Combined Financial Statements and Supplemental Schedules

Loma Linda University and LLUH-SB, Inc.
Years Ended June 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Loma Linda University and LLUH-SB, Inc.

Combined Financial Statements and Supplemental Schedules

Years Ended June 30, 2021 and 2020

Contents

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Report of Independent Auditors

The Board of Trustees
Loma Linda University and LLUH-SB, Inc.

We have audited the accompanying combined financial statements of Loma Linda University and LLUH-SB, Inc., which comprise the combined statements of financial position as of June 30, 2021 and 2020, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Loma Linda University and LLUH-SB, Inc. at June 30, 2021 and 2020, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*

As discussed in Note 2 to the combined financial statements, Loma Linda University and LLUH-SB, Inc changed their method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, Leases (Topic 842), effective July 1, 2020. Our opinion is not modified with respect to this matter.

Supplementary Information

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

Ernst & Young LLP

November 11, 2021

Loma Linda University and LLUH-SB, Inc.

Combined Statements of Financial Position

(Amounts Are Presented in Thousands)

	June 30	
	2021	**2020**
Assets		
Cash and cash equivalents	**$ 13,240**	$ 18,689
Restricted cash	**318**	2,807
Accounts receivable, net	**40,419**	57,244
Student loans receivable, net	**42,325**	40,732
Pledges receivable, net	**4,384**	5,779
Deferred rent	**4,004**	2,525
Investments	**1,374,703**	1,221,087
Irrevocable trusts	**48,124**	42,146
Investment in net assets of the Foundation	**37,930**	31,461
Advances to related parties	**46,610**	43,143
Inventories, prepaid expenses, and other assets	**13,172**	11,423
Net investment in direct financing lease	**2,296**	2,109
Property, plant, and equipment, net	**340,029**	357,819
Finance lease right-of-use assets, net	**1,401**	–
Operating lease right-of-use assets, net	**18,287**	–
Total assets	**$ 1,987,242**	$ 1,836,964
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 39,825**	$ 66,470
Deferred revenue	**39,106**	27,170
Investments held on behalf of others	**686,928**	634,049
Liabilities due under annuity and split-interest agreements	**24,800**	22,661
Advances from related parties	**47,144**	48,434
Debt, net	**254,990**	252,445
Finance lease liabilities	**1,435**	–
Operating lease liabilities	**18,409**	–
Other liabilities	**30,920**	31,380
Total liabilities	**1,143,557**	1,082,609
Net assets:		
Without donor restrictions	**187,689**	188,217
With donor restrictions	**655,996**	566,138
Total net assets	**843,685**	754,355
Total liabilities and net assets	**$ 1,987,242**	$ 1,836,964

See accompanying notes.

Loma Linda University and LLUH-SB, Inc.

Combined Statements of Activities

(Amounts Are Presented in Thousands)

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Net tuition and fees	$ 168,839	$ –	$ 168,839
Gifts and subsidies	11,514	22,981	34,495
Sponsored support	21,846	1,396	23,242
Investment income	18,762	21,642	40,404
Sales and service income	35,526	2,344	37,870
Clinic and auxiliary income	38,732	–	38,732
Student loan interest and other	3,508	–	3,508
Change in interest in net assets of the Foundation	–	6,469	6,469
Net assets released from restriction	13,412	(13,412)	–
Total revenue and support	312,139	41,420	353,559
Operating expenses:			
Salaries and benefits	152,930	–	152,930
Plant repairs and replacements	6,826	–	6,826
Supplies and printing services	19,868	–	19,868
Professional development and training	2,789	–	2,789
Travel and entertainment	941	–	941
Purchased services	48,787	–	48,787
Cost of goods sold	787	–	787
Technology and telecommunications	4,879	–	4,879
Utilities	14,682	–	14,682
General expenses	32,245	–	32,245
Interest and taxes	12,475	–	12,475
Depreciation and amortization	23,557	–	23,557
Total operating expenses	320,766	–	320,766
Change in net assets from operating activities	(8,627)	41,420	32,793
Transfers from affiliates	775	–	775
Unrealized gains on investments	7,324	48,438	55,762
Change in net assets	(528)	89,858	89,330
Net assets, beginning of year	188,217	566,138	754,355
Net assets, end of year	$ 187,689	$ 655,996	$ 843,685

See accompanying notes.

Loma Linda University and LLUH-SB, Inc.

Combined Statements of Activities
(Amounts Are Presented in Thousands)

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Net tuition and fees	$ 164,597	$ –	$ 164,597
Gifts and subsidies	6,384	21,654	28,038
Sponsored support	15,988	1,186	17,174
Investment (losses) income	(24,766)	20,694	(4,072)
Sales and service income	32,332	1,004	33,336
Clinic and auxiliary income	37,741	–	37,741
Student loan interest and other	1,457	–	1,457
Change in interest in net assets of the Foundation	–	16,688	16,688
Net assets released from restriction	14,247	(14,247)	–
Total revenue and support	247,980	46,979	294,959
Operating expenses:			
Salaries and benefits	162,306	–	162,306
Plant repairs and replacements	5,463	–	5,463
Supplies and printing services	22,195	–	22,195
Professional development and training	2,416	–	2,416
Travel and entertainment	2,863	–	2,863
Purchased services	51,959	–	51,959
Cost of goods sold	884	–	884
Technology and telecommunications	5,254	–	5,254
Utilities	10,474	–	10,474
General expenses	40,121	–	40,121
Interest and taxes	11,717	–	11,717
Depreciation and amortization	23,282	–	23,282
Total operating expenses	338,934	–	338,934
Change in net assets from operating activities	(90,954)	46,979	(43,975)
Transfers to affiliates	(10,220)	–	(10,220)
Unrealized gains (losses) on investments	102,770	(86,163)	16,607
Change in net assets	1,596	(39,184)	(37,588)
Net assets, beginning of year	186,621	605,322	791,943
Net assets, end of year	$ 188,217	$ 566,138	$ 754,355

See accompanying notes.

Loma Linda University and LLUH-SB, Inc.

Combined Statements of Cash Flows
(Amounts Are Presented in Thousands)

	Year Ended June 30	
	2021	**2020**
Operating activities		
Change in net assets	**$ 89,330**	$ (37,588)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	**23,509**	23,282
Amortization expense	**48**	40
Non-cash lease expense	**1,913**	–
Provision for doubtful accounts	**1462**	6,255
Provision for doubtful pledges receivable	**285**	320
Unrealized gains on investments	**(87,399)**	(12,607)
Transfers (from) to affiliates	**(775)**	8,815
Change in interest in net assets of the Foundation	**(7,183)**	(16,688)
Changes in operating assets and liabilities:		
Accounts receivable	**15,386**	1,464
Pledges receivable	**1,111**	(430)
Deferred rent	**(814)**	(513)
Irrevocable trust agreements	**(5,978)**	(682)
Inventories, prepaid expenses, and other assets	**(1,749)**	(2,519)
Advances (from) to related parties	**(4,756)**	(10,295)
Accounts payable and accrued expenses	**(26,645)**	(15,175)
Liabilities due under annuity and split-interest agreements	**11,305**	(2)
Deferred revenue	**11,272**	8,551
Right-of-use lease liabilities	**(1,791)**	–
Other liabilities	**260**	(2,852)
Net cash provided by (used in) operating activities	**18,791**	(50,624)
Investing activities		
Proceeds from sales of investments	**802,282**	1,079,358
Purchases of investments	**(814,342)**	(1,150,031)
Increase in interest in net assets of the Foundation	**714**	(14,773)
Repayments of loans from students	**7,140**	9,165
Disbursements of loans to students	**(8,756)**	(6,099)
Investments held on behalf of others	**52,879**	160,892
Net investment in direct financing lease	**(187)**	260
Purchases of property, plant, and equipment	**(5,940)**	(15,536)
Net cash provided by (used in) investing activities	**33,790**	63,236

Loma Linda University and LLUH-SB, Inc.

Combined Statements of Cash Flows (continued)

(Amounts Are Presented in Thousands)

	Year Ended June 30	
	2021	**2020**
Financing activities		
Payments made under split-interest agreements	**$ (1,350)**	$ (1,216)
Trust contributions (distributions)	**(7,828)**	(1,621)
Transfers from (to) affiliates	**775**	(8,815)
Payments on right-of-use finance leases	**(465)**	–
Borrowings on operating line of credit	**27,500**	39,000
Payments on operating line of credit	**(20,000)**	(20,000)
Proceeds from debt	**–**	1,287
Payments on debt	**(5,002)**	(4,822)
Net cash (used in) provided by financing activities	**(6,370)**	3,813
Changes in cash, cash equivalents, and restricted cash	**46,211**	16,425
Cash, cash equivalents, and restricted cash, beginning of year	**32,696**	16,271
Cash, cash equivalents, and restricted cash, end of year	**$ 78,907**	$ 32,696
Reconciliation to cash and cash equivalents as reported on accompanying combined statements of financial position		
Cash and cash equivalents	**$ 13,240**	$ 18,689
Restricted cash	**318**	2,807
Cash held in investments	**65,349**	11,200
	$ 78,907	$ 32,696
Supplemental disclosures of noncash financing activities		
Unpaid balance for purchases of property and equipment	**$ 686**	$ 626
Interest paid	**$ 10,090**	$ 9,480
Right-of-use assets arising from the adoption of ASC 842	**$ 20,061**	$ –
Cash paid for amounts included in the measurement of leases		
Operating cash flows for right-of-use operating leases	**$ 1,977**	$ –
Operating cash flows for right-of-use finance leases	**$ 26**	$ –
Financing cash flows for right-of-use finance leases	**$ 465**	$ –

See accompanying notes.

