

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

**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 statements of financial position of Concordia University, St. Paul, an educational institution of The Lutheran Church – Missouri Synod, as of June 30, 2007 and 2006, 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, 2007 and 2006, 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.



LarsonAllen LLP

Minneapolis, Minnesota
September 17, 2007

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006**

	2007	2006
ASSETS		
Cash and Cash Equivalents	\$ 801,773	\$ 536,422
Funds on Deposit with Concordia University System	-	139,357
Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$659,988 in 2007 and \$753,393 in 2006	1,296,713	1,456,216
Federal Grants Receivable	71,089	120,319
State Grants Receivable	337,076	397,915
Inventories, Prepaid Expenses, and Other Assets	933,177	916,236
Contributions Receivable - Net of Allowance for Doubtful Accounts of \$16,662 in 2007 and \$70,365 in 2006	2,391,005	1,503,116
Trusts and Annuities Receivable	1,102,237	926,449
Funds on Deposit with Bond Trustee	191,070	173,934
Loans Receivable - Federal Perkins Loan Program	2,060,864	2,202,514
Land, Buildings, and Equipment - Net	29,459,336	29,295,498
Investment in LCMS Foundation	17,460,601	15,433,862
Long-Term Investments	3,489,804	3,194,985
Funds Held by Third-Party Trustees	3,223,453	3,062,476
Cash Value of Life Insurance	479,352	428,816
Bond Issuance Costs - Net	217,325	228,329
	\$ 63,514,875	\$ 60,016,444
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Other Liabilities	\$ 2,454,062	\$ 2,104,021
Funds Advanced by Concordia University System	1,376,900	500,000
Deposits Payable	1,369,418	1,452,238
Deferred Revenue	1,838,852	2,025,738
Loans Payable	515,000	15,000
Obligation Under Capital Lease	857,364	966,433
Bonds Payable - Net of Discounts	8,275,403	8,817,892
Refundable Advances - Federal Perkins Loan Program	2,501,465	2,608,919
Total Liabilities	19,188,464	18,490,241
NET ASSETS		
Undesignated	(41,230)	(496,934)
Net Investment in Land, Buildings, and Equipment	19,575,532	19,527,059
Total Unrestricted	19,534,302	19,030,125
Temporarily Restricted	3,523,085	3,938,203
Permanently Restricted	21,269,024	18,557,875
Total Net Assets	44,326,411	41,526,203
Total Liabilities and Net Assets	\$ 63,514,875	\$ 60,016,444

