

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
ST. PAUL, MINNESOTA**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

**CONCORDIA UNIVERSITY, ST. PAUL,
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
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INDEPENDENT AUDITORS' REPORT

Board of Regents
Concordia University, St. Paul
St. Paul, Minnesota

We have audited the accompanying statement of position of Concordia University, St. Paul, an educational institution of The Lutheran Church – Missouri Synod, as of June 30, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Concordia University, St. Paul as of June 30, 2004, were audited by other auditors whose report dated September 17, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, 2005 the financial statements referred to above present fairly, in all material respects, the financial position of Concordia University, St. Paul as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.


LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
August 18, 2005

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF POSITION
JUNE 30, 2005 AND 2004**

ASSETS	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 929,296	\$ 658,014
Funds on Deposit with Concordia University System	469,519	275,814
Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$704,105 in 2005 and \$737,719 in 2004	1,617,722	1,468,519
Federal Grants Receivable	130,899	530,177
State Grants Receivable	653,260	1,150,519
Inventories, Prepaid Expenses, and Other Assets	869,781	927,564
Contributions Receivable - Net of Allowance for Doubtful Accounts of \$121,647 in 2005 and \$156,751 in 2004	2,322,945	1,686,303
Funds on Deposit with Bond Trustee	155,392	153,917
Loans Receivable - Federal Perkins Loan Program	2,555,381	2,622,440
Land, Buildings, and Equipment - Net	29,216,614	29,967,816
Long-Term Investments	17,513,190	15,217,884
Funds Held by Third-Party Trustees	2,886,592	2,719,807
Cash Value of Life Insurance	374,281	337,839
Bond Issuance Costs - Net	<u>239,333</u>	<u>250,341</u>
 Total Assets	 <u>\$ 59,934,205</u>	 <u>\$ 57,966,954</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	\$ 2,460,943	\$ 2,094,012
Funds Advanced by Concordia University System	1,100,000	-
Deposits Payable	1,437,637	1,694,400
Deferred Revenue	2,025,685	2,154,826
Loans Payable	15,000	15,000
Obligation Under Capital Lease	64,410	76,422
Bonds Payable	9,225,380	9,937,869
Refundable Advances - Federal Perkins Loan Program	2,699,326	2,668,078
Total Liabilities	<u>19,028,381</u>	<u>18,640,607</u>
 NET ASSETS		
Undesignated	(516,462)	(958,127)
Net Investment in Land, Buildings, and Equipment	20,194,059	20,220,761
Total Unrestricted	<u>19,677,597</u>	<u>19,262,634</u>
Temporarily Restricted	3,309,121	4,160,356
Permanently Restricted	17,919,106	15,903,357
Total Net Assets	<u>40,905,824</u>	<u>39,326,347</u>
 Total Liabilities and Net Assets	 <u>\$ 59,934,205</u>	 <u>\$ 57,966,954</u>

