

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2006 AND 2005**

**CONCORDIA UNIVERSITY, ST. PAUL,  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2006 AND 2005**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>2</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>3</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>6</b>

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Concordia University, St. Paul, an educational institution of The Lutheran Church – Missouri Synod, as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Concordia University, St. Paul as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the financial statements, Concordia University, St. Paul adopted the provisions of Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*.



LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota  
August 17, 2006

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 536,422	\$ 929,296
Funds on Deposit with Concordia University System	139,357	469,519
Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$753,393 in 2006 and \$704,105 in 2005	1,456,216	1,617,722
Federal Grants Receivable	120,319	130,899
State Grants Receivable	397,915	653,260
Inventories, Prepaid Expenses, and Other Assets	916,236	869,781
Contributions Receivable - Net of Allowance for Doubtful Accounts of \$70,365 in 2006 and \$121,647 in 2005	2,429,565	2,322,945
Funds on Deposit with Bond Trustee	173,934	155,392
Loans Receivable - Federal Perkins Loan Program	2,202,514	2,555,381
Land, Buildings, and Equipment - Net	29,295,498	29,216,614
Investment in LCMS Foundation	15,433,862	14,351,904
Long-Term Investments	3,194,985	3,161,286
Funds Held by Third-Party Trustees	3,062,476	2,886,592
Cash Value of Life Insurance	428,816	374,281
Bond Issuance Costs - Net	228,329	239,333
	<b>\$ 60,016,444</b>	<b>\$ 59,934,205</b>
<b>Total Assets</b>		
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Other Liabilities	\$ 2,104,021	\$ 2,460,943
Funds Advanced by Concordia University System	500,000	1,100,000
Deposits Payable	1,452,238	1,437,637
Deferred Revenue	2,025,738	2,025,685
Loans Payable	15,000	15,000
Obligation Under Capital Lease	966,433	64,410
Bonds Payable	8,817,892	9,225,380
Refundable Advances - Federal Perkins Loan Program	2,608,919	2,699,326
Total Liabilities	18,490,241	19,028,381
<b>NET ASSETS</b>		
Undesignated	(496,934)	(516,462)
Net Investment in Land, Buildings, and Equipment	19,527,059	20,194,059
Total Unrestricted	19,030,125	19,677,597
Temporarily Restricted	3,938,203	3,309,121
Permanently Restricted	18,557,875	17,919,106
Total Net Assets	41,526,203	40,905,824
<b>Total Liabilities and Net Assets</b>	<b>\$ 60,016,444</b>	<b>\$ 59,934,205</b>