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 120 programs are offered by the schools of Allied Health Professions, Behavioral Health, Dentistry, Medicine, Nursing, Pharmacy, Public Health, Religion, San Manuel Gateway College, and Faculty of Graduate Studies. 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 continue the teaching and healing ministry of Jesus Christ "to make man whole" by transforming lives through education, health care, and research. In harmony with our heritage and global mission:

- We encourage personal and professional growth through integrated development of the intellectual, physical, social, and spiritual dimensions of each member of the university community and those we serve.

- We promote an environment that reflects and builds respect for the diversity of humanity as ordained by God.

- We seek to serve a worldwide community by promoting healthful living, caring for the sick, and sharing the good news of a loving God.

The activities of LLU are conducted within two major divisions for financial reporting purposes.

a) Educational Division – includes the operations and related activities of the academic functions.

b) Foundation Division – includes endowments, trust agreements, annuities, independent operations, and other nonacademic activities.

1. Nature of Organization (continued)

LLUH-SB, Inc. (LLUH-SB) was incorporated on December 3, 2014 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 Loma Linda University Health (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 combined financial statements. See supplemental schedules.

LLUH is a religious nonprofit corporation that serves as the sole member of LLU. Other corporations of which LLUH is the sole member include Loma Linda University Medical Center (LLUMC), Loma Linda University Children's Hospital, and Loma Linda University Behavioral Medicine Center, LLUMC-Murrieta, each a religious nonprofit corporation. LLUH also serves as a member of Loma Linda University Health Care, a religious nonprofit corporation.

2. Summary of Significant Accounting Policies

Principles of Combination

The accompanying combined financial statements include the accounts of LLU and LLUH-SB (collectively referred to as the University). All transactions between entities have been eliminated in the combined financial statements.

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 accompanying combined financial statements, funds that have similar characteristics are combined into two net asset categories: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are not restricted by donors or the donor-imposed restrictions have expired.

2. Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor-imposed restrictions are satisfied either by the passage of time or when the purpose has been met by actions of the University. Other donor restrictions 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.

Revenue Recognition and Deferred Revenue

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 net of explicit price concessions such as scholarships, discounts, and waivers (student aid) and is displayed on the combined statements of activities in net tuition and fees. 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 on the accompanying combined statements of financial position, as such amounts are expected to be earned within the next year. Performance obligations are satisfied by the University over the term that the student receives the benefit from these tuition and fees.

Contributions are included in gifts and subsidies on the combined statements of activities. These contributions include appropriations from the General Conference of Seventh-day Adventists, which are provided for unrestricted operating support. The revenue is recognized monthly throughout the fiscal period. See Note 16 – Related-Party Transactions.

Sponsored support is primarily federal, state, and private reimbursements that generally are allowable expenditures under non-exchange agreements. Non-exchange agreements are considered conditional, if the terms of the agreement include both a right of return/release of assets received and/or promised. Any funding received in advance of expenditure is recorded as a refundable advance. The University’s performance obligation is satisfied when the related costs are incurred in accordance with the agreement. Consequently, revenue is recognized at the time expenses are incurred.

2. Summary of Significant Accounting Policies (continued)

Sales and service income includes revenue primarily from property rental, memberships, and sales of educational materials; food services; bookstore goods; printing services; and tickets. The University recognizes the property rental revenue monthly, based on the transaction price stated in the executed rental agreement. Memberships are available to students, related parties' employees, and the general public. The student membership is included in the published enrollment fee, which is administratively allocated to various student-related activities.

The non-student membership transaction price is the amount the University expects to be entitled to in exchange for the products provided (either published rates available on the University's websites or agreed-upon rates from related- and third-party payers) and is recognized monthly, based on the agreed-upon rates. Revenue generated from sales is recognized at a point in time.

Clinic and auxiliary income includes multiple revenue streams derived primarily from medical and dental services provided to the general public, and from the operation of the central utility plant (CUP) services, which are included on the combined statements of activities, and reported as net assets without donor restrictions. The transaction price of the clinic income and the performance obligation is recognized as revenue at the time that each procedure is performed. For treatment plans that are satisfied over a period of time, revenue is recognized accordingly over the corresponding time period. The CUP provides utility services, such as electricity and chilled water, to related parties and the University. The transaction price of the CUP income is allocated to the performance obligation on a dollar per unit of energy consumed basis. The period in which the University satisfies the performance obligation is the same period in which the revenue is recognized by billing upon usage.

Student loan interest and other include revenue related to financial aid programs and are primarily generated from interest earned. The performance obligation of the student loan funds occurs over the life of the loan. The University receives fixed monthly payments from students, with a portion of the payment attributable to interest (recorded as revenue) and the remaining portion of the payment as a reduction in loan principal. The performance obligations are laid out in the promissory note, and the transaction price is clearly identified in the promissory note.

Cash and Cash Equivalents

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.

2. Summary of Significant Accounting Policies (continued)

Restricted Cash

Restricted cash is the reserve amount for the project fund required by the bond agreement; see Note 9 – Debt. Certain proceeds of the serial bonds (see Note 9 – Debt) held by trustees are limited as to use in accordance with the requirements of the trust agreements. The project fund balance has been used as specified in the bond agreement. The restricted cash also includes a reserve amount for LLUH-SB required by the debt agreement; see Note 9 – Debt.

Accounts Receivable

Accounts receivable include tuition receivable, non-student receivables (employee education notes, mortgage loans), and third-party receivables. Receivables are recognized only to the extent that the University has an unconditional right to consideration to which it is entitled in exchange for goods and services to students, non-students, and third parties. Such receivables are stated at the amount management expects to collect from outstanding balances on accounts. Collectability of accounts receivable is assessed periodically for changes in facts and circumstances. The allowance for doubtful accounts amounted to $4.3 million and $3.8 million at June 30, 2021 and 2020, respectively.

Student Loans Receivable

Student loans receivable consist of private donated and federal funds loaned to students. Donated funds are recorded in accordance with the restrictions set by the donors. Federal funds are recorded as federal student loan obligations on the combined 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 private donated and federal funds. The allowance for doubtful accounts amounted to $350 thousand and $373 thousand at June 30, 2021 and 2020, respectively.

2. Summary of Significant Accounting Policies (continued)

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. The allowance for uncollectible pledges receivable amounted to $2.0 million and $2.4 million at June 30, 2021 and 2020, respectively.

Inventories

Inventories are valued at the lower of cost or market accounted for on a first-in, first-out basis and are substantially made up of finished goods. The inventories primarily consisted of supplies to be used for dental clinic, food services, housekeeping, property maintenance, and printing.

Deferred Rent

Deferred rent is the cumulative difference between the rental income or payments required by a lease agreement and the rental income or expense recognized on a straight-line basis, in which use or benefit is granted or derived from the leased property, expected to be recognized in income or expense, by the lessor or lessee, respectively, more than one year after the combined statement of financial position date.

Net Investment in Direct Financing Lease

At lease commencement, the University records an investment in direct financing leases equal to the total future lease rental payments and the estimated residual value of the leased equipment, less unearned lease income. The unearned lease income is the difference between the cost of the equipment plus initial direct costs capitalized and the total future lease rentals plus the estimated residual value of the leased equipment. Residual value is the estimated proceeds from the sale or re-lease of the asset at the end of the initial lease term. Amortization of unearned income is recognized using the interest method and is included in interest income on the combined statements of activities. The adoption of the new accounting standard, Topic 842, is discussed in detail in Note 21 – Leases.

2. Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment, Net

Plant facilities are stated at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. Capital equipment 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 10 to 60 years for land improvements, 5 to 60 years for buildings, 5 to 60 years for building improvements, and 4 to 50 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 on the combined statements of activities as a component of depreciation expense. 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 amounted to $3.1 million at June 30, 2021 and 2020 and is recorded in other liabilities on the combined statements of financial position.