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND GRANTS				
Concordia University System	\$ 138,000	36,000	\$ -	\$ 174,000
Federal Grants	1,250,080	-	-	1,250,080
State Grants	1,745,501	-	-	1,745,501
Other	884,774	1,627,087	1,734,579	4,246,440
Total Support and Grants	<u>4,018,355</u>	<u>1,663,087</u>	<u>1,734,579</u>	<u>7,416,021</u>
REVENUE				
Tuition and Fees	26,829,100	-	-	26,829,100
Less: Scholarship Allowances	<u>(8,659,122)</u>	<u>-</u>	<u>-</u>	<u>(8,659,122)</u>
Net Tuition and Fees	18,169,978	-	-	18,169,978
Income on Cash and Cash Equivalents	26,850	-	-	26,850
Income on Long-Term Investments	243,332	205,275	7,826	456,433
Auxiliary Enterprises	4,544,510	-	-	4,544,510
Other	275,420	-	-	275,420
Total Revenue	<u>23,260,090</u>	<u>205,275</u>	<u>7,826</u>	<u>23,473,191</u>
GAINS AND OTHER ADDITIONS				
Change in Value of Split-Interest Agreements	-	(28,932)	104,386	75,454
Change in Value of Funds Held by Third-Party Trustees	-	-	165,730	165,730
Net Gains on Investments	618,044	11,167	3,228	632,439
Total Gains and Other Additions	<u>618,044</u>	<u>(17,765)</u>	<u>273,344</u>	<u>873,623</u>
Subtotal	27,896,489	1,850,597	2,015,749	31,762,835
NET ASSETS RELEASED FROM RESTRICTIONS				
Total Support, Revenue, Gains, and Other Additions	<u>2,701,832</u>	<u>(2,701,832)</u>	<u>-</u>	<u>-</u>
	30,598,321	(851,235)	2,015,749	31,762,835
EXPENSES				
Educational and General - Academic Programs:				
Instruction-Divisional	10,239,541	-	-	10,239,541
Other Instructional Programs	1,069,839	-	-	1,069,839
Support Programs:				
Academic Support	2,744,969	-	-	2,744,969
Student Services	3,555,222	-	-	3,555,222
Institutional Support	4,801,977	-	-	4,801,977
Fund-Raising	1,141,005	-	-	1,141,005
Total Educational and General	<u>23,552,553</u>	<u>-</u>	<u>-</u>	<u>23,552,553</u>
Auxiliary Enterprises	6,630,805	-	-	6,630,805
Total Expense	<u>30,183,358</u>	<u>-</u>	<u>-</u>	<u>30,183,358</u>
CHANGES IN NET ASSETS				
	414,963	(851,235)	2,015,749	1,579,477
Net Assets - Beginning	<u>19,262,634</u>	<u>4,160,356</u>	<u>15,903,357</u>	<u>39,326,347</u>
NET ASSETS - ENDING	<u>\$ 19,677,597</u>	<u>\$ 3,309,121</u>	<u>\$ 17,919,106</u>	<u>\$ 40,905,824</u>

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND GRANTS				
Concordia University System	\$ -	77,664	\$ -	\$ 77,664
Federal Grants	1,231,537	384,883	-	1,616,420
State Grants	147,546	1,147,453	-	1,294,999
Other	1,515,614	1,364,353	2,518,998	5,398,965
Total Support and Grants	<u>2,894,697</u>	<u>2,974,353</u>	<u>2,518,998</u>	<u>8,388,048</u>
REVENUE				
Tuition and Fees	25,157,053	-	-	25,157,053
Less: Scholarship Allowances	<u>(6,987,850)</u>	-	-	<u>(6,987,850)</u>
Net Tuition and Fees	18,169,203	-	-	18,169,203
Income on Cash and Cash Equivalents	26,630	-	-	26,630
Income on Long-Term Investments	108,558	190,828	4,935	304,321
Auxiliary Enterprises	4,494,188	-	-	4,494,188
Other	277,439	-	-	277,439
Total Revenue	<u>23,076,018</u>	<u>190,828</u>	<u>4,935</u>	<u>23,271,781</u>
GAINS AND OTHER ADDITIONS				
Change in Value of Split-Interest Agreements	-	(27,795)	(33,448)	(61,243)
Change in Value of Funds Held by Third-Party Trustees	-	-	166,580	166,580
Net Gains on Investments	727,938	706	1,605	730,249
Total Gains and Other Additions	<u>727,938</u>	<u>(27,089)</u>	<u>134,737</u>	<u>835,586</u>
Subtotal	26,698,653	3,138,092	2,658,670	32,495,415
NET ASSETS RELEASED FROM RESTRICTIONS				
Total Support, Revenue, Gains, and Other Additions	4,714,166	(4,714,166)	-	-
	<u>31,412,819</u>	<u>(1,576,074)</u>	<u>2,658,670</u>	<u>32,495,415</u>
EXPENSES				
Educational and General - Academic Programs:				
Instruction-Divisional	10,434,958	-	-	10,434,958
Other Instructional Programs	788,363	-	-	788,363
Support Programs:				
Academic Support	3,077,483	-	-	3,077,483
Student Services	3,265,726	-	-	3,265,726
Institutional Support	4,629,701	-	-	4,629,701
Fund-Raising	952,758	-	-	952,758
Total Educational and General	<u>23,148,989</u>	-	-	<u>23,148,989</u>
Auxiliary Enterprises	5,741,589	-	-	5,741,589
Total Expense	<u>28,890,578</u>	-	-	<u>28,890,578</u>
CHANGES IN NET ASSETS	2,522,241	(1,576,074)	2,658,670	3,604,837
Net Assets - Beginning	<u>16,740,393</u>	<u>5,736,430</u>	<u>13,244,687</u>	<u>35,721,510</u>
NET ASSETS - ENDING	<u>\$ 19,262,634</u>	<u>\$ 4,160,356</u>	<u>\$ 15,903,357</u>	<u>\$ 39,326,347</u>