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, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND GRANTS				
Concordia University System	\$ 153,227	\$ 56,175	\$ -	\$ 209,402
Federal Grants	331,534	-	-	331,534
State Grants	1,158,002	-	-	1,158,002
Other	595,523	2,387,569	1,742,754	4,725,846
Total Support and Grants	<u>2,238,286</u>	<u>2,443,744</u>	<u>1,742,754</u>	<u>6,424,784</u>
REVENUE				
Tuition and Fees	28,879,065	-	-	28,879,065
Less: Scholarship Allowances	(7,253,619)	-	-	(7,253,619)
Net Tuition and Fees	21,625,446	-	-	21,625,446
Income on Cash and Cash Equivalents	40,692	-	-	40,692
Income on Long-Term Investments	296,916	268,273	17,589	582,778
Auxiliary Enterprises	4,454,450	-	-	4,454,450
Other	410,888	-	-	410,888
Total Revenue	<u>26,828,392</u>	<u>268,273</u>	<u>17,589</u>	<u>27,114,254</u>
GAINS AND OTHER ADDITIONS				
Change in Value of Split-Interest Agreements	-	101,193	74,595	175,788
Change in Value of Funds Held by Third-Party Trustees	-	-	160,952	160,952
Net Gains on Investments	746,782	367,291	715,259	1,829,332
Total Gains and Other Additions	<u>746,782</u>	<u>468,484</u>	<u>950,806</u>	<u>2,166,072</u>
Subtotal	<u>29,813,460</u>	<u>3,180,501</u>	<u>2,711,149</u>	<u>35,705,110</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Total Support, Revenue, Gains, and Other Additions	<u>3,595,619</u>	<u>(3,595,619)</u>	<u>-</u>	<u>-</u>
	33,409,079	(415,118)	2,711,149	35,705,110
EXPENSES				
Educational and General:				
Academic Programs:				
Instruction-Divisional	9,152,756	-	-	9,152,756
Other Instructional Programs	1,386,995	-	-	1,386,995
Support Programs:				
Academic Support	2,716,157	-	-	2,716,157
Student Services	6,602,215	-	-	6,602,215
Institutional Support	5,232,632	-	-	5,232,632
Fund Raising	1,189,961	-	-	1,189,961
Total Educational and General	<u>26,280,716</u>	<u>-</u>	<u>-</u>	<u>26,280,716</u>
Auxiliary Enterprises	6,011,987	-	-	6,011,987
Total Expenses	<u>32,292,703</u>	<u>-</u>	<u>-</u>	<u>32,292,703</u>
CHANGE IN OPERATING NET ASSETS	1,116,376	(415,118)	2,711,149	3,412,407
Non-Operating Change in Net Assets				
Property and Equipment Impairment Loss	(612,199)	-	-	(612,199)
CHANGES IN NET ASSETS	504,177	(415,118)	2,711,149	2,800,208
Net Assets - Beginning	19,030,125	3,938,203	18,557,875	41,526,203
NET ASSETS - ENDING	<u>\$ 19,534,302</u>	<u>\$ 3,523,085</u>	<u>\$ 21,269,024</u>	<u>\$ 44,326,411</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, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND GRANTS				
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>
REVENUE				
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>
GAINS AND OTHER ADDITIONS				
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>
NET ASSETS RELEASED FROM RESTRICTIONS	<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
EXPENSES				
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	5,979,338	-	-	5,979,338
Institutional Support	5,153,702	-	-	5,153,702
Fund Raising	1,211,218	-	-	1,211,218
Total Educational and General	<u>26,040,721</u>	<u>-</u>	<u>-</u>	<u>26,040,721</u>
Auxiliary Enterprises	4,781,308	-	-	4,781,308
Total Expenses	<u>30,822,029</u>	<u>-</u>	<u>-</u>	<u>30,822,029</u>
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(293,472)	629,082	638,769	974,379
Cumulative Effect of Change in Accounting Principle	(354,000)	-	-	(354,000)
CHANGES IN NET ASSETS	(647,472)	629,082	638,769	620,379
Net Assets - Beginning	19,677,597	3,309,121	17,919,106	40,905,824
NET ASSETS - ENDING	<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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 2,800,208	\$ 620,379
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	124,391	132,147
Depreciation Expense	1,266,029	1,166,948
Impairment Loss on Property and Equipment	612,199	-
Donated Securities and Property	(246,043)	(258,799)
Net Unrealized Gains on Investments	(283,970)	(264,479)
Net Realized (Gains) Loss on Investments	(11,685)	184,813
Increase in Cash Value of Life Insurance	(50,536)	(54,535)
Interest, Dividends, and Gains Restricted for Long-Term Investment	(732,848)	(286,202)
Amortization of Bond Issuance Costs	11,004	11,004
Amortization of Bond Discount	2,511	2,512
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	36,262	66,459
Federal and State Grants Receivable	110,069	265,925
Inventories, Prepaid Expenses, and Other Assets	(16,941)	(46,455)
Contributions Receivable	(1,064,827)	(143,720)
Funds Held by Third-Party Trustees	(160,977)	(175,884)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	235,678	(783,922)
Deposits Payable	(82,820)	14,601
Deferred Revenue	(186,886)	53
Refundable Advances - Federal Perkins Loan Program	(107,454)	(90,407)
Net Cash and Cash Equivalents Provided by Operating Activities	2,253,364	714,438
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Funds on Deposit with Concordia University System	139,357	330,162
Purchases of Equipment	(1,927,703)	(256,832)
Proceeds from Sales of Investments	401,428	1,199,945
Purchases of Investments	(154,550)	(895,179)
Investment in LCMS Foundation	(2,026,739)	(1,081,958)
Increase in Federal Perkins Loans Receivable	141,650	352,867
Net Cash and Cash Equivalents Used by Investing Activities	(3,426,556)	(350,995)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	500,000	-
Interest, Dividends, and Gains Restricted for Reinvestment	732,848	286,202
Funds Advanced by (Repayments to) by Concordia University System	876,900	(600,000)
Increase in Funds on Deposit with Bond Trustee	(17,136)	(18,542)
Obligation Under Capital Lease - Principal Repayments	(109,069)	(13,977)
Minnesota Higher Education Facilities Authority Revenue Bonds - Principal Repayments	(545,000)	(410,000)
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	1,438,543	(756,317)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	265,351	(392,874)
Cash and Cash Equivalents - Beginning of Year	536,422	929,296
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 801,773	\$ 536,422
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 517,211	\$ 381,644
NONCASH INVESTING AND FINANCING TRANSACTIONS		
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, 2007 AND 2006**

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 (\$153,227 in 2007 and \$150,400 in 2006) 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, and music performances. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing these services.