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, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND GRANTS</b>				
Concordia University System	\$ 150,400	\$ 9,500	\$ -	\$ 159,900
Federal Grants	353,888	-	-	353,888
State Grants	1,150,586	-	-	1,150,586
Other	551,453	2,638,276	152,388	3,342,117
Total Support and Grants	<u>2,206,327</u>	<u>2,647,776</u>	<u>152,388</u>	<u>5,006,491</u>
<b>REVENUE</b>				
Tuition and Fees	27,270,507	-	-	27,270,507
Less: Scholarship Allowances	(6,677,581)	-	-	(6,677,581)
Net Tuition and Fees	<u>20,592,926</u>	<u>-</u>	<u>-</u>	<u>20,592,926</u>
Income on Cash and Cash Equivalents	34,265	-	-	34,265
Income on Long-Term Investments	295,565	233,298	9,225	538,088
Auxiliary Enterprises	4,539,009	-	-	4,539,009
Other	297,816	-	-	297,816
Total Revenue	<u>25,759,581</u>	<u>233,298</u>	<u>9,225</u>	<u>26,002,104</u>
<b>GAINS AND OTHER ADDITIONS</b>				
Change in Value of Split-Interest Agreements	-	(27,556)	25,196	(2,360)
Change in Value of Funds Held by Third-Party Trustees	-	-	174,983	174,983
Net Gains on Investments	239,451	98,762	276,977	615,190
Total Gains and Other Additions	<u>239,451</u>	<u>71,206</u>	<u>477,156</u>	<u>787,813</u>
Subtotal	<u>28,205,359</u>	<u>2,952,280</u>	<u>638,769</u>	<u>31,796,408</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>2,323,198</u>	<u>(2,323,198)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains, and Other Additions	30,528,557	629,082	638,769	31,796,408
<b>EXPENSES</b>				
Educational and General:				
Academic Programs:				
Instruction-Divisional	9,372,529	-	-	9,372,529
Other Instructional Programs	1,334,710	-	-	1,334,710
Support Programs:				
Academic Support	2,989,224	-	-	2,989,224
Student Services	3,946,201	-	-	3,946,201
Institutional Support	5,153,702	-	-	5,153,702
Fund Raising	1,211,218	-	-	1,211,218
Total Educational and General	<u>24,007,584</u>	<u>-</u>	<u>-</u>	<u>24,007,584</u>
Auxiliary Enterprises	6,814,445	-	-	6,814,445
Total Expense	<u>30,822,029</u>	<u>-</u>	<u>-</u>	<u>30,822,029</u>
<b>CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	(293,472)	629,082	638,769	974,379
Cumulative Effect of Change in Accounting Principle	<u>(354,000)</u>	<u>-</u>	<u>-</u>	<u>(354,000)</u>
<b>CHANGES IN NET ASSETS</b>	(647,472)	629,082	638,769	620,379
Net Assets - Beginning	<u>19,677,597</u>	<u>3,309,121</u>	<u>17,919,106</u>	<u>40,905,824</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 19,030,125</u>	<u>\$ 3,938,203</u>	<u>\$ 18,557,875</u>	<u>\$ 41,526,203</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
<b>SUPPORT AND GRANTS</b>				
Concordia University System	\$ 138,000	\$ 36,000	\$ -	\$ 174,000
Federal Grants	21,880	-	-	21,880
State Grants	465,885	-	-	465,885
Other	884,774	1,627,087	1,734,579	4,246,440
Total Support and Grants	<u>1,510,539</u>	<u>1,663,087</u>	<u>1,734,579</u>	<u>4,908,205</u>
<b>REVENUE</b>				
Tuition and Fees	26,829,100	-	-	26,829,100
Less: Scholarship Allowances	(6,151,306)	-	-	(6,151,306)
Net Tuition and Fees	<u>20,677,794</u>	<u>-</u>	<u>-</u>	<u>20,677,794</u>
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>25,767,906</u>	<u>205,275</u>	<u>7,826</u>	<u>25,981,007</u>
<b>GAINS AND OTHER ADDITIONS</b>				
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	<u>27,896,489</u>	<u>1,850,597</u>	<u>2,015,749</u>	<u>31,762,835</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>2,701,832</u>	<u>(2,701,832)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains, and Other Additions	30,598,321	(851,235)	2,015,749	31,762,835
<b>EXPENSES</b>				
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>
<b>CHANGES IN NET ASSETS</b>	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>
<b>NET ASSETS - ENDING</b>	<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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 620,379	\$ 1,579,477
Adjustments to Reconcile Changes in Net Assets to Cash and Cash Equivalents Provided by Operating Activities:		
Cumulative Effect from Change in Accounting Principle	354,000	-
Bad Debt Expense	132,147	68,718
Depreciation Expense	1,166,948	1,144,898
Donated Securities and Property	(258,799)	(273,467)
Net Unrealized Gains on Investments	(264,479)	(58,211)
Net Realized (Gains) Loss on Investments	184,813	(2,368)
Increase in Cash Value of Life Insurance	(54,535)	(36,442)
Interest, Dividends, and Gains Restricted for Long-Term Investment	(286,202)	(11,054)
Amortization of Bond Issuance Costs	11,004	11,008
Amortization of Bond Discount	2,512	5,022
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	66,459	(182,817)
Federal and State Grants Receivable	265,925	896,537
Inventories, Prepaid Expenses, and Other Assets	(46,455)	55,272
Contributions Receivable	(143,720)	(671,746)
Funds Held by Third-Party Trustees	(175,884)	(166,785)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(783,922)	366,931
Deposits Payable	14,601	(256,763)
Deferred Revenue	53	(129,141)
Refundable Advances - Federal Perkins Loan Program	(90,407)	31,248
Net Cash and Cash Equivalents Provided by Operating Activities	714,438	2,370,317
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Funds on Deposit with Concordia University System	330,162	(193,705)
Purchases of Equipment	(256,832)	(393,696)
Proceeds from Sales of Investments	1,199,945	641,556
Purchases of Investments	(895,179)	(369,399)
Investment in LCMS Foundation	(1,081,958)	(2,233,417)
Increase in Federal Perkins Loans Receivable	352,867	67,059
Net Cash and Cash Equivalents Used by Investing Activities	(350,995)	(2,481,602)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest, Dividends, and Gains Restricted for Reinvestment	286,202	11,054
Funds Advanced by (Repayments to) by Concordia University System	(600,000)	1,100,000
Increase in Funds on Deposit with Bond Trustee	(18,542)	(1,475)
Obligation Under Capital Lease - Principal Repayments	(13,977)	(12,012)
Minnesota Higher Education Facilities Authority Revenue Bonds - Principal Repayments	(410,000)	(715,000)
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	(756,317)	382,567
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(392,874)	271,282
Cash and Cash Equivalents - Beginning of Year	929,296	658,014
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 536,422	\$ 929,296
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 381,644	\$ 219,068
<b>NONCASH INVESTING AND FINANCING TRANSACTIONS</b>		
Equipment Purchases in Accounts Payable	\$ 73,000	\$ -