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 1,579,477	\$ 3,604,837
Adjustments to Reconcile Changes in Net Assets to Cash and Cash Equivalents Used by Operating Activities:		
Bad Debt Expense	68,718	291,994
Depreciation Expense	1,144,898	1,043,639
Donated Securities & Property	(273,467)	(1,043,938)
Net Unrealized Gains on Investments	(593,021)	(730,249)
Net Realized Gains on Investments	41,266	
(Increase) Decrease in Cash Value of Life Insurance	(36,442)	(51,388)
Interest, Dividends, and Gains Restricted for Long-Term Investment	(11,054)	(6,539)
Amortization of Bond Issuance Costs	11,008	11,003
Amortization of Bond Discount	5,022	2,511
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	(182,817)	(60,989)
Federal and State Grants Receivable	896,537	(120,929)
Inventories, Prepaid Expenses, and Other Assets	55,272	(501,078)
Contributions Receivable	(671,746)	1,745,694
Funds Held by Third-Party Trustees	(166,785)	(248,451)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	366,931	196,501
Deposits Payable	(256,763)	659,949
Deferred Revenue	(129,141)	230,629
Refundable Advances - Federal Perkins Loan Program	31,248	204,101
Net Cash and Cash Equivalents Provided by Operating Activities	1,879,141	5,227,297
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Funds on Deposit with CUS	(193,705)	500,662
Purchases of Fixed Assets	(393,696)	(1,685,860)
Proceeds from Sales of Investments	3,333,805	283,304
Purchases of Investments	(4,803,889)	(3,048,828)
Increase (Decrease) in Federal Perkins Loans Receivable	67,059	(373,590)
Net Cash and Cash Equivalents Used by Investing Activities	(1,990,426)	(4,324,312)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest, Dividends, and Gains Restricted for Reinvestment	11,054	6,539
Funds Advanced by CUS	1,100,000	-
Repayments of Funds Advanced by CUS	-	(636,504)
Decrease (Increase) in Funds on Deposit with Bond Trustee	(1,475)	800,646
Obligation Under Capital Lease - Principal Repayments	(12,012)	(10,829)
Minnesota Higher Education Facilities Authority Revenue Bonds - Principal Repayments	(715,000)	(1,485,000)
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	382,567	(1,325,148)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	271,282	(422,163)
Cash and Cash Equivalents - Beginning of Year	658,014	1,080,177
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 929,296	\$ 658,014
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 219,068	\$ 148,357

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Concordia University, St. Paul (the University), a Minnesota not-for-profit corporation, is a private, Lutheran liberal arts educational institution owned and operated under the auspices of The Lutheran Church–Missouri Synod (Synod), which establishes broad operating and financial policies through its Board for University Education (BUE)/Concordia University System (CUS). The University's Board of Regents, elected by the Synod, is responsible for the management of the University.

