was necessary for pledges receivable at June 30, 2017 and 2016.

Pledges receivable at June 30 are:

	2017	2016
Gross unconditional pledges receivables	\$ 12,456	\$ 13,968
Less: unamortized discounts	(856)	(586)
	<u>\$ 11,600</u>	<u>\$ 13,382</u>
	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,058	\$ 6,824
One year to five years	8,542	6,558
	<u>\$ 11,600</u>	<u>\$ 13,382</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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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

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.

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

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, 2017 and 2016. Most financial assets and financial liabilities for which the carrying amount equals fair value. The University has California Education Facilities Authority ("CEFA") Revenue bonds that are reported at an amortized cost of \$191.2 million as of June 30, 2017 in the consolidated statements of financial position. The CEFA Revenue bonds have an approximate fair value of \$195.3 million as of June 30, 2017. The University has California Municipal Finance Authority ("CMFA") Revenue bonds that are reported at an amortized cost of \$30.4 million as of June 30, 2016 in the consolidated statements of financial position. The CMFA Revenue bonds have an approximate fair value of \$31.3 million as of June 30, 2016. The University determined these CEFA and 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 carrying value.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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

Investments consist of the following at June 30, 2017:

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2017 Total
<u>Investments - redeemable securities</u>					
Equity securities					
Real estate industry	\$ 1,414	\$ -	\$ -	\$ -	\$ 1,414
Oil and gas industry	68,349	-	-	-	68,349
Domestic	65,180	-	-	39,515	104,695
International	-	-	-	17,863	17,863
Total equity securities	134,943	-	-	57,378	192,321
Debt securities					
Residential mortgage backed	15,405	-	-	-	15,405
US treasury and government money market	22,580	-	-	-	22,580
Corporate bonds	-	86,567	-	-	86,567
Total debt securities	37,985	86,567	-	-	124,552
Hedge funds					
Equity long/short funds	-	-	-	8,665	8,665
Distressed debt funds	-	-	-	7,390	7,390
Total hedge funds	-	-	-	16,055	16,055
First trust deeds (mortgages)	-	87,745	-	-	87,745
Total redeemable securities	172,928	174,312	-	73,433	420,673
<u>Investments - nonredeemable securities</u>					
Private equity investments					
Distressed debt	-	-	-	24,434	24,434
Oil and energy	-	-	-	17,210	17,210
International	-	-	-	13,172	13,172
Domestic capital investments	-	-	-	1,039	1,039
Alternative strategies	-	-	-	9,815	9,815
Total private equity investments	-	-	-	65,670	65,670
Real estate partnerships	-	-	-	337,248	337,248
Commercial real estate	-	68,389	-	-	68,389
Cash and short term investments	1,646	-	-	-	1,646
Total nonredeemable securities	1,646	68,389	-	402,918	472,953
Investments at fair value	174,574	242,701	-	476,351	893,626
Notes receivable at cost					58,803
Total investments					\$ 952,429

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	2017 Total
<u>Irrevocable trusts - redeemable securities</u>					
Equity securities					
Domestic mutual funds	\$ 41,344	\$ -	\$ -	\$ -	\$ 41,344
Total equity securities	41,344	-	-	-	41,344
US treasury and government money market debt securities	222	-	-	-	222
Total irrevocable trusts redeemable securities	41,566	-	-	-	41,566
<u>Irrevocable trusts - nonredeemable securities</u>					
Commercial real estate	-	647	-	-	647
Closely held entity and other	-	-	3,146	-	3,146
Total irrevocable trusts nonredeemable securities	-	647	3,146	-	3,793
Total irrevocable trusts	\$ 41,566	\$ 647	\$ 3,146	\$ -	\$ 45,359

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

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

The following table presents a roll forward of the amounts for the year ended June 30, 2017 for assets classified as Level 3:

	Balance at June 30, 2016	Purchases	Sales	Gains and (Losses)	Transfer In	Transfer Out	Balance at June 30, 2017
Irrevocable trusts:							
Closely held entity and other	\$ 3,233	\$ 347	\$ (434)	\$ -	\$ -	\$ -	\$ 3,146
Total	\$ 3,233	\$ 347	\$ (434)	\$ -	\$ -	\$ -	\$ 3,146

Unrealized gains (losses) for the above assets classified as Level 3 for the year ended June 30, 2017 relate principally to assets still held at June 30, 2017.