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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 (\$150,400 in 2006 and \$138,000 in 2005) in the form of grants.

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. Athletic department revenues consist 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  
JUNE 30, 2006 AND 2005**

**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 the 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. At June 30, 2006 and 2005, cash restricted for federal loan and state grant programs totaled \$677,212 and \$598,468, 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  
JUNE 30, 2006 AND 2005**

**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. Text books are stated at cost (first-in, first-out method) and other retail items are stated at retail cost.

**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 from three to sixty years.

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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 and to market values at the financial statement date.

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 \$35,763 and \$24,759 for the years ended June 30, 2006 and 2005, respectively. Amortization expense was \$11,004 and \$11,008 for the years ended June 30, 2006 and 2005, respectively.

**Deposits Payable**

Deposits payable consists of various deposits and advanced payments received from students for tuition, room and 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 be purchased if not provided by donation.

**Deferred Revenue**

Deferred revenue represents tuition and fees billed to students who have registered for undergraduate summer school courses and graduate and continuing studies courses as of June 30, 2006 and 2005. Accordingly, 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 that are not directly identifiable by program or support service, are allocated based on the best estimates of management.

**CONCORDIA UNIVERSITY, ST. PAUL  
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THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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 \$1,066,387 and \$802,695 for the years ended June 30, 2006 and 2005, 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 \$139,357 and \$469,519 at June 30, 2006 and 2005, 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 \$71,793 and \$69,317 at June 30, 2006 and 2005, 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, 2006 and 2005, interest earned on these deposits totaled \$8,955 and \$4,478, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

In May 2005, CUS approved a \$2,105,000 line of credit to support current operations. During the years ended June 30, 2006 and 2005, when the University was a net borrower from the CUS line of credit, interest was charged at rates ranging from 6.125% to 6.375%. At June 30, 2006 and 2005, these short-term line of credit borrowings totaled \$500,000 and \$1,100,000, respectively. Interest paid in fiscal years 2006 and 2005 on these borrowings totaled \$26,140 and \$9,991, respectively, which was reported as an institutional support expense on the statements of activities.

In April 2006, CUS approved a \$2,170,000 line of credit, which is available to the University during the 2006-07 fiscal year for short-term cash flow purposes.