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, 2021 and 2020, there were no significant events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

2. Summary of Significant Accounting Policies (continued)

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 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 Note 5 – Investments, Irrevocable Trusts, and Fair Value Measurements). The University's policy is to record the contribution of these gifts in its combined financial statements as net assets with donor restrictions (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 that 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 the 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 based on the IRS life expectancy table at an 8% discount rate. Irrevocable trust assets received, net of distributions, amounting to $977 thousand and $1.5 million for the years ended June 30, 2021 and 2020, respectively, are included in gifts and subsidies on the combined statements of activities. Increase in the value of annuities and split-interest agreements, amounting to $3.5 million and $3.0 million for the years ended June 30, 2021 and 2020, respectively, are included in unrealized gains (losses) on investments on the combined statements of activities.

2. Summary of Significant Accounting Policies (continued)

Board and Administration Designated Net Assets

The Board of Trustees and administration of the University have designated certain net assets without donor restrictions balances at June 30, 2021 and 2020 to be used for operating endowments, instruction, research, student aid, and other areas. Such assets are considered net assets without donor restrictions.

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 net assets without donor restrictions. Restrictions expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. 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.

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported in gifts and subsidies without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported in gifts and subsidies with donor restrictions. The restrictions are considered to be released at the time of acquisition of such long-lived assets. Contributions that are identified to support LLUH-SB's current period activities are recorded as without donor restrictions revenue and support.

Fair Values of Financial Instruments

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

Investments and Investment Income

Pooled investments funds are generally held at fair value. Other investments are generally held at cost. In 2021, investment-related expenses of $10.6 million are charged against investment income of $18.6 million from without donor restrictions and investment income of $21.6 million from with donor restrictions. These amounts are displayed on the combined statements of activities.

2. Summary of Significant Accounting Policies (continued)

In 2020, investment-related expenses of $9.2 million are charged against investment loss of $24.7 million from without donor restrictions and investment income of $20.6 million from with donor restrictions. These amounts are displayed on the combined statements of activities.

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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the University to retain as a fund of perpetual duration. There were no fund deficiencies on June 30, 2021. Deficiencies of $299 thousand were reported in net assets with donor restrictions on June 30, 2020 because the market value of the assets is below cost.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods, 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 Standard & Poor’s 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 7% 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.

2. Summary of Significant Accounting Policies (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of allowing for distributions of up to 5% 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 1% 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.

Endowment

The Board of Trustees of the University interprets UPMIFA to state that the University, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate as 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 net assets with donor restrictions: (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 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 is also classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, 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 effects of inflation and deflation

(5) The expected total return from income and the appreciation of investments

2. Summary of Significant Accounting Policies (continued)

(6) Other resources of the University

(7) The investment policies of the University

Fundraising Activities

The University has included fundraising costs in purchased services on the accompanying combined statements of activities. The University incurred $3.6 million and $4.8 million of fundraising costs in the fiscal years ended June 30, 2021 and 2020, respectively.

Concentration of Credit Risk

The University maintains its cash accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250 thousand. The amounts held in such accounts exceed the FDIC insurance amounts. 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 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.

2. Summary of Significant Accounting Policies (continued)

Accounts receivable from students and patients are reported net of an allowance for doubtful accounts. Management regularly assesses the adequacy of the allowance by performing ongoing evaluations that include considering such factors as the economic environment and the financial condition of specific borrowers.

Use of Estimates

The preparation of combined financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes and supplemental schedules. 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 the functional allocation of expenses.

Income Tax Status

The IRS has ruled that LLU and LLUH-SB qualify under Section 501(c)(3) of the Internal Revenue Code (IRC) and are therefore not subject to income taxes for activities related to their exempt programs. Management is not aware of any event that would cause the University to be disqualified in operation. LLU had no unrecognized tax benefits at June 30, 2021 or 2020. The University files an exempt organization return and an applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

For LLUH-SB, for the years ended June 30, 2021 and 2020, no provision for unrelated business income tax is required. LLUH-SB had no unrecognized tax benefits or liabilities at June 30, 2021 or 2020. 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.

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board, (FASB) issued Accounting Standards Update, (ASU) 2016-02, Leases (Topic 842), which was further modified in ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842) Targeted Improvements, to clarify implementation guidance. The guidance requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The University adopted this ASU as of July 1, 2020. The University elected the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. The University elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of ROU assets. Further, the University elected a short-term lease exception policy, permitting the University not to apply the recognition requirements of this standard to short-term leases. (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. As of the effective date, July 1, 2020, the University recognized total ROU assets of $20.1 million related to operating leases and $1.6 million related to finance leases. The University also recognized total lease liabilities of $20.2 million related to operating leases and $1.6 million related to finance leases. The adoption of this standard did not result in a cumulative adjustment to beginning net assets and did not have a material impact on combined statements of operations and cash flows and did not expected to have an impact on compliance with debt covenants. The adoption of the new accounting standard, Topic 842, is discussed in detail in Note 21 – Leases.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which improves the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The ASU did not materially impact the University's combined financial statements.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in this update help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. The University is evaluating the impact of the guidance, which will be effective in 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosures. The amendments in this update should be applied on a retrospective basis for all periods presented. ASU 2020-07 is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The University is evaluating the impact of the guidance and the effect on its combined financial statements.

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, 2021 and 2020, student loans represented 2.13% and 2.10%, respectively, of total assets.

3. Credit Quality of Student Loans Receivable (continued)

Student loans consist of the following (amounts in thousands):

	June 30	
	2021	**2020**
Federal government programs	**$ 22,563**	$ 20,766
Institutional programs	**20,112**	20,339
	42,675	41,105
Less allowance for doubtful accounts	**(350)**	(373)
Student loans receivable, net	**$ 42,325**	$ 40,732

Funds advanced by the federal government of approximately $22.6 million and $20.8 million at June 30, 2021 and 2020, respectively, are ultimately refundable to the government and are classified as other liabilities on the combined statements of financial position.

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

The following amounts were past due under student loan programs (amounts in thousands):

	1–30 Days	31–60 Days	61–90 Days	91+ Days	Total
June 30, 2021	**$ 15**	**$ 10**	**$ 9**	**$ 6,178**	**$ 6,212**
June 30, 2020	$ 10	$ 46	$ 19	$ 6,292	$ 6,367

4. Pledges Receivable, net

Pledges receivable, net, of estimated uncollectible amounts, are discounted to present value at rates of 0.65% to 3.99%, based on the pledged gift date.

Pledges receivable, net, are as follows (amounts in thousands):

	June 30	
	2021	**2020**
Gross unconditional pledges receivable	**$ 6,513**	$ 8,299
Less allowance for doubtful accounts	**(2,056)**	(2,395)
Less unamortized discounts	**(73)**	(125)
	$ 4,384	$ 5,779
Unconditional promises expected to be collected in:		
Less than one year	**$ 2,040**	$ 1,657
One to five years	**2,344**	4,122
	$ 4,384	$ 5,779

5. Investments, Irrevocable Trusts, and Fair Value Measurements

Investments are pooled together when permitted by gift agreement and applicable government regulations. Pooled investments and allocation of income are accounted for using the unit market method. A portion of the assets held in pooled investments is held for others, with a corresponding liability recorded in the accompanying combined financial statements.

Investment strategies for certain investments include the use of margin and other forms of leverage, including taking short positions, swaps, futures, options, warrants, private placements, forward contracts, trade claims and credit default swaps, and real estate instruments, when deemed appropriate by the fund managers. Other strategies include macroanalysis, merger arbitrage, distressed securities, and special situations.

The University’s policy is to recognize transfers in and transfers out of the pools at the end of the reporting period. This policy includes transfers in and transfers out of Level 1, Level 2, and Level 3. There were no transfers to or from levels during the periods presented.

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

Investments are measured at fair value on the combined 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 without donor restrictions revenue and support unless the income or loss is restricted by donor or law.

U.S. GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

U.S. 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 on the accompanying combined 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, and U.S. government securities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include debt securities on mortgage-backed corporate bonds and commercial real estate. Level 2 securities also include first trust deed (mortgage) loans. No allowance for credit losses was required to be recorded for June 30, 2021 or 2020. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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 whether 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 accounted for at net asset value (NAV) include 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 reported at fair value as of June 30, 2021 and 2020. For most financial assets and financial liabilities, the carrying amount equals fair value. The University has California Education Facilities Authority (CEFA) Revenue Bonds that are reported at an amortized cost of $176.8 million and $180.6 million as of June 30, 2021 and 2020, respectively, on the combined statements of financial position.

Investments in real estate outside of the pool are reported at cost, and those that were contributed are reported at their fair value at the date of the gift, adjusted for impairment if impairment exists. At June 30, 2021, the carrying value of such property was $35.9 million. The investments were not evaluated for impairment, since no impairment indicators were present and, as a result, no fair value was estimated.

Certain notes receivable in investments are reported at cost, including notes to affiliates.

There exists an unfunded commitment to draw down payments of $24.5 million over twelve months for investments in real estate preferred equity.