Revenues are derived principally from the University's educational programs in the form of tuition and fees, and also from auxiliary enterprise activities and contributions. CUS contributes to the University's support (\$138,000 in 2005 and \$68,914 in 2004) in the form of specific grants. During 2004-05, CUS also provided a \$2,038,000 line of credit to the University which was available to support current operations. As disclosed in Note 2, the University's line of credit was extended for the 2005-06 fiscal year.

The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (DOE). Disbursements under each program are subject to disallowance and repayment by the University. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the DOE.

Auxiliary enterprises revenue includes income from the Child Care Center, student housing, employee housing, food service, bookstore, transportation, convention and conferences, athletics, and music performances. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing these services. It should be noted that Athletic Department revenues consist only of ticket sales, while its expenses consist of all costs related to the administration and operation of the University's athletic programs.

The University is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax on its related exempt activities under Code Section 501(a).

Accrual Basis

The financial statements of the University have been prepared on the accrual basis of accounting.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the Board of Directors has discretionary control. The Board designated amounts represent those amounts which the Board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the University or passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the University. The donors of these resources permit the University to use all or part of the income earned, including capital appreciation, or related investment income for unrestricted or temporarily restricted purposes.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents include currency, demand deposits, and liquid investments with a maturity, at time of purchase, of three months or less. Cash and cash equivalents do not include investments the University has both the ability and intent to hold long-term. At times throughout the year, the cash and cash equivalent balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Included in cash and cash equivalents at June 30, 2005 and 2004, are amounts restricted for federal loan and state grant programs totaling \$598,468 and \$57,460, respectively. Income earned on cash and cash equivalents, as reported on the statements of activities, includes income earned on the University's CUS deposit account described in Note 2.

Accounts Receivables

Receivables are stated at net realizable value. The University provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Accounts past due more than 90 days are individually analyzed for collectibility. Accounts registered for a payment plan are not charged interest until after the payment plan expires. Accounts for which no payments have been received are individually assessed for collectibility and are written off. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is recorded when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as government grants repayable. Expenditures under government grants and contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

Inventories

Inventories consist mainly of bookstore items and are stated at cost (first-in, first-out method).

Contributions Receivable

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional promises are not included as support until such time as the conditions are substantially met.

Loans Receivable – Federal Perkins Loan Program

Student loans consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

Land, Buildings, and Equipment

Land, buildings, improvements, and equipment are recorded at cost, except for property received by gift, which is recorded at fair value on the date of receipt. Major additions and betterments that improve or extend the life of the respective assets are capitalized while replacements, maintenance and repairs are expensed as incurred. Title to land and buildings is principally in the name of the University with reversionary clauses to the Synod. Buildings, improvements, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value based on quoted market prices. Realized and unrealized gains and losses, reflected in the statements of activities, are determined by comparison of the investment cost to proceeds at the time of disposal or to market values at the financial statement date, respectively.

The Board of Regents has interpreted state law as requiring the original value of an endowment gift to be maintained as the permanent endowment corpus. Realized gains as well as the net appreciation of permanent endowment funds may be expended for the same purpose as the endowment was established, unless explicit donor restrictions specify other treatment.

Substantially all of the assets shown in the financial statements, except for land, buildings, and equipment, approximate fair value. Financial liabilities are recorded at cost which approximates fair value.

Bond Issuance Costs

Deferred debt acquisition costs are being amortized on a straight-line basis over the term of the bonds of 25 years. Accumulated amortization was \$24,759 and \$13,751 for the years ended June 30, 2005 and 2004, respectively. Amortization expense was \$11,008 and \$11,003 for the years ended June 30, 2005 and 2004, respectively.

Deposits Payable

Deposits payable consists of various deposits and advanced payments received from students for tuition, room & board and various fees.