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

Investments managed by external advisors include investments in private equity, and real estate. The majority of these investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisor. In situations where the information provided by the external advisor is deemed to not be representative of fair value as of the measurement date, the University will utilize the supplemental information provided by external advisor along with any relevant data to measure the investment's fair value as of that date.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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):

	Fair Value at June 30, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity funds ^{a)}				
Domestic	\$ 39,515	\$ -	30 days	5 days
International	17,863	-	30 days	30 days
Hedge funds ^{b)}				
Equity long/short funds	8,665	-	30-90 days	45-65 days
Distressed debt funds	7,390	-	90 days	65 days
Private equity ^{c)}				
Distressed debt	24,434	2,203	Not redeemable - 180 days	N/A - 60 days
Oil and energy	17,210	9,797	Not redeemable	N/A
International	13,172	290	90 days	65 days
Domestic capital investments	1,039	31	Not redeemable	N/A
Alternative strategies	9,815	5,072	Not redeemable	N/A
Real estate partnership ^{d)}	337,248	227	Not redeemable	N/A
Totals	<u>\$ 476,351</u>	<u>\$ 17,620</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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 6 – Plant and Equipment

Plant and equipment consist of the following at June 30:

	2017	2016
Land improvements	\$ 37,515	\$ 36,323
Vehicles	1,515	1,321
Equipment	127,514	123,647
Buildings and improvements	410,715	398,721
	577,259	560,012
Less accumulated depreciation and amortization	(300,776)	(282,213)
Net plant and equipment	276,483	277,799
Land	21,405	22,391
Construction in progress	39,021	19,765
Plant and equipment, net	\$ 336,909	\$ 319,955

The University has various construction in progress projects open as of June 30, 2017 for the construction of facilities and other improvements. It has budgeted \$390 thousand (unaudited) for the completion of these projects as of June 30, 2017.

Note 7 – Trusts

Revocable Trust Agreements

At June 30, 2017 and 2016, the University held, as trustee, a total of 21 and 24 revocable trust agreements, respectively, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to \$7.5 million (unaudited) in 2017 and \$7.2 million (unaudited) in 2016. Revocable trust agreements with assets totaling \$349 thousand in 2017 and \$716 thousand in 2016 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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 8 – Notes and Bonds Payable

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

	2017	2016
CMFA Revene Bonds, Series 2007	\$ -	\$ 30,440
CEFA Revene Bonds, Series 2017A	133,535	-
CEFA Revene Bonds, Series 2017B	43,440	-
Secured note to Bank at 4.5%, principal and interest monthly, matures February 17, 2030	17,701	18,710
Secured note to Bank at 4.250%, principal and interest monthly, matures February 7, 2032	573	-
Secured note to Bank at 4.250%, principal and interest monthly, matures February 7, 2032	762	-
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	1,140	1,177
Line of Credit at prime plus 1.125%, interest monthly, collateralized by marketable securities	-	20,833
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
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
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	11,000
Total outstanding notes and bonds payable	226,111	170,206
Capitalized finance costs	(3,114)	(1,373)
CEFA Revene Bonds, Series 2017A Premium	14,229	-
Total notes and bonds payable, net	<u>\$ 237,226</u>	<u>\$ 168,833</u>

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

2018	\$ 3,997
2019	4,282
2020	4,433
2021	4,504
2022	5,977
2022 and thereafter	<u>202,918</u>
	<u>\$ 226,111</u>

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 8 – Notes and Bonds Payable (continued)

Interest related to the notes and bonds payable was \$6.5 million and \$5.6 million for the years ending June 30, 2017 and 2016, 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 2.72% at June 30, 2017. 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, 2018. There were no outstanding balances as of as of June 30, 2017 and 2016.