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

Investments and irrevocable trusts consist of the following (amounts in thousands):

	June 30, 2021				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Investments – redeemable securities					
Equity securities:					
Real estate industry	**$ 5,342**	$ –	$ –	$ –	**$ 5,342**
Oil and gas industry	**9,009**	–	–	–	**9,009**
Domestic	**189,951**	–	–	–	**189,951**
International	**98,697**	–	–	–	**98,697**
Total equity securities	**302,999**	–	–	–	**302,999**
Debt securities:					
U.S. government agencies	**128,982**	**75,840**	–	–	**204,822**
Corporate bonds	**2,882**	**123,471**	–	–	**126,353**
First trust deeds (mortgages)	–	**38,797**	–	–	**38,797**
Total debt securities	**131,864**	**238,108**	–	–	**369,972**
Total redeemable securities	**$ 434,863**	**$ 238,108**	**$** –	**$** –	**$ 672,971**

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

	June 30, 2021				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Investments – nonredeemable securities					
Private equity investments:					
Distressed debt	$ –	$ –	$ –	$ 14,207	$ 14,207
Oil and energy	–	–	–	12,099	12,099
International	–	–	–	23,010	23,010
Domestic capital investments	–	–	–	32,054	32,054
Other	–	–	–	27,399	27,399
Total private equity investments	–	–	–	108,769	108,769
Real estate partnerships	–	–	–	371,095	371,095
Real estate preferred equity	–	96,157	–	–	96,157
Commercial real estate	–	–	21,151	–	21,151
Total nonredeemable securities	–	96,157	21,151	392,245	488,403
Investments at fair value	$ 434,863	$ 334,265	$ 21,151	$ 479,864	
Real estate at carrying value					35,922
Notes receivable at cost					57,352
Income accrual and other					11,286
Total investments					$ 1,374,703

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

	June 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Irrevocable trusts – redeemable securities				
Equity securities:				
Domestic mutual funds	**$ 43,065**	$ –	$ –	**$ 43,065**
Bonds	**31**	–	–	**31**
Stocks	**407**	–	–	**407**
Total equity securities	**43,503**	–	–	**43,503**
U.S. treasury and government money market debt securities	**3,514**	–	–	**3,514**
Total irrevocable trusts – redeemable securities	**47,017**	–	–	**47,017**
Irrevocable trusts – nonredeemable securities				
Commercial real estate	–	**1,147**	–	**1,147**
Payables/others	–	–	**(40)**	**(40)**
Total irrevocable trusts – nonredeemable securities	–	**1,147**	**(40)**	**1,107**
Total irrevocable trusts	**$ 47,017**	**$ 1,147**	**$ (40)**	**$ 48,124**

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

	June 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Investments – redeemable securities					
Equity securities:					
Real estate industry	$ 1,360	$ –	$ –	$ –	$ 1,360
Oil and gas industry	4,068	–	–	–	4,068
Domestic	79,492	–	–	–	79,492
International	22,117	–	–	–	22,117
Total equity securities	107,037	–	–	–	107,037
Debt securities:					
U.S. government agencies	235,190	–	–	–	235,190
Corporate bonds	–	162,545	–	–	162,545
First trust deeds (mortgages)	–	61,310	–	–	61,310
Total debt securities	235,190	223,855	–	–	459,045
Total redeemable securities	$ 342,227	$ 223,855	$ –	$ –	$ 566,082

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

Investments and irrevocable trusts consist of the following (amounts in thousands):

	June 30, 2020				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Investments – nonredeemable securities					
Private equity investments:					
Distressed debt	$ –	$ –	$ –	$ 36,405	$ 36,405
Oil and energy	–	–	–	25,929	25,929
International	–	–	–	30,823	30,823
Domestic capital investments	–	–	–	10,255	10,255
Other	–	–	–	9,560	9,560
Total private equity investments	–	–	–	112,972	112,972
Real estate partnerships	–	–	–	362,966	362,966
Real estate preferred equity	–	60,774	–	–	60,774
Commercial real estate	–	–	21,000	–	21,000
Total nonredeemable securities	–	60,774	21,000	362,966	444,740
Investments at fair value	$ 342,227	$ 284,629	$ 21,000	$ 475,938	
Real estate at carrying value					35,269
Notes receivable at cost					59,267
Income accrual and other					2,757
Total investments					$ 1,221,087

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

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Irrevocable trusts – redeemable securities				
Equity securities:				
Domestic mutual funds	$ 37,786	$ –	$ –	$ 37,786
Bonds	42	–	–	42
Stocks	407	–	–	407
Total equity securities	38,235	–	–	38,235
U.S. treasury and government money market debt securities	2,757	–	–	2,757
Total irrevocable trusts – redeemable securities	40,992	–	–	40,992
Irrevocable trusts – nonredeemable securities				
Commercial real estate	–	1,139	–	1,139
Total irrevocable trusts – nonredeemable securities	–	1,139	–	1,139
Total irrevocable trusts	$ 40,992	$ 1,139	$ –	$ 42,131

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

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 not to be representative of fair value as of the measurement date, the University will utilize the supplemental information provided by the external advisor, along with any relevant data to measure the investment's fair value as of that date. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2021, to be over the next 5 to 20 years.

Fair value measurements of investments in certain entities that calculate NAV per share (or its equivalent) are as follows (amounts in thousands):

	Fair Value at June 30, 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity:[a]				
Distressed debt	**$ 14,207**	**$ 1,841**	Nonredeemable	None
Oil and energy	**12,099**	**5,085**	Nonredeemable	None
International	**23,010**	**3,327**	Nonredeemable	None
Domestic capital investments	**32,054**	**10,739**	Nonredeemable	None
Alternative strategies	**27,399**	**–**	Nonredeemable	None
Real estate partnership[b]	**371,095**	**3,544**	Nonredeemable	None
Totals	**$ 479,864**	**$ 24,536**		

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

	Fair Value at June 30, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity:[a]				
Distressed debt	$ 36,405	$ 5,523	Nonredeemable	None
Oil and energy	25,929	5,157	Nonredeemable	None
International	30,823	5,854	Nonredeemable	None
Domestic capital investments	10,255	5,332	Nonredeemable	None
Alternative strategies	9,560	–	Nonredeemable	None
Real estate partnership[b]	362,966	93	Nonredeemable	None
Totals	$ 475,938	$ 21,959		

[a]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.

[b]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.

6. Property, Plant, and Equipment, Net

Property, plant, and equipment consist of the following (amounts in thousands):

	June 30	
	2021	**2020**
Land improvements	**$ 40,518**	$ 39,457
Vehicles	**1,660**	1,658
Equipment	**133,832**	134,772
Buildings and improvements	**513,616**	519,542
Cost of plant and equipment	**689,626**	695,429
Less accumulated depreciation	**(386,797)**	(371,511)
Net depreciable plant and equipment	**302,829**	323,918
Land	**32,246**	31,800
Construction-in-progress	**4,954**	2,101
Property, plant and equipment, net	**$ 340,029**	$ 357,819

The University has various construction-in-progress projects open as of June 30, 2021 and 2020 for the construction of facilities and other improvements. Capitalized interest totaled $6.9 million and $6.8 million for the years ended June 30, 2021 and 2020, respectively.

7. Net Investment in Direct Financing Lease

Net investment in direct financing lease consists of the following (amounts in thousands):

	June 30	
	2021	**2020**
Gross investment	**$ 6,035**	$ 6,035
Less unearned income and deferred rent	**(3,739)**	(3,926)
Net investment in direct financing lease	**$ 2,296**	$ 2,109
Estimated unguaranteed residual value	**$ 735**	$ 735

7. Net Investment in Direct Financing Lease (continued)

The estimated unguaranteed residual value represents the estimated amount to be received at lease termination from the disposition or re-lease of equipment under leases not classified as operating leases and in which the University has an ongoing economic interest, discounted using the internal rate of return related to each specific direct financing lease. Actual results may differ from estimated amounts.

As a condition of the financing arrangements, customers are required to maintain insurance on the underlying collateral. These credit policies and procedures enable the University to monitor and control its risks and exposures on the lease receivables. At June 30, 2021 and 2020, there were no nonaccrual leases. For the adoption of the new accounting standard in 2021, see Note 21 – Leases.

8. Trusts

Revocable Trust Agreements

At June 30, 2021 and 2020, the University held, as trustee, a total of 11 revocable trust agreements, of which the University has a significant beneficial interest. These trust agreements had total assets amounting to $4.1 million and $4.5 million in 2021 and 2020, respectively and revocable assets totaling $4.0 million and $1.7 million in 2021 and 2020. The University's policy is to recognize as contributions revenue the trust gift when the agreement becomes irrevocable.

Other Unrecorded Trusts

The University has a 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 they will not be reflected in the combined financial statements until such gifts are received by the University.