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**NOTE 3 CONTRIBUTIONS RECEIVABLE**

At June 30, 2006 and 2005, contributors have unconditionally promised to give the University \$3,401,460 and \$3,315,591, respectively. Of these amounts, \$1,745,988 and \$1,723,515, 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	
	2006	2005
Amounts Due:		
Within One Year	\$ 725,036	\$ 555,882
One to Five Years	931,185	1,082,261
After Five Years	1,745,239	1,677,448
	3,401,460	3,315,591
Less: Present Value Component	(901,530)	(870,999)
Less: Estimated Uncollectible Pledges	(70,365)	(121,647)
	<b>\$ 2,429,565</b>	<b>\$ 2,322,945</b>

**NOTE 4 LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2006 and 2005:

	2006		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,254,511	\$ -	\$ 5,254,511
Buildings	35,352,620	(14,222,194)	21,130,426
Building and Other Improvements	2,626,674	(1,411,639)	1,215,035
Equipment	4,367,248	(2,701,635)	1,665,613
Construction in Progress	29,913	-	29,913
Total	<b>\$ 47,630,966</b>	<b>\$ (18,335,468)</b>	<b>\$ 29,295,498</b>
	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	<b>\$ 47,621,766</b>	<b>\$ (18,405,152)</b>	<b>\$ 29,216,614</b>

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**NOTE 4 LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)**

Depreciation expense was \$1,166,948 and \$1,144,898 for the years ended June 30, 2006 and 2005, respectively.

**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, 2006 and 2005 follow:

	<u>2006</u>	<u>2005</u>
Mutual Funds	\$ 2,704,937	\$ 2,459,359
Cash and Money Market	485,436	697,315
LCEF Notes	4,612	4,612
Total Investments	<u>\$ 3,194,985</u>	<u>\$ 3,161,286</u>
LCMS Foundation:		
Standard Funds:		
Fixed Income	\$ 7,173,639	\$ 7,083,545
Equity	8,235,223	7,267,222
LCEF Certificate	25,000	-
Cash	-	1,137
Total LCMS Foundation	<u>\$ 15,433,862</u>	<u>\$ 14,351,904</u>

Income on long-term investments of \$538,088 and \$456,433 for the years ended June 30, 2006 and 2005, respectively, is net of custodial fees of \$95,743 and \$61,216, respectively.

The fair value of certain endowment investments at June 30, 2006 and 2005 of approximately \$116,000 and \$171,000, respectively, are below 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, 2006 and 2005, which closely approximates the net present value of the perpetual income stream.

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

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.

The funds are held by the following third party trustees at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
LCMS Foundation	\$ 560,139	\$ 443,603
Alive in Christ Endowment	379,134	377,842
Trust Held at Wells Fargo	<u>2,123,203</u>	<u>2,065,147</u>
Total	<u>\$ 3,062,476</u>	<u>\$ 2,886,592</u>

**NOTE 7 OBLIGATIONS UNDER CAPITAL LEASE**

The University has a capital lease for ten pianos and another capital lease for energy equipment. The University's equipment held under capital leases in the statements of financial position consists of the equipment cost of \$1,546,000 at June 30, 2006 and 2005 with accumulated amortization at June 30, 2006 and 2005 of \$746,350 and \$735,750, respectively. Amortization included in depreciation expense was \$10,600 for the years ended June 30, 2006 and 2005. Future minimum payments required are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 160,842
2008	160,842
2009	160,842
2010	143,000
2011	141,379
Thereafter	<u>424,137</u>
Total Capital Lease Obligation	1,191,042
Payments Representing Interest	<u>(224,609)</u>
Total Principal Payments	<u>\$ 966,433</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, 2006 and 2005, the University's payable to MHEFA was \$8,817,892 and \$9,225,380, respectively, net of the unamortized discount of \$52,108 and \$54,620, respectively.

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2006 and 2005, the bonds bore an interest rate of 5% and 3%, respectively. 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.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 320,000
2008	335,000
2009	350,000
2010	365,000
2011	380,000
Thereafter	<u>7,120,000</u>
Total Principal Payments	<u><u>\$ 8,870,000</u></u>

For the years ended June 30, 2006 and 2005, interest totaled \$363,810 and \$214,619, respectively, on the MHEFA bonds.