The University has received a secured commercial loan from a financial institution at a fixed rate of 4.5% payable in 15 years beginning February 24, 2015 until February 17, 2030. The balance of the loan is \$17.7 million and \$18.7 million as of June 30, 2017 and 2016, 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 \$1.1 million and \$1.2 million as of June 30, 2017 and 2016 respectively.

The University has obtained two (2) new secured commercial loans from a financial institution at a fixed rate of 4.25% for both loans. The loans are payable in 15 years beginning on February 7, 2017 and maturing on February 7, 2032. Loan balances as of June 30, 2017 are \$573 thousand and \$762 thousand respectively.

As of June 30, 2016, the remaining balance was \$20.8 million 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%. The University has paid off this line of credit on March 9, 2017.

The University has also paid off on March 9, 2017 the 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). As of June 30, 2016, the balances were \$57 million (clinic) and \$20.8 million (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, 2017. The lines of credit were 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 University has paid off the remaining balance of the \$36.1 million California Municipal Finance Authority (CMFA) Revenue Bonds, Loma Linda University Series 2007 on March 9, 2017. As of June 30, 2016, the remaining balance was \$30.4 million.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 8 – Notes and Bonds Payable (continued)

The notes to a bank are New Market Tax Credit (NMTC) loans with aggregate balance of \$28.9 million as of June 30, 2017 and 2016 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 the University. LLUH-SB 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, 2017. The loans are unsecured. The University 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.

The California Educational Facilities Authority Act as a public instrumentality of the State of California pursuant to Chapter 2 of Part 59 of Division 10 of Title 3 of the Education Code of the State of California has authorized to issue the CEFA Revenue Bonds Series 2017A and 2017B on March 1, 2017 to the University.

The University has obtained CEFA Revenue Bonds Series S2017A in the amount of \$134.9 million payable in 30 years beginning April 1, 2017 until April 1, 2017 at a fixed rate of 5% per annum and the CEFA Revenue Bond Series S2017B in the amount of \$43.4 million payable in 15 years beginning April 1, 2018 until April 1, 2033 at rate starting at 1.966% on its first year to a maximum of 4.75% on maturity.

The University used the proceeds of the Series 2017A bonds to pay off the California Municipal Finance Authority Revenue Bonds Series 2007 and the bank debt for construction of certain educational and related health care facilities of the LLUH-SB, a related entity. This was also used to pay off the University's bank debt on the construction Central Utilities Project upgrades and improvements.

The proceeds of the Series 2017B bonds were used to pay off a bank debt which was used to finance the acquisition and construction of the Centennial Complex Project and the remaining bank debts on the LLUH-SB construction project.

Prepayments

The University may at any time prepay all or any part of the base loan payments. All such prepayments shall be deposited in the Optional Redemption Account within the Bond Fund and credited against the base loan payments in the order of their due date or at the election of the University in accordance with Section 4.01 of the Indenture. Notwithstanding any such prepayment, the University shall not be relieved of this obligation under the Agreement until all of the Bonds have been fully paid and retired.

Optional redemption Revenue Bonds Series 2017A

The Series 2017A bonds maturing on or after April 1, 2028 are subject to optional redemption prior to their stated maturities pursuant to Section 8 of the Agreement at the principal amount thereof plus accrued interest, if any to the date of redemption.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 8 – Notes and Bonds Payable (continued)

Mandatory redemption from sinking fund payments

The Series 2017A bonds maturing on April 1, 2042 amounting to \$38.6 million are subject to redemption, in part or by lot, from mandatory sinking fund payments pursuant to subsection (3) of Section 5.02(a) of the Indenture, on each April 1, from and after April 1, 2038 at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium).

The Series 2017A bonds maturing on April 1, 2047 amounting to \$49.3 million are subject to redemption, in part or by lot, from mandatory sinking fund payments pursuant to subsection (4) of Section 5.02(a) of the Indenture, on each April 1, from and after April 1, 2043 at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium).