9. Debt

Debt consists of the following (amounts in thousands):

	June 30	
	2021	**2020**
CEFA Revenue Bonds, Series 2017A	**$ 129,860**	$ 130,905
CEFA Revenue Bonds, Series 2017B	**34,785**	37,010
Secured note to bank at 4.50%, principal and interest monthly, matures February 17, 2030	**13,187**	14,376
Secured note to bank at 4.25%, principal and interest monthly, matures February 7, 2032	**450**	483
Secured note to bank at 4.25%, principal and interest monthly, matures February 7, 2032	**598**	641
Secured note to bank at fixed rate of 4.50%, principal and interest monthly, matures January 15, 2035	**1,245**	1,287
Secured notes to individuals at fixed interest rate of 7.50%, principal and interest monthly, mature in 2033 and upon the death of individuals	**1,372**	1,444
Line of credit at LIBOR plus 1.50%, interest monthly, collateralized by marketable securities	**20,000**	20,000
Line of credit at LIBOR plus 0.90%, interest monthly, collateralized by marketable securities	**15,500**	8,000
Notes to bank at 1.00%, interest monthly, mature January 29, 2045	**9,800**	9,800
Notes to bank at 1.00%, interest monthly, mature June 1, 2045	**8,160**	8,160
Notes to bank at 1.00%, interest monthly, mature August 21, 2045	**11,000**	11,000
Total outstanding debt	**245,957**	243,106
Capitalized finance costs, net of accumulated amortization	**(3,180)**	(3,349)
CEFA Revenue Bonds, Series 2017A Premium, net of accumulated amortization	**12,213**	12,688
Total debt, net	**$ 254,990**	$ 252,445

9. Debt (continued)

Aggregate principal maturities of debt for the years ending June 30 are as follows (amounts in thousands):

2022	$	6,049
2023		6,186
2024		6,408
2025		6,652
2026		6,754
2027 and thereafter		213,908
	$	245,957

Interest related to the debt was $9.7 million and $9.1 million for the years ended June 30, 2021 and 2020, respectively.

The University has a $20.0 million unsecured line of credit with a financial institution, with interest at the London Interbank Offered Rate (LIBOR) plus 1.50%, which was approximately 1.60% and 1.66% at June 30, 2021 and 2020. The loan balance was $20.0 million and $20.0 million as of June 30, 2021 and 2020, respectively. As part of the unsecured line of credit agreement, the University is required to meet certain financial and nonfinancial covenants. The University was in compliance with all such financial covenants in 2021. In 2020, the University obtained a waiver from the bank for these requirements. The line of credit expires on April 13, 2022.

The University has received a secured commercial loan from a financial institution at a fixed rate of 4.50%, payable in 15 years beginning February 24, 2015 until February 17, 2030. The balance of the loan is $13.2 million and $14.4 million as of June 30, 2021 and 2020, respectively. The University was in compliance with the financial covenants in 2021. In 2020, the University obtained a waiver from the bank for the reporting requirements.

Secured loans from private individuals were also obtained by the University at a fixed interest rate of 7.50% payable in 25 years. The loans will mature in 2033 or upon the death of the private individuals. The loan balance is $1.3 million and $1.4 million as of June 30, 2021 and 2020, respectively.

9. Debt (continued)

The University has obtained two secured commercial loans from a financial institution, which were executed on February 7, 2017, at a fixed rate of 4.25% for both loans. The loans are payable in 15 years beginning on February 7, 2018 and maturing on February 7, 2032. The loan balances as of June 30, 2021 and 2020 are $450 thousand and $483 thousand and $598 thousand and $641 thousand, respectively.

The three notes to a bank at 1.00% are New Market Tax Credit loans with an aggregate balance of $28.9 million as of June 30, 2021 and 2020, which qualify as qualified loan-income community investments under Section 45D of the IRC. 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, 2021 or 2020. The loans are unsecured. LLUH-SB was in compliance with financial covenants in 2021 and 2020.

The CEFA 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, authorized the University to issue the CEFA Revenue Bonds Series 2017A and 2017B on March 1, 2017.

The University has obtained CEFA Revenue Bonds Series 2017A in the amount of $134.9 million, payable in 30 years beginning April 1, 2017 until April 1, 2047, at a fixed rate of 5.00% per annum and the CEFA Revenue Bond Series 2017B in the amount of $43.4 million payable, in 15 years beginning April 1, 2018 until April 1, 2033, at a rate starting at 1.97% in the first year to a maximum of 4.75% at maturity. The outstanding loan balance is $164.6 million and $167.9 million as of June 30, 2021 and 2020, respectively. In 2020 and 2021, the University was in compliance with all financial covenants under the CEFA loan agreement.

On July 23, 2018, the University obtained a $40.0 million line of credit from a financial institution, which had loan balances of $15.5 million and $8.0 million as of June 30, 2021 and 2020, respectively. The line of credit expires on July 19, 2022.

9. Debt (continued)

Prepayments

The University may at any time prepay all or any part of the base loan payments due on the CEFA bonds. 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 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 by the University prior to their stated maturities pursuant to 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 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 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 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 their stated maturity pursuant to the agreement at the principal amount thereof plus accrued interest, if any, to the date of redemption.

9. Debt (continued)

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 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).

10. Deferred Compensation

The University maintains a nonqualified deferred compensation plan for the benefit of certain doctors associated with various medical groups. The plan is an unsecured promise to pay income in the future. As of June 30, 2021 and 2020, the plan liabilities totaled $328 thousand and $586 thousand, respectively. The assets are included in inventories, prepaid expenses, and other assets and the liabilities are included in accounts payable and accrued expenses on the accompanying combined statements of financial position.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes (amounts in thousands):

	June 30	
	2021	**2020**
Restricted for specific purposes	**$ 217,603**	$ 192,302
Student loans and scholarships	**45,148**	46,906
Endowment	**356,249**	294,592
Annuity and life income agreements	**36,996**	32,338
	$ 655,996	$ 566,138

12. 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 California UPMIFA. While certain funds have been established by the Board of Trustees to function as endowment, any portion of such funds may be expended.

12. Endowment (continued)

Changes in the University's endowment, excluding trusts with donor restrictions, were as follows (amounts in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total 2021
Investment returns:			
Investment income from pooled funds	$ 8,181	$ 16,790	$ 24,971
Net amount appropriated for operation	8,181	16,790	24,971
Change in realized/unrealized net appreciation of investments	–	34,241	34,241
Net return in pooled investment fund	8,181	51,031	59,212
Total net investment returns			
Other changes in endowed equity:			
Gifts	1,989	10,795	12,784
Transfers	–	(169)	(169)
Net change in endowed equity	10,170	61,657	71,827
Endowed equity, beginning of year	134,385	294,592	428,977
Endowed equity, end of year	$ 144,555	$ 356,249	$ 500,804

12. Endowment (continued)

	Without Donor Restrictions	With Donor Restrictions	Total 2020
Investment returns:			
Investment income from pooled funds	$ 73,830	$ 2,413	$ 76,243
Net amount appropriated for operation	73,830	2,413	76,243
Change in realized/unrealized net appreciation of investments	–	(62,116)	(62,116)
Net return in pooled investment fund	73,830	(59,703)	14,127
Total net investment returns	73,830	(59,703)	14,127
Other changes in endowed equity:			
Gifts	148	6,938	7,086
Net change in endowed equity	73,978	(52,765)	21,213
Endowed equity, beginning of year	60,407	347,357	407,764
Endowed equity, end of year	$ 134,385	$ 294,592	$ 428,977

The endowment net asset composition excludes trusts with donor restrictions and consists of the following (amounts in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total 2021
Investments	**$ 144,555**	**$ 356,249**	**$ 500,804**
Total endowed equity	**$ 144,555**	**$ 356,249**	**$ 500,804**

	Without Donor Restrictions	With Donor Restrictions	Total 2020
Investments	$ 134,385	$ 294,592	$ 428,977
Total endowed equity	$ 134,385	$ 294,592	$ 428,977

12. Endowment (continued)

The endowment net asset composition by type of fund consists of the following (amounts in thousands):

	June 30	
	2021	**2020**
Total without donor restrictions endowment (board designated)	**$ 144,555**	$ 134,385
With donor restrictions endowment:		
Restricted in perpetuity	**288,460**	242,109
Restricted by purpose or time	**67,789**	52,483
Total endowment (excluding trusts with donor restrictions)	**$ 500,804**	$ 428,977

13. Liquidity and Availability

The University's financial assets available within one year of the combined statement of financial position date to meet general expenditures are as follows (amounts in thousands):

	June 30	
	2021	**2020**
Financial assets:		
Cash and cash equivalents	**$ 13,240**	$ 18,689
Accounts receivable, net	**40,419**	57,244
Pledges receivable, net	**2,040**	1,657
Investments	**672,971**	566,082
Total financial assets available within one year	**728,670**	643,672
Liquidity resources:		
Bank lines of credit available for operations	**24,500**	32,000
Total financial assets and liquidity resources available within one year	**$ 753,170**	$ 675,672

14. Revenue From Contracts

Revenue from contracts with customers comprises revenue from lessees for building space and for common area maintenance (CAM). For the purposes of reporting on revenue from contracts with customers under U.S. GAAP, LLUH-SB refers to customers as lessees. Transaction prices are based on the executed lease agreement. Revenue is recognized evenly over the term specified in the building lease agreement. The performance obligation is to provide the building space in return for payment from the lessee. The CAM fee revenue is recorded in sales and service income on the combined statements of financial activities.