Contributed Services

Contributed services are reported in the financial statements at fair value for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Deferred Revenue

Deferred revenue represents tuition and fees billed to students who have registered for summer school courses and courses in the College of Graduate and Continuing Studies as of June 30, 2005 and 2004. Accordingly, this deferred revenue will be recognized as tuition and fee revenue in the subsequent fiscal year when it is earned.

Functional Allocation of Expense

Salaries and related expenses are allocated based on actual time spent. Expenses, other than salaries and related expenses which are not directly identifiable by program or support service, are allocated based on the best estimates of management.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Advertising

The University expenses the costs of advertising as they are incurred. Advertising expense was \$802,695 and \$614,231 for the years ended June 30, 2005 and 2004, respectively.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2 FUNDS ON DEPOSIT WITH CONCORDIA UNIVERSITY SYSTEM

Funds on deposit with CUS totaling \$469,519 and \$275,814 at June 30, 2005 and 2004, respectively, include interest-bearing demand deposits of operational cash, funds set aside for capital purchases and short-term line of credit borrowings. Funds set aside for future capital expenditures totaled \$69,317 and \$67,977 at June 30, 2005 and 2004, respectively. These are demand deposits which earn interest on the daily balance in the account at rates ranging from 1.5% to 2.5%. During the years ended June 30, 2005 and 2004, interest earned on these deposits totaled \$4,478 and \$18,995, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

During the years ended June 30, 2005 and 2004, when the University was a net borrower from its line of credit with CUS, interest was charged at rates ranging from 6.125% to 6.375%. At June 30, 2005 and 2004, these short-term line of credit borrowings totaled \$1,100,000 and \$-0-, respectively. Interest paid in fiscal years 2005 and 2004 on these borrowings totaled \$9,991 and \$31,368, respectively, which was reported as an institutional support expense on the statements of activities.

In May 2005, CUS approved a \$2,105,000 line of credit, which is available to the University during the 2005-06 fiscal year for short-term cash flow purposes.

**CONCORDIA UNIVERSITY, ST. PAUL
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THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 3 CONTRIBUTIONS RECEIVABLE

At June 30, 2005 and 2004, contributors have unconditionally promised to give the University \$3,315,591 and \$2,675,064, respectively. Of these amounts, \$1,723,515 and \$1,603,096, respectively, are held by the Lutheran Church–Missouri Synod Foundation (LCMS Foundation) as irrevocable deferred gifts of which the University is the beneficiary and will receive the principal at some future date.

Management believes total contributions will be received as follows:

	June 30	
	2005	2004
Amounts Due:		
Within One Year	\$ 555,882	\$ 761,490
One to Five Years	1,082,261	350,628
After Five Years	1,677,448	1,562,946
	3,315,591	2,675,064
Less: Present Value Component	(870,999)	(832,010)
Less: Estimated Uncollectible Pledges	(121,647)	(156,751)
	\$ 2,322,945	\$ 1,686,303

NOTE 4 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2005 and 2004:

	2005		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,254,511	\$ -	\$ 5,254,511
Buildings	35,006,894	(13,320,848)	21,686,046
Building and Other Improvements	1,163,978	(667,746)	496,232
Equipment	6,196,383	(4,416,558)	1,779,825
Total	\$ 47,621,766	\$ (18,405,152)	\$ 29,216,614
	2004		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,254,511	\$ -	\$ 5,254,511
Buildings	34,613,933	(12,448,022)	22,165,911
Building and Other Improvements	1,173,228	(624,983)	548,245
Equipment	6,186,398	(4,187,249)	1,999,149
Total	\$ 47,228,070	\$ (17,260,254)	\$ 29,967,816

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NOTE 5 LONG-TERM INVESTMENTS

Investments with maturities greater than or equal to one year at time of purchase are classified as long-term. In addition, investments with maturities of less than one year at time of purchase, which the University has both the ability and intent to hold long-term, are also classified as long-term investments. Details of long-term investments held by the University at June 30, 2005 and 2004 follow:

	<u>2005</u>	<u>2004</u>
LCMS Foundation		
Standard Funds:		
Fixed Income	\$ 7,083,545	\$ 7,084,321
Equity	7,267,222	5,008,395
Cash	1,137	25,771
Total LCMS Foundation	<u>14,351,904</u>	<u>12,118,487</u>
Mutual Funds	2,459,359	3,094,767
Cash and Money Market	697,315	-
LCEF Notes	<u>4,612</u>	<u>4,630</u>
Total Investments	<u>\$ 17,513,190</u>	<u>\$ 15,217,884</u>

Income on long-term investments of \$456,433 and \$304,321 for the years ended June 30, 2005 and 2004, is net of custodial fees of \$61,216 and \$48,748, respectively.

The fair value of endowment investments at June 30, 2005 and 2004 was approximately \$171,000 and \$587,287, respectively, below the historical cost. Management feels these market losses are temporary, has no intention of realizing this loss by further liquidating the investments, and believes a subsequent market recovery will restore the investment balance to at least its historical cost.

NOTE 6 FUNDS HELD BY THIRD-PARTY TRUSTEES

Funds held by third-party trustees consist of irrevocable trusts from which the University is to receive the income in perpetuity. The principal is held in trust by the LCMS Foundation and an unrelated trust company. The principal will never revert to the University. The perpetual stream of income is viewed by the University as promises to give by the individuals who established the trusts and has been recorded at the fair value of the trusts at June 30, 2005 and 2004, which closely approximates the net present value of the perpetual income stream.

Given the nature of the promises, the University recorded these contributions as permanently restricted net assets. Income received is recorded as either unrestricted or temporarily restricted activity based on the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded on the statements of activities as changes in permanently restricted net assets.

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NOTE 6 FUNDS HELD BY THIRD-PARTY TRUSTEES (CONTINUED)

The funds are held by the following third party trustees at June 30, 2005 and 2004:

	2005	2004
LCMS Foundation	\$ 443,603	\$ 324,432
Alive in Christ Endowment	377,842	371,576
Trust Held at Wells Fargo	2,065,147	2,023,799
	<u>\$ 2,886,592</u>	<u>\$ 2,719,807</u>

NOTE 7 OBLIGATIONS UNDER CAPITAL LEASE

The Organization has a capital lease for a piano. The Organization's equipment held under capital leases in the balance sheets consists of the equipment cost of \$106,000 at June 30, 2005 and 2004 with accumulated depreciation at June 30, 2005 and 2004 of \$39,750 and \$29,150, respectively. Amortization included in depreciation expense was \$10,600 for the years ended June 30, 2005 and 2004. Future minimum payments required are as follows:

Years Ending June 30	Amount
2006	\$ 19,463
2007	19,463
2008	19,463
2009	19,463
2010	1,620
Total Capital Lease Obligation	<u>79,472</u>
Payments Representing Interest	<u>(15,062)</u>
Total Principal Payments	<u>\$ 64,410</u>

NOTE 8 BONDS PAYABLE/FUNDS ON DEPOSIT WITH BOND TRUSTEE

The University issued bonds with the Minnesota Higher Education Facilities Authority (MHEFA) with the original value of \$11,480,000 in revenue bonds, Series Five-P1 and Taxable Series Five-P2. At June 30, 2005 and 2004, the University's payable to MHEFA was \$9,225,380 and \$9,937,869, respectively, net of the unamortized discount of \$54,620 and \$57,131, respectively.

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2005, the bonds bore an interest rate of 3%. The principal portion is due annually on January 1 and is scheduled to mature on April 1, 2027. During 2005, \$715,000 of pledge payments were received and used to redeem Series Five-P1 bonds.