Optional redemption Revenue Bonds Series 2017B

The Series 2017B bonds maturing on April 1, 2033 in the amount of \$19.6 million are subject to optional redemption prior to its stated maturity pursuant to Section 8 of the Agreement at the principal amount thereof plus accrued interest, if any to the date of redemption.

Mandatory redemption from sinking fund payments

The Series 2017B bonds maturing on April 1, 2033 in the amount of \$19.6 million are subject to redemption, in part or by lot, from mandatory sinking fund payments pursuant to subsection (3) of Section 5.02(a) of the Indenture, on each April 1, from and after April 1, 2028 at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium).

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, 2017 and 2016, the plan liabilities totaled \$1.8 million and \$2.0 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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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:

2017	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Restricted for specific purposes	\$ 140,583	\$ -
Student loans	43,522	-
Endowment	50,604	254,261
Annuity and split-interest agreements	24,700	6,526
	\$ 259,409	\$ 260,787
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

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 and Subsidiary

Notes to Consolidated Financial Statements

Note 11 – Endowment (continued)

Changes in the University's endowment for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
Investment returns				
Investment income from pooled funds	\$ 1,553	\$ 242	\$ 3,008	\$ 4,803
Less investment returns appropriated for operation	(1,798)	-	-	(1,798)
Investment income (loss), net of amount appropriated for operation	(245)	242	3,008	3,005
Change in realized/unrealized net appreciation of investments	1,673	3,410	23,843	28,926
Net return in pooled investment fund	1,428	3,652	26,851	31,931
Investment income from separate investments	118	-	-	118
Total net investment returns	1,546	3,652	26,851	32,049
Other changes in endowed equity:				
Gifts	134	153	4,318	4,605
Transfers	(17,933)	(26)	-	(17,959)
Net change in endowed equity	(16,253)	3,779	31,169	18,695
Endowed equity, beginning of year	69,058	46,825	223,092	338,975
Endowed equity, end of year	<u>\$ 52,805</u>	<u>\$ 50,604</u>	<u>\$ 254,261</u>	<u>\$ 357,670</u>

At June 30, 2017, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
Investments	\$ 52,805	\$ 50,604	\$ 254,261	\$ 357,670
Total endowed equity	<u>\$ 52,805</u>	<u>\$ 50,604</u>	<u>\$ 254,261</u>	<u>\$ 357,670</u>

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

	2017
Unrestricted endowment (donor-designated)	\$ (44)
Unrestricted endowment (board-designated)	52,849
Total unrestricted endowment	<u>\$ 52,805</u>
Temporarily restricted (donor-restricted)	
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:	
Without purpose restriction	<u>\$ 50,604</u>
Permanently restricted endowment (donor-restricted)	<u>\$ 254,261</u>
Total endowment	<u>\$ 357,670</u>

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 11 – Endowment (continued)

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>

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

	2016
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>

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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, 2017 and 2016, respectively, were \$7.8 million and \$7.8 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, 2017 and 2016, respectively, were \$2.8 million and \$2.4 million. In addition, the majority of the University’s investments held for others are primarily for LLUMC in the amount of \$320.2 million and \$318.6 million at June 30, 2017 and 2016, respectively. Services are also shared among other LLUH organizations. Total expenses paid to LLUH for shared services were \$10.8 million and \$10 million for the years ended June 30, 2017 and 2016, respectively, and are included in the institutional administration expense category in the consolidated statements of activities.

The University also provides various services to LLUH entities during the year. The revenues generated from these entities were \$17.2 million and \$20.3 million for the years ended June 30, 2017 and 2016, 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 \$6.5 million and \$6.1 million at June 30, 2017 and 2016, respectively, and are included in accounts receivable in the consolidated statements of financial position. Net accounts payable to LLUH entities were \$17.6 million and \$15.9 million at June 30, 2017 and 2016, 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, 2017 and 2016 was \$52.6 million and \$61.8 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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 13 – Retirement Plans (continued)

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 \$2.5 million and \$3.0 million to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2017 and 2016, 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.