15. Functional Expenses

Each functional classification displays all expenses related to the underlying operations by natural classification. The University tracks costs by department and division and, therefore, allocated costs attributable to providing student services, research, auxiliary activities and support services accordingly.

Expenses by function were as follows for the year ended June 30, 2021 (amounts in thousands):

	Student Services	Research	Auxiliary Activities	Support Services	Total
Salaries and benefits	**$ 131,605**	**$ 314**	**$ 8,047**	**$ 12,964**	**$ 152,930**
Plant repairs and replacements	**3,328**	**2**	**(4,250)**	**7,746**	**6,826**
Supplies and printing services	**17,105**	**262**	**1,608**	**893**	**19,868**
Professional development and training	**2,409**	**291**	**(358)**	**447**	**2,789**
Travel and entertainment	**912**	**–**	**1**	**28**	**941**
Purchased services	**17,437**	**362**	**6,424**	**24,564**	**48,787**
Cost of goods sold	**764**	**–**	**22**	**1**	**787**
Technology and telecommunications	**2,840**	**1**	**133**	**1,905**	**4,879**
Utilities	**123**	**–**	**13,408**	**1,151**	**14,682**
General expenses	**15,529**	**(1,554)**	**461**	**17,809**	**32,245**
Interest and taxes	**6**	**(4)**	**1,187**	**11,286**	**12,475**
Depreciation and amortization	**771**	**2**	**2,480**	**20,304**	**23,557**
Total expenses	**$ 192,829**	**$ (324)**	**$ 29,163**	**$ 99,098**	**$ 320,766**

15. Functional Expenses (continued)

Expenses by function were as follows for the year ended June 30, 2020 (amounts in thousands):

	Student Services	Research	Auxiliary Activities	Support Services	Total
Salaries and benefits	$ 135,653	$ 381	$ 9,746	$ 16,526	$ 162,306
Plant repairs and replacements	801	1	4,016	645	5,463
Supplies and printing services	18,164	(99)	2,711	1,419	22,195
Professional development and training	1,690	179	(190)	737	2,416
Travel and entertainment	2,678	6	14	165	2,863
Purchased services	17,204	1,552	7,513	25,690	51,959
Cost of goods sold	724	1	160	–	885
Technology and telecommunications	2,901	–	215	2,137	5,253
Utilities	44	–	9,405	1,025	10,474
General expenses	18,392	(2,567)	(8,243)	32,539	40,121
Interest and taxes	9	–	1,195	10,513	11,717
Depreciation and amortization	781	2	2,095	20,404	23,282
Total expenses	$ 199,041	$ (544)	$ 28,637	$ 111,800	$ 338,934

16. 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). Revenue received from the GC in gifts and subsidies without donor restrictions for the years ended June 30, 2021 and 2020 was $7.6 million and $7.8 million, respectively.

Revenue transactions occurring between the University and various affiliated organizations consist of various service-related items, including pharmacy and clinical services, audiovisual services, cafeteria, and rent, are recorded under sales and service income, and clinic and auxiliary income on the combined statements of activities. These are summarized as follows (amounts in thousands):

	Year Ended June 30	
	2021	**2020**
LLUMC and affiliates	**$ 20,216**	$ 17,519
Loma Linda University Shared Services (LLUSS)	**3,959**	6,303
Loma Linda University Health Care (LLUHC)	**1,162**	570
Loma Linda Inland Empire Consortium for Healthcare Education (LLIECHE)	**451**	688
LLUH	**14**	(4)
Related faculty medical groups	**236**	345
	$ 26,038	$ 25,421

16. Related-Party Transactions (continued)

Expenses to LLUMC consist primarily of various service-related items, including pharmacy and clinical services, audiovisual services, cafeteria, and rent. Expenses paid to LLUHC consist primarily of medical director fees and rent. Expenses paid to LLUH are primarily composed of management fees and legal fees. Expenses paid to LLUSS are composed of shared services provided to the core entities within LLUH, including human resources management, payroll, financial services, supply chain, advancement, security, telecommunications, construction, dispatch, mail services, and grants management, as well as other support services. In total, approximately 50 departments are supported by LLUSS. Expenses paid to LLIECHE include purchased labor for medical residents. Expenses paid to related faculty medical groups include medical director fees, resident director fees, and fees paid to service chiefs. Expense transactions occurring between LLU and various affiliated organizations are summarized as follows (amounts in thousands):

	Year Ended June 30	
	2021	**2020**
LLUMC and affiliates	**$ 5,831**	$ 5,197
LLUSS	**26,383**	25,326
LLUHC	**258**	420
LLIECHE	**736**	162
LLUH	**2,807**	3,309
Related faculty medical groups	**10,986**	7,624
	$ 47,001	$ 42,038

17. Retirement Plans

Defined Benefit Plans

The University participates in a noncontributory multiple-employer 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.

17. Retirement Plans (continued)

The University also participates in a noncontributory multiple-employer 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 $4.6 million and $3.8 million to these plans (for retiree pension and retiree health care benefits) for the years ended June 30, 2021 and 2020, 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.

Defined Contribution Plan

The University participates in a multiple-employer defined contribution retirement plan known as The Adventist Retirement Plan (ARP). 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 $3.7 million for the years ended June 30, 2021 and 2020, respectively.

17. Retirement Plans (continued)

Effective January 1, 2021, the University transitioned from ARP to the Adventist Healthcare Retirement Plan (AHRP), which is a common retirement plan platform for all LLUH entities. This transition not only aligns retirement plan vendors, but also aligns retirement plan benefits within LLUH. The current AHRP plan design includes a 3% annual basic employer contribution, as well as a bi-weekly employer matching contribution. Under this plan, the University employer matching benefit changed to 50% of the first 6% on an employee's contribution (3% maximum matching contribution). Although AHRP currently has a three-year cliff vesting schedule, current University employees are immediately vested for employer contributions under AHRP, regardless of their employment duration at the time of transition.

Faculty members do 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. 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 preretirement survivor death benefits are also provided. Charges to funds without donor restrictions for the University's share of costs were $4.3 million and $4.3 million during the years ended June 30, 2021 and 2020, respectively.

18. Self-Insurance Plans

The University is covered by programs of self-insurance administered by the Risk Management Department of LLUH (Risk Management) for employee and student health care, auto physical damage, unemployment benefits, and workers' compensation benefits. For the employee health care program, the University's risk is pooled with LLUMC, LLUH, LLUSS, Loma Linda University Health Education Consortium (LLUHEC) (which provides graduate medical education), LLUHC and Loma Linda University Faculty Medical Group. The University bears the risk of loss for the employee health risk pool.

The University is also covered by the LLUH Professional and General Liability Trust administered by Risk Management (the Trust) for professional and general liability claims. The Trust is a pooling risk among the participants, which includes all of the core organizations described in Note 1.

18. Self-Insurance Plans (continued)

The University self-insures for workers' compensation and unemployment claims, covering benefits to employees as required under applicable federal and state laws. The University maintains insurance to cover workers' compensation claims in excess of $300 thousand. The gross accrual for workers' compensation claims totaled $339 thousand and $548 thousand at June 30, 2021 and 2020, respectively.

For professional and general liability exposures, the University is covered up to $6.0 million per claim by the Trust's assets. Risk Management has purchased additional insurance through University Insurance Company of Vermont (UICV), which is wholly owned by LLUH, to cover claim limits of $20.0 million in excess of $6.0 million for LLUH and its affiliated entities. Professional and general liability coverages written by UICV are 75% reinsured through Chubb. Risk Management has purchased additional insurance from commercial insurance carriers to cover claims in excess of $26.0 million and up to $226.0 million per claim and in the aggregate.

The University is required to deposit contributions with the Trust annually to fund the independent actuarial projections of future liabilities for the professional and general liability self-insurance program. In 2021 and 2020, the University deposited contributions of $28.9 million and $30.3 million, respectively, to fund its share of actuarial projections of future liabilities (included in general expenses). The funds paid to Risk Management for general and professional liability insurance coverage are not refundable.

19. 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 are restricted for educational purposes and are 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.

20. Commitments and Contingencies

The University has guaranteed to the state of California the payment of all workers' compensation liabilities of LLUMC, LLUBMC, LLUCH, LLUSS and Faculty Practice Groups. For 2021 and 2020, the total current funding of all these groups exceeds the estimated future liability.

20. Commitments and Contingencies (continued)

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 combined financial position, change in net assets, or cash flows.