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, 2007 AND 2006**

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, 2007 and 2006, cash restricted for federal loan and state grant programs totaled \$640,908 and \$677,212, 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, 2007 AND 2006**

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

Capital assets are defined as assets exceeding \$5,000. 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, 2007 AND 2006**

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 \$46,766 and \$35,763 for the years ended June 30, 2007 and 2006, respectively. Amortization expense was \$11,004 and \$11,004 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006. 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
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

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 \$1,807,971 and \$1,066,387 for the years ended June 30, 2007 and 2006, 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 \$-0- and \$139,357 at June 30, 2007 and 2006, 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 \$-0- and \$71,793 at June 30, 2007 and 2006, respectively. These are demand deposits which earn interest on the daily balance in the account at rates ranging from 1.5 percent to 2.5 percent. During the years ended June 30, 2007 and 2006, interest earned on these deposits totaled \$6,398 and \$8,955, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

In April 2006, CUS approved a \$2,170,000 line of credit to support current operations. During the years ended June 30, 2007 and 2006, when the University was a net borrower from the CUS line of credit, interest was charged at rates ranging from 6.125 percent to 6.375 percent. At June 30, 2007 and 2006, these short-term line of credit borrowings totaled \$1,376,900 and \$500,000, respectively. Interest paid in fiscal years 2007 and 2006 on these borrowings totaled \$38,667 and \$26,140, respectively, which was reported as an institutional support expense on the statements of activities.

In June 2007, CUS approved a \$2,225,000 line of credit, which is available to the University during the 2007-08 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, 2007 AND 2006**

NOTE 3 CONTRIBUTIONS RECEIVABLE

At June 30, 2007 and 2006, contributors have unconditionally promised to give the University \$4,450,491 and \$3,401,460, respectively. Of these amounts, \$1,990,260 and \$1,745,988, 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,	
	2007	2006
Amounts Due:		
Within One Year	\$ 1,710,374	\$ 725,036
One to Five Years	796,939	931,185
After Five Years	1,943,178	1,745,239
	4,450,491	3,401,460
Less: Present Value Component	(940,587)	(901,530)
Less: Estimated Uncollectible Pledges	(16,662)	(70,365)
	\$ 3,493,242	\$ 2,429,565

Amounts are reflected in the financial statements as follows:

Contributions Receivable	\$ 2,391,005	\$ 1,503,116
Trusts and Annuities Receivable	1,102,237	926,449
Total	\$ 3,493,242	\$ 2,429,565

NOTE 4 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2007 and 2006:

	2007		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,331,336	\$ -	\$ 5,331,336
Buildings	36,994,413	(15,616,493)	21,377,920
Building and Other Improvements	2,626,674	(1,554,602)	1,072,072
Equipment	4,573,587	(2,928,238)	1,645,349
Construction in Progress	32,659	-	32,659
Total	\$ 49,558,669	\$ (20,099,333)	\$ 29,459,336

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NOTE 4 LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)

	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	<u>\$ 47,630,966</u>	<u>\$ (18,335,468)</u>	<u>\$ 29,295,498</u>

The University maintained several dormitories that were torn down in August 2007 to construct a new residence life center. These buildings were not fully depreciated on the date of disposal. As a result, the University's book value at June 30, 2007 was reduced to the fair value at year-end and an impairment loss in the amount of \$612,199 was recognized in the statement of activities as a non-operating loss.

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, 2007 and 2006 follow:

	2007	2006
Mutual Funds	\$ 2,959,901	\$ 2,704,937
Cash and Money Market	525,291	485,436
LCEF Notes	4,612	4,612
Total Investments	<u>\$ 3,489,804</u>	<u>\$ 3,194,985</u>
LCMS Foundation:		
Standard Funds:		
Fixed Income	\$ 7,866,895	\$ 7,173,639
Equity	9,568,706	8,235,223
LCEF Certificate	25,000	25,000
Total LCMS Foundation	<u>\$ 17,460,601</u>	<u>\$ 15,433,862</u>

Income on long-term investments of \$582,778 and \$538,088 for the years ended June 30, 2007 and 2006, respectively, is net of custodial fees of \$89,095 and \$95,743, respectively.

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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, 2007 and 2006, 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.