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 1.20 to 1. As of June 30, 2006, the University was not in compliance with this covenant.

Funds on deposit with the bond trustee totaling \$173,934 and \$155,392 at June 30, 2006 and 2005, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2006, the University has an outstanding letter of credit with Bremer Bank for \$11,687,584 in relation to the bond issue.



**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**NOTE 9 ENVIRONMENTAL REMEDIATION**

The University owns several buildings on campus that contain asbestos in various forms. At this time, the University has no plans to renovate or demolish the buildings over their estimated remaining useful lives of 32-60 years. However, in accordance with Financial Accounting Standards Board Interpretation No. 47 (FIN 47), management estimated the cost of any potential obligation to remove asbestos to be approximately \$354,237. This amount is recorded as a liability on the statement of financial position and as a cumulative effect of a change in accounting principle in the statement of activities. The University used a future value rate assumption of 3% and discounted the estimate to present value using a risk-free rate of return of 5%. The potential environmental remediation liability, included in accounts payable and other liabilities in the statement of financial position, is \$354,000 at June 30, 2006. If the University had elected early adoption of FIN 47, net assets would have been reduced by \$354,000 as of July 1, 2005.

**NOTE 10 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or when specific actions are undertaken by the University. At June 30, 2006 and 2005, 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,	
	2006	2005
Purpose Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 777,330	\$ 733,701
Other Instructional Programs	434,854	343,286
Support Programs:		
Academic Support	219,501	309,065
Student Services	24,394	30,138
Auxiliary Enterprises	16,695	17,844
Scholarship Allowances (Student Aid)	804,195	586,781
Land, Building, and Equipment Acquisitions	625,274	816,520
Debt Retirement	-	76,006
	<u>2,902,243</u>	<u>2,913,341</u>
Time Restrictions	1,035,960	395,780
	<u>\$ 3,938,203</u>	<u>\$ 3,309,121</u>

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**NOTE 11 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. Based on donor restrictions, the income from these investments will be used to support the following activities:

	June 30,	
	2006	2005
Academic Programs:		
Instruction-Divisional	\$ 508,058	\$ 461,552
Support Programs:		
Academic Support	978,899	936,882
Scholarship Allowances (Student Aid)	10,174,366	9,548,397
Unrestricted Operations	6,896,552	6,972,275
	<u>\$ 18,557,875</u>	<u>\$ 17,919,106</u>

**NOTE 12 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, 2006 and 2005, temporarily restricted net assets were released as follows:

	June 30,	
	2006	2005
Purpose Restrictions Accomplished:		
Academic Programs:		
Instruction-Divisional	\$ 61,499	\$ 29,255
Other Instructional Programs	369,081	887,183
Support Programs:		
Academic Support	248,576	449,094
Student Services	53,190	61,850
Institutional Support	9,977	2,974
Auxiliary Enterprises	314,715	-
Scholarship Allowances (Student Aid)	584,891	895,143
Fixed Assets Acquired and Placed in Service	652,116	78,154
Debt Principal Retired	-	36,000
	<u>2,294,045</u>	<u>2,439,653</u>
Expiration of Time Restrictions	29,153	262,179
	<u>\$ 2,323,198</u>	<u>\$ 2,701,832</u>

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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, 2006 and 2005 totaled \$620,572 and \$525,783, respectively.

**NOTE 14 CHANGE IN ACCOUNTING POLICY**

As of June 30, 2006, the University adopted Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under the provisions of FIN 47 the University is required to accrue for the fair value of future costs to remediate environmental hazards related to property they own, such as asbestos. The University has estimated the cost of remediation to be \$354,000 and has recorded this amount as a liability on the statement of financial position and as a cumulative effect of change in accounting principle in the statement of activities. The impact of the change in accounting principle on the June 30, 2005 financial statements was \$354,000. Had these liabilities been recorded as of the beginning of 2005, there would not have been a materially different effect on the recognized liability for 2005 or the activity in 2006.