21. Leases

Operating and finance lease liabilities are recognized at lease commencement based on the present value of the fixed lease payments using the University's incremental borrowing rate (IBR) at commencement. The University has elected to utilize the risk-free rate instead of the IBR as permitted by the standard for non-public entities. Related operating and finance lease ROU (right-of-use) assets are recognized based on the initial present value of the fixed lease payments, reduced by cash payments received from the landlords as lease incentives, plus any prepaid rent and other direct costs from executing the leases. Amortization of operating lease ROU assets is recorded as part of rent expense in facility costs and amortization of finance lease assets is recorded as part of depreciation and amortization on the combined statements of operations.

The financing component of the amortization of the finance lease liabilities is recorded within interest expense on the combined statements of operations. ROU assets are tested for impairment in the same manner as long-lived assets. Leases with an initial term of 12 months or less are not recorded on the combined statements of financial position; the University recognizes lease expense for these leases on a straight-line basis over the lease term. Variable lease payments are recognized as lease expense as they are incurred. Options to extend are recognized as part of the ROU asset and liability based on management's intent to exercise. The University determined that a contract contains a lease when it conveys the right to control an identified asset for a period of time in exchange for consideration.

As of the effective date of ASC 842 on July 1, 2020, the University recognized total ROU operating assets of $20.1 million, of which $11.7 million were with related parties. The University also recognized total operating lease liabilities, of $20.2 million of which $11.6 million were with related parties. ROU operating and finance lease assets and liabilities are noted separately on the combined statements of financial position. Finance ROU assets are also stated separately on the combined balance sheet whereas previously they were recorded with property and equipment.

21. Leases (continued)

ROU assets and lease liabilities as of June 30, 2021 consist of the following (amounts in thousands):

Assets		
Operating lease right-of-use assets	$	18,287
Finance lease right-of-use assets		1,401
Total lease assets	$	19,688
Liabilities		
Total finance lease liabilities	$	1,435
Total operating lease liabilities		18,409
Total lease liabilities	$	19,844

Total lease costs for the twelve months ended June 30, 2021 were as follows (amounts in thousands):

Finance lease costs		
Amortization of ROU assets	$	679
Interest on lease liabilities		26
Total finance lease cost	$	705
Operating lease cost	$	2,047
Variable lease cost		–
Total operating lease cost	$	2,047

21. Leases (continued)

Future lease payments as of June 30, 2021 are as follows (amounts in thousands):

	Operating Leases	Finance Leases
2022	$ 2,130	$ 471
2023	2,149	471
2024	2,051	471
2025	1,901	174
2026	1,233	–
Thereafter	10,340	–
Total	19,804	1,587
Less: Imputed interest	(1,395)	(152)
Present value of net lease payments	$ 18,409	$ 1,435

The following table includes supplemental lease information as of June 30, 2021:

Weighted average remaining lease term as of June 30, 2021 (in years):	
Operating leases	14.05
Finance leases	3.37
Weighted average discount rate as of June 30, 2021:	
Operating leases	0.96%
Finance leases	2.21%

Most operating leases consist of rental of buildings and space occupied by LLU, the majority of which are with other LLUH related parties. Intracompany leases among the University's divisions are recorded and then eliminated in the combined statements of financial position. The finance leases comprised of equipment used for the dental school and printing services.

LLUH-SB leases space to a community health clinic under a noncancelable 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 the lease agreement includes two options to extend for an additional five years.

21. Leases (continued)

Future minimum cash rentals to be collected from leases with an unrelated tenant for the years ending June 30 are as follows (amounts in thousands):

2022	$ 3,890
2023	3,890
2024	3,890
2025	3,890
2026	3,890
Thereafter	38,777
	$ 58,227

In addition to the minimum lease payments above, the University receives payments related to operating expenses necessary to operate the building, including maintenance, property taxes, and insurance. These amounts are not included as minimum lease payments, as the payment due is based on actual expenses incurred by the organization. During 2021, $1.3 million was recorded as revenue for CAM from the nonaffiliated tenant, which was included within rental income on the combined statements of activities.

22. U.S. Department of Education Title IV Supplemental Disclosure

During September 2019, the DOE issued regulations, effective for audit reporting filed after July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV regulations. The University implemented the disclosures as of July 1, 2019. The financial information as of and for the year ended June 30, 2021 is as follows:

	2021	**2020**
Pre-implementation debt:		
Ending balance of last financial statements	**$ 254,990**	$ 252,445
Post-implementation line of credit	**(35,500)**	(28,000)
Post-implementation debt	**(12,213)**	(12,688)
Balance pre-implementation debt	**$ 207,277**	$ 211,757

23. Financially Interrelated Foundation

During the year ended June 30, 2020 Loma Linda University contributed $15.0 million to a financially interrelated foundation (the Foundation) which has as its sole and specific purpose to provide tuition support for a cadre of students in each entering class of Loma Linda University School of Medicine, no variance power was granted to the foundation.

LLU does not control the Foundation and as such does not consolidate it in its combined financial statements. However, LLU and the foundation are financially interrelated organizations as defined under the FASB ASC 958, *Not-for-Profit Entities*. As the specified beneficiary, LLU reports its interest in the net assets of the foundation in its combined statements of financial position. LLU also adjusts its interest for its share of the change in the net assets of the foundation which is shown as a component of revenue and support on the combined statements of activities.

During the year ended June 30, 2021, LLU recognized $6.5 million, representing its share of the change in the net assets of the foundation and an interest in the net asset of the foundation of $37.9 million on the combined statement of financial position at June 30, 2021, of which $23.0 million is considered to be an asset with donor restriction. During the year ended June 2021 the foundation distributed $1.3 million to a select group of students for their tuition in the Loma Linda University School of Medicine. This distribution was shown as a component of net assets released from restriction on the combined statements of activities, as the restrictions on these assets has been released.

24. COVID-19 Pandemic and Impact of CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, and included, among other provisions, budgetary relief to higher educational institutions. The CARES Act Higher Education Emergency Relief Funds (HEERF) provided funding from ED to higher educational institutions to support financial aid grants to students and lost revenue attributable to COVID-19. HEERF is not required to be repaid, provided that the University attests to and complies with certain terms and conditions. On January 17, 2021 under the Consolidated Appropriations Act – HEERF II and, on May 15, 2021 under the American Rescue Plan Act – HEERF III, the University was awarded $4.8 million in total, including the prior year's HEERF. The University received a total amount of $1.8 million for the student

24. COVID-19 Pandemic and Impact of CARES Act (continued)

assistance portion and $1.4 million for the institutional portion in 2021. These funds are included on the combined statement of activities for the year ended June 30, 2021, as sponsored support revenue. The University also recognized $1.8 million as a general expense for the distribution of the student assistance funds received.

On July 7, 2020, the University received a $2.8 million stimulus payment from the Department of Health and Human Services (HHS), which equates the dental clinic's lost revenues for the months of March and April 2020 as reported on the grant application. This stimulus payment has been recorded in fiscal year 2021, based on the dates the funds were received, as contract revenue under sales and service income.

On April 27, 2021, the University received $686 thousand from U.S. Department of Homeland Security – Federal Emergency Management Agency (FEMA) to support the vaccination program. The total amount awarded was $1.5 million from January 1, 2021 through May 31, 2021. This program is on a cost reimbursement basis based on allowable costs within the agreement. As such, only the amount received has been recorded in fiscal year 2021, as sponsored support revenue.

The University will continue to monitor compliance with the terms and conditions of all federal awards and the impact of the pandemic on revenues and expenses. If it is determined that the University is unable to attest to or comply with current or future terms and conditions, the University's ability to retain some or all of the distribution received may be impacted.

Management believes the extent of the COVID-19 pandemic's adverse impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond management's control and ability to forecast.

The COVID-19 pandemic did not have a material effect on the University's liquidity as of June 30, 2021. See Note 13 – Liquidity and Availability.

25. Subsequent Events

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

The University has evaluated subsequent events through November 11, 2021, which is the date the accompanying combined financial statements are available for issuance.

Supplemental Schedules

Loma Linda University and LLUH-SB, Inc.

Combining Statement of Financial Position

June 30, 2021

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
Assets					
Cash and cash equivalents	$ 12,185	$ 1,055	$ –	$ –	$ 13,240
Restricted cash	–	–	318	–	318
Accounts receivable, net	31,712	8,636	899	(828)	40,419
Student loans receivable, net	42,325	–	–	–	42,325
Pledges receivable, net	944	3,440	–	–	4,384
Deferred rent	–	–	4,004	–	4,004
Investments	28,476	1,374,703	–	(28,476)	1,374,703
Irrevocable trusts	–	48,124	–	–	48,124
Investment in net assets of the foundation	37,930	–	–	–	37,930
Due from interdivision	45,513	35,123	–	(80,636)	–
Advances to related parties	40,485	6,125	–	–	46,610
Inventories, prepaid expenses, and other assets	8,092	5,022	–	58	13,172
Net investment in direct financing lease	–	–	2,296	–	2,296
Property, plant, and equipment, net	239,352	44,365	56,312	–	340,029
Finance right-of-use asset, net	1,401	–	–	–	1,401
Operating right-of-use asset, net	38,166	654	–	(20,533)	18,287
Total assets	$ 526,581	$ 1,527,247	$ 63,829	$ (130,415)	$ 1,987,242

Loma Linda University and LLUH-SB, Inc.