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NOTE 8 BONDS PAYABLE/FUNDS ON DEPOSIT WITH BOND TRUSTEE (CONTINUED)

Future minimum principal payments, based on the indenture agreement with the MHEFA, are as follows:

Years Ending June 30	Amount
2006	\$ 310,000
2007	320,000
2008	335,000
2009	350,000
2010	365,000
Thereafter	7,600,000
Total Principal Payments	\$ 9,280,000

For the years ended June 30, 2005 and 2004, interest totaled \$214,619 and \$130,565, respectively, on the MHEFA bonds. Interest of \$17,868 was capitalized during the year ended June 30, 2004.

Plant assets pledged as collateral under this bond indenture consist of the library technology center pledges receivable and campus buildings, except for University houses and the St. Paul Water Utility Building.

The bond indenture contains covenants, including a debt service coverage ratio between 1.25 to 1. As of June 30, 2005, the University was in compliance with this covenant.

Funds on deposit with the bond trustee totaling \$155,392 and \$153,917 at June 30, 2005 and 2004, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2005, the University has an outstanding letter of credit with Bremer Bank for \$11,687,584 in relation to the bond issue.

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NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the University. At June 30, 2005 and 2004, temporarily restricted net assets are available for the following specific purposes or time restrictions have been placed on the use of the funds as noted in the following schedule:

	June 30	
	2005	2004
Purpose Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 733,701	\$ 743,895
Other Instructional Programs	343,286	898,298
Support Programs:		
Academic Support	309,065	198,869
Student Services	30,138	157,276
Institutional Support	-	1,422
Auxiliary Enterprises	17,844	11,894
Scholarship Allowances (Student Aid)	586,781	794,396
Fixed Asset Acquisitions	816,520	854,025
Debt Retirement	76,006	104,103
	<u>2,913,341</u>	<u>3,764,178</u>
Time Restrictions	395,780	396,178
	<u>\$ 3,309,121</u>	<u>\$ 4,160,356</u>

NOTE 10 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. The income from these investments will be used for support:

	June 30	
	2005	2004
Academic Programs:		
Instruction-Divisional	\$ 461,552	\$ 461,135
Support Programs:		
Academic Support	936,882	915,418
Scholarship Allowances (Student Aid)	9,548,397	8,368,518
Unrestricted Operations	6,972,275	6,158,286
	<u>\$ 17,919,106</u>	<u>\$ 15,903,357</u>

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NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by the occurrence of other events specified by donors. For the years ended June 30, 2005 and 2004, temporarily restricted net assets were released as follows:

	June 30	
	2005	2004
Purpose Restrictions Accomplished:		
Academic Programs:		
Instruction-Divisional	\$ 29,255	\$ 72,209
Other Instructional Programs	887,183	657,058
Support Programs:		
Academic Support	449,094	625,492
Student Services	61,850	110,903
Institutional Support	2,974	121,713
Auxiliary Enterprises	-	417,768
Scholarship Allowances (Student Aid)	895,143	1,077,296
Fixed Assets Acquired and Placed in Service	78,154	1,289,131
Debt Principal Retired	36,000	39,000
	<u>2,439,653</u>	<u>4,410,570</u>
Expiration of Time Restrictions	262,179	303,596
	<u>\$ 2,701,832</u>	<u>\$ 4,714,166</u>

NOTE 12 OBLIGATION UNDER OPERATING LEASES

Certain energy management equipment was installed during fiscal year 1999 by the University with a cost of approximately \$1,400,000. The University is required to make lease payments of \$141,379 annually until April 2014 which includes interest at approximately 5%. Lease payments of \$141,379 were made for both years ended June 30, 2005 and 2004.

NOTE 13 DEFINED BENEFIT PLANS

The University participates in the Worker Benefit Plans of the Synod. Substantially all full-time employees are covered by these retirement and survivor programs. The University contributes a fixed percentage of each participant's salary to the plans. Retirement and survivor program expenses for the years ended June 30, 2005 and 2004 totaled \$525,783 and \$499,030, respectively.