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 \$3.2 million and \$3.0 million for the years ended June 30, 2017 and 2016, 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 \$4.6 million and \$4.4 million during the years ended June 30, 2017 and 2016, respectively.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

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.

The funding requirements under the contract are based upon independent actuarial determinations. Payments made to the Risk Management division of LLUH totaling \$26.7 million and \$25.4 million in fiscal years 2017 and 2016, 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 \$17.0 million and \$14.0 million as of June 30, 2017 and 2016, 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 2017, 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.

Loma Linda University and Subsidiary

Notes to Consolidated Financial Statements

Note 16 – Commitments and Contingencies (continued)

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, 2017. Total amounts committed under these contracts amount to \$68 million at June 30, 2017 and 2016, and the remaining commitment is \$7.9 million at June 30, 2017.

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. The estimated fair market value of the equipment lease is \$364,833 per year using a straight-line method over estimated useful life of 8 years.

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

2018	\$ 4,322
2019	4,322
2020	4,532
2021	4,532
2022	4,754
Thereafter	<u>66,411</u>
	<u><u>\$ 88,873</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 November 17, 2017, which is the date the consolidated financial statements are available for issuance. The following subsequent event was identified in that evaluation.

Supplemental Schedules

Loma Linda University and Subsidiary
Consolidating Statement of Financial Position
June 30, 2017
Amounts Are Presented in Thousands

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 5,694	\$ 2,822	\$ 172	\$ -	\$ 8,688
Restricted cash	56,414	-	484	-	56,898
Accounts receivable, net	51,878	1,182	662	-	53,722
Student loans receivable, net	46,701	-	-	-	46,701
Pledges receivable, net	4,877	3,702	3,021	-	11,600
Irrevocable trusts	-	45,359	-	-	45,359
Investments	17,012	935,417	-	-	952,429
Due from intercompany	37,639	-	-	(37,639)	-
Advances to affiliate	-	37,322	-	(37,322)	-
Inventories, prepaid expenses and other assets	20,833	4,946	-	-	25,779
Plant and equipment, net	235,173	36,709	65,027	-	336,909
TOTAL ASSETS	\$ 476,221	\$ 1,067,459	\$ 69,366	\$ (74,961)	\$ 1,538,085
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 70,785	\$ 819	\$ 565	\$ -	\$ 72,169
Due to intercompany	-	37,639	-	(37,639)	-
Deferred revenue	35,113	7	-	-	35,120
Investments held on behalf of others	-	405,182	-	-	405,182
Liabilities due under annuity and split-interest agreements	-	26,212	-	-	26,212
Advances from affiliate	16,151	-	21,171	(37,322)	-
Notes and bonds payable	189,427	20,176	27,623	-	237,226
Other liabilities	26,563	3,737	-	-	30,300
Total Liabilities	338,039	493,772	49,359	(74,961)	806,209
Net assets:					
Unrestricted:					
Unrestricted – undesignated	39,201	19,860	16,986	-	76,047
Unrestricted – administration-designated	-	82,833	-	-	82,833
Unrestricted – board-designated	-	52,800	-	-	52,800
Total unrestricted	39,201	155,493	16,986	-	211,680
Temporarily restricted	98,981	157,407	3,021	-	259,409
Permanently restricted	-	260,787	-	-	260,787
Total Net Assets	138,182	573,687	20,007	-	731,876
TOTAL LIABILITIES AND NET ASSETS	\$ 476,221	\$ 1,067,459	\$ 69,366	\$ (74,961)	\$ 1,538,085