Combining Statement of Financial Position (continued)

	Educational Division	Foundation	LLUH-SB	Eliminations	Total
Liabilities and net assets					
Liabilities:					
Accounts payable and accrued expenses	$ 51,723	$ 1,290	$ 174	$ (13,362)	$ 39,825
Deferred revenue	39,106	–	–	–	39,106
Investments held on behalf of others	–	686,928	–	–	686,928
Liabilities due under annuity and split-interest agreements	–	24,800	–	–	24,800
Due to interdivision	35,123	73,931	–	(109,054)	–
Advances from related parties	32,328	11,200	3,616	–	47,144
Advances from affiliate	(16,606)	–	3,244	13,362	–
Debt, net	210,712	16,470	27,808	–	254,990
Finance lease liability	1,435	–	–	–	1,435
Operating lease liability	38,793	680	–	(21,064)	18,409
Other liabilities	29,093	1,827	–	–	30,920
Total liabilities	421,707	817,126	34,842	(130,118)	1,143,557
Net assets:					
Without donor restrictions	(45,695)	204,694	28,987	(297)	187,689
With donor restrictions	150,569	505,427	–	–	655,996
Total net assets	104,874	710,121	28,987	(297)	843,685
Total liabilities and net assets	$ 526,581	$ 1,527,247	$ 63,829	$ (130,415)	$ 1,987,242

Loma Linda University and LLUH-SB, Inc.

Combining Statement of Activities

Year Ended June 30, 2021

	Educational Division			Foundation Division			LLUH-SB				
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Eliminations**	**All Divisions Total**
Revenue and support:											
Net tuition and fees	$ 168,839	$ –	$ 168,839	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 168,839
Gifts and subsidies	8,349	602	8,951	3,165	22,379	25,544	42	–	42	(42)	34,495
Sponsored support	22,674	1,396	24,070	–	–	–	–	–	–	(828)	23,242
Investment income	1,808	267	2,075	16,557	21,375	37,932	397	–	397	–	40,404
Sales and service income	21,576	2,344	23,920	9,457	–	9,457	6,721	–	6,721	(2,228)	37,870
Clinic and auxiliary income	38,732	–	38,732	–	–	–	–	–	–	–	38,732
Student loan interest and other	3,508	–	3,508	–	–	–	–	–	–	–	3,508
Change in interest in assets of the Foundation	–	6,469	6,469	–	–	–	–	–	–	–	6,469
Net assets released from restriction	10,470	(4,971)	5,499	2,942	(8,441)	(5,499)	–	–	–	–	–
Total revenue and support	275,956	6,107	282,063	32,121	35,313	67,434	7,160	–	7,160	(3,098)	353,559
Operating expenses:											
Salaries and benefits	152,923	–	152,923	7	–	7	42	–	42	(42)	152,930
Plant repairs and replacements	4,220	–	4,220	2,312	–	2,312	294	–	294	–	6,826
Supplies and printing services	19,789	–	19,789	69	–	69	10	–	10	–	19,868
Professional development and training	2,789	–	2,789	–	–	–	–	–	–	–	2,789
Travel and entertainment	941	–	941	–	–	–	–	–	–	–	941
Purchased services	45,676	–	45,676	2,374	–	2,374	737	–	737	–	48,787
Cost of goods sold	787	–	787	–	–	–	–	–	–	–	787
Technology and telecommunications	4,846	–	4,846	33	–	33	–	–	–	–	4,879
Utilities	12,886	–	12,886	938	–	938	858	–	858	–	14,682
General expenses	27,544	–	27,544	6,776	–	6,776	684	–	684	(2,759)	32,245
Interest and taxes	10,608	–	10,608	1,489	–	1,489	378	–	378	–	12,475
Depreciation and amortization	20,493	–	20,493	1,471	–	1,471	1,593	–	1,593	–	23,557
Total operating expenses	303,502	–	303,502	15,469	–	15,469	4,596	–	4,596	(2,801)	320,766
Change in net assets from operating activities	(27,546)	6,107	(21,439)	16,652	35,313	51,965	2,564	–	2,564	(297)	32,793
Transfer from (to) interdivisions	8,062	–	8,062	(8,062)	–	(8,062)	–	–	–	–	–
Transfer from affiliates	775	–	775	–	–	–	–	–	–	–	775
Derecognize build to suit	7,419	–	7,419	–	–	–	–	–	–	(7,419)	–
Unrealized gains on investments	–	–	–	7,324	48,438	55,762	–	–	–	–	55,762
Change in net assets	(11,290)	6,107	(5,183)	15,914	83,751	99,665	2,564	–	2,564	(7,716)	89,330
Net assets, beginning of year	(34,405)	144,462	110,057	188,780	421,676	610,456	26,423	–	26,423	7,419	754,355
Net assets, end of year	$ (45,695)	$ 150,569	$ 104,874	$ 204,694	$ 505,427	$ 710,121	$ 28,987	$ –	$ 28,987	$ (297)	$ 843,685

Loma Linda University and LLUH-SB, Inc.

Financial Responsibility Supplemental Schedule
Required by the United States Department of Education

June 30, 2021
(Amounts are presented in thousands)

Location in Combined Financial Statements or Related Notes	Financial Element	GAAP Financial Statement Line Item or Disclosure
Primary reserve ratio: expendable net assets		
Combined statement of financial position	Net assets without donor restrictions	$ 187,689
Combined statement of financial position	Net assets with donor restrictions	655,996
Combined statement of financial position	Unsecured related-party receivable	(46,610)
Combined statement of financial position	Total land, buildings, and equipment, net (includes construction progress)	340,029
Note 6, Property, Plant, and Equipment, Net	Construction-in-progress post-implementation without long-term related debt	4,954
Note 21, Leases	Lease right-of-use asset, net total	19,688
N/A	Lease right-of-use asset, net, pre-implementation	–
Note 21, Leases	Lease right-of-use asset, net, post-implementation	19,688
N/A	Intangible assets	–
N/A	Post-employment and pension liabilities	–
Combined statement of financial position	Long-term debt – for long-term purposes – bonds and notes payable, net	254,990
N/A	Long-term debt – for long-term purposes – capital lease liability	–
Note 22, U.S. Department of Education Title IV Supplemental Information	Long-term debt – for long-term purposes – pre-implementation – total principal outstanding	207,277
Note 9, Debt	Long-term debt – for long-term purposes – pre-implementation – unamortized premium on bonds	254,990
N/A	Long-term debt – for long-term purposes – post-implementation – capital lease liability	–
Note 22, US Department of Education Title IV Supplemental Information	Long-term debt – for long-term purposes – post-implementation – notes payable	(12,213)
Note 21, Leases	Lease right-of-use asset liabilities	19,844
N/A	Pre-implementation right-of-use asset liability	–
Note 21, Leases	Post-implementation right-of-use asset liability	19,844
Note 12, Net assets with donor restrictions	Annuities and life income funds with donor restrictions	36,996
Note 12, Endowment	Term endowments with donor restrictions	67,789
Note 12, Endowment	Net assets with donor restrictions: restricted in perpetuity	288,460
N/A	Net assets with donor restrictions – in perpetuity	–
N/A	Beneficial interest in trusts with donor restrictions	–

Financial Responsibility Supplemental Schedule Required by the United States Department of Education (continued)

Location in Combined Financial Statements or Related Notes	Financial Element	GAAP Financial Statement Line Item or Disclosure
Primary reserve ratio: expenses and losses		
Combined statement of activities and changes in net assets	Total expenses without donor restrictions – taken directly from statement of activities and changes in net Assets	$ 320,766
Combined statement of activities and changes in net assets	Nonoperating and net investment gain (loss)	70,080
Combined statement of activities and changes in net assets	Net investment gains (losses)	26,086
N/A	Pension-related changes other than net periodic costs	–
Equity ratio: modified net assets		
Combined statement of financial position	Net assets without donor restrictions	187,689
Combined statement of financial position	Net assets with donor restrictions	655,996
N/A	Intangible assets	–
Combined statement of financial position	Unsecured related-party receivable	(46,610)
Equity ratio: modified assets		
Combined statement of financial position	Total assets	1,987,242
N/A	Lease right-of-use asset pre-implementation	–
N/A	Pre-implementation right-of-use asset liability	–
N/A	Intangible assets	–
Combined statement of financial position	Unsecured related-party receivable	(46,610)
Net income ratio		
Combined statement of activities	Change in net assets without donor restrictions	(528)
Combined statement of activities	Total revenue and support without donor restrictions	312,139
Combined statement of activities	Unrealized gains on investments, net	7,324

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