The funds are held by the following third party trustees at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
LCMS Foundation	\$ 622,516	\$ 560,139
Alive in Christ Endowment	406,372	379,134
Trust Held at Wells Fargo	2,194,565	2,123,203
Total	<u>\$ 3,223,453</u>	<u>\$ 3,062,476</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, 2007 and 2006 with accumulated amortization at June 30, 2007 and 2006 of \$852,950 and \$746,350, respectively. Amortization included in depreciation expense was \$10,600 for the years ended June 30, 2007 and 2006. Future minimum payments required are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 160,842
2009	160,842
2010	143,000
2011	141,379
2012	141,379
Thereafter	282,758
Total Capital Lease Obligation	1,030,200
Payments Representing Interest	(172,836)
Total Principal Payments	<u>\$ 857,364</u>

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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, 2007 and 2006, the University's payable to MHEFA was \$8,275,403 and \$8,817,892, respectively, net of the unamortized discount of \$49,597 and \$52,108, respectively.

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2007 and 2006, the bonds bore an interest rate of 5 percent and 3 percent, respectively. The principal portion is due annually on January 1 and is scheduled to mature on April 1, 2027.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 335,000
2009	350,000
2010	365,000
2011	380,000
2012	395,000
Thereafter	6,500,000
Total Principal Payments	<u>\$ 8,325,000</u>

For the years ended June 30, 2007 and 2006, interest totaled \$420,251 and \$363,810, 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, 2007, the University was not in compliance with this covenant.

Funds on deposit with the bond trustee totaling \$191,070 and \$173,934 at June 30, 2007 and 2006, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2007, the University has an outstanding letter of credit with Bremer Bank for \$8,475,534 in relation to the bond issue.

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NOTE 9 ENVIRONMENTAL REMEDIATION

The University owns several buildings on campus that contain asbestos in various forms. 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 \$468,000. This amount is recorded as a liability on the statement of financial position. The University used a future value rate assumption of 3 percent and discounted the estimate to present value using a risk-free rate of return of 5 percent. The potential environmental remediation liability, included in accounts payable and other liabilities in the statement of financial position, is \$468,000 at June 30, 2007 and \$354,000 at June 30, 2006.

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, 2007 and 2006, 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,	
	2007	2006
Purpose Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 870,277	\$ 777,330
Other Instructional Programs	541,313	434,854
Support Programs:		
Academic Support	93,806	219,501
Student Services	19,813	24,394
Instructional Support	18,091	-
Auxiliary Enterprises	-	16,695
Scholarship Allowances (Student Aid)	727,398	804,195
Land, Building, and Equipment Acquisitions	10,000	625,274
	2,280,698	2,902,243
Time Restrictions	1,242,387	1,035,960
	\$ 3,523,085	\$ 3,938,203

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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,	
	2007	2006
Academic Programs:		
Instruction-Divisional	\$ 540,754	\$ 508,058
Support Programs:		
Academic Support	1,043,521	978,899
Scholarship Allowances (Student Aid)	12,219,126	10,174,366
Unrestricted Operations	7,465,623	6,896,552
	<u>\$ 21,269,024</u>	<u>\$ 18,557,875</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, 2007 and 2006, temporarily restricted net assets were released as follows:

	June 30,	
	2007	2006
Purpose Restrictions Accomplished:		
Academic Programs:		
Instruction-Divisional	\$ 77,289	\$ 61,499
Other Instructional Programs	539,608	369,081
Support Programs:		
Academic Support	309,619	248,576
Student Services	36,918	53,190
Institutional Support	27,825	9,977
Auxiliary Enterprises	-	314,715
Scholarship Allowances (Student Aid)	981,394	584,891
Fixed Assets Acquired and Placed in Service	1,171,158	652,116
	<u>3,143,811</u>	<u>2,294,045</u>
Expiration of Time Restrictions	451,808	29,153
	<u>\$ 3,595,619</u>	<u>\$ 2,323,198</u>

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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, 2007 and 2006 totaled \$770,629 and \$620,572, respectively.

NOTE 14 OPERATING LEASE

The University rents equipment under a non-cancelable operating lease that expires in 2008. In 2007, rent expense for this lease totaled \$607,344.

Minimum annual rental payments under this lease for the year ending June 30, 2008 are \$556,732.

NOTE 15 SUBSEQUENT EVENT

Subsequent to June 30, 2007, the University entered into a contract for construction of new student housing totaling \$12.8 million. It is anticipated that bonds will be issued to finance the construction.