Loma Linda University and Subsidiary
Consolidating Statement of Activities
Year Ended June 30, 2017
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	\$ 160,052	\$ -	\$ -	\$ 160,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,052
Less student aid	(10,596)	-	-	(10,596)	-	-	-	-	-	-	-	-	-	(10,596)
Net tuition and fees	149,456	-	-	149,456	-	-	-	-	-	-	-	-	-	149,456
Gifts and subsidies	9,337	175	-	9,512	5,892	5,717	4,886	16,495	3,049	3,475	-	6,524	(6,524)	26,007
Sponsored support	24,441	-	-	24,441	-	-	-	-	-	-	-	-	-	24,441
Investment income	1,172	8,693	-	9,865	6,060	7,578	4,461	18,099	-	-	-	-	-	27,964
Sales and service income	15,615	-	-	15,615	168	-	-	168	5,311	-	-	5,311	(1,703)	19,391
Clinic and auxiliary income	41,081	-	-	41,081	11,637	-	-	11,637	1,231	-	-	1,231	(1,231)	52,718
Student loan interest and other	103	1,283	-	1,386	-	-	-	-	-	-	-	-	-	1,386
Releases, reclasses and														
redesignation of net assets	8,680	(2,287)	-	6,393	2,155	(8,548)	-	(6,393)	454	(454)	-	-	-	-
Total revenue and support	249,885	7,864	-	257,749	25,912	4,747	9,347	40,006	10,045	3,021	-	13,066	(9,458)	301,363
EXPENSES														
Instruction	119,631	-	-	119,631	-	-	-	-	-	-	-	-	-	119,631
Research	23,818	-	-	23,818	-	-	-	-	-	-	-	-	-	23,818
Public service	9,840	-	-	9,840	-	-	-	-	-	-	-	-	-	9,840
Academic support	46,821	-	-	46,821	-	-	-	-	-	-	-	-	-	46,821
Student services	5,504	-	-	5,504	-	-	-	-	-	-	-	-	-	5,504
Institutional administration	16,654	-	-	16,654	-	-	-	-	-	-	-	-	-	16,654
Physical plant	22,337	-	-	22,337	1,800	-	-	1,800	1,784	-	-	1,784	-	25,921
Student financial support	1,040	-	-	1,040	-	-	-	-	-	-	-	-	-	1,040
Independent operations	21,765	-	-	21,765	27,955	-	-	27,955	2,505	-	-	2,505	(9,458)	42,767
Total expenses	267,410	-	-	267,410	29,755	-	-	29,755	4,289	-	-	4,289	(9,458)	291,996
Change in net assets from operating activities	(17,525)	7,864	-	(9,661)	(3,843)	4,747	9,347	10,251	5,756	3,021	-	8,777	-	9,367
Unrealized gains on investments	237	-	-	237	7,000	3,075	22,592	32,667	-	-	-	-	-	32,904
Change in net assets	(17,288)	7,864	-	(9,424)	3,157	7,822	31,939	42,918	5,756	3,021	-	8,777	-	42,271
Net assets, beginning of year	56,489	91,117	-	147,606	152,336	149,585	228,848	530,769	11,230	-	-	11,230	-	689,605
Net assets, end of year	\$ 39,201	\$ 98,981	\$ -	\$ 138,182	\$ 155,493	\$ 157,407	\$ 260,787	\$ 573,687	\$ 16,986	\$ 3,021	\$ -	\$ 20,007	\$ -	\$ 731,876

Loma Linda University and Subsidiary
Consolidating Schedule of Expenses by Natural Classification
Year Ended June 30, 2017
Amounts Are Presented in Thousands

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
Salaries and benefits	\$ 167,328	\$ 2,038	\$ 37	\$ -	\$ 169,403
Plant repairs and replacements	9,691	2,057	280	-	12,028
Supplies and printing services	15,007	114	74	-	15,195
Professional development / training	2,526	47	-	-	2,573
Travel and entertainment	5,512	21	-	-	5,533
Purchased services	24,845	614	624	-	26,083
Cost of goods sold	6,058	2,429	-	-	8,487
Technology and telecommunications	3,631	41	-	-	3,672
Utilities	8,148	965	462	-	9,575
General expenses	(422)	18,006	454	(9,458)	8,580
Interest and taxes	7,154	1,625	574	-	9,353
Depreciation and amortization	17,932	1,798	1,784	-	21,514
Total expenses	\$ 267,410	\$ 29,755	\$ 4,289	\$ (9,458)	\$ 291,996