

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2008 AND 2007**

**CONCORDIA UNIVERSITY, ST. PAUL,  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
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YEARS ENDED JUNE 30, 2008 AND 2007**

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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, 2008 and 2007, 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, 2008 and 2007, 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 1 to the financial statements, the University adopted Emerging Issues Task Force 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*, as of July 1, 2007.

*Larson Allen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
October 22, 2008

**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2008 AND 2007**

<b>ASSETS</b>	2008	2007
Cash and Cash Equivalents	\$ 1,175,837	\$ 801,773
Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$703,188 in 2008 and \$659,988 in 2007	1,258,928	1,296,713
Federal Grants Receivable	176,789	71,089
State Grants Receivable	182,149	337,076
Inventories, Prepaid Expenses, and Other Assets	898,304	933,177
Contributions Receivable - Net of Allowance for Doubtful Accounts of \$504,544 in 2008 and \$16,662 in 2007	959,144	2,391,005
Trusts and Annuities Receivable	979,758	1,102,237
Funds on Deposit with Bond Trustee	8,287,975	191,070
Loans Receivable - Federal Perkins Loan Program	2,058,841	2,060,864
Land, Buildings, and Equipment - Net	41,411,170	29,459,336
Investment in LCMS Foundation	16,175,944	17,460,601
Long-Term Investments	3,240,698	3,489,804
Funds Held by Third-Party Trustees	3,035,711	3,223,453
Cash Value of Life Insurance	516,461	479,352
Bond Issuance Costs - Net	681,819	217,325
	<b>\$ 81,039,528</b>	<b>\$ 63,514,875</b>
<b>Total Assets</b>	<b>\$ 81,039,528</b>	<b>\$ 63,514,875</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Other Liabilities	\$ 5,764,945	\$ 2,454,062
Funds Advanced by Concordia University System	896,994	1,376,900
Deposits Payable	1,782,582	1,369,418
Deferred Revenue	1,236,508	1,838,852
Loans Payable	439,640	515,000
Obligation Under Capital Lease	740,966	857,364
Bonds Payable - Net of Discounts	25,939,718	8,275,403
Refundable Advances - Federal Perkins Loan Program	2,569,801	2,501,465
Total Liabilities	39,371,154	19,188,464
<b>NET ASSETS</b>		
Undesignated	(2,057,122)	(41,230)
Net Investment in Land, Buildings, and Equipment	19,163,543	19,575,532
Total Unrestricted	17,106,421	19,534,302
Temporarily Restricted	3,129,739	3,523,085
Permanently Restricted	21,432,214	21,269,024
Total Net Assets	41,668,374	44,326,411
Total Liabilities and Net Assets	<b>\$ 81,039,528</b>	<b>\$ 63,514,875</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, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND GRANTS</b>				
Concordia University System	\$ 156,959	\$ 50,500	\$ -	\$ 207,459
Federal Grants	331,603	-	-	331,603
State Grants	950,822	-	-	950,822
Other	704,990	1,760,221	509,668	2,974,879
Total Support and Grants	<u>2,144,374</u>	<u>1,810,721</u>	<u>509,668</u>	<u>4,464,763</u>
<b>REVENUE</b>				
Tuition and Fees	31,297,978	-	-	31,297,978
Less: Scholarship Allowances	(8,119,994)	-	-	(8,119,994)
Net Tuition and Fees	<u>23,177,984</u>	<u>-</u>	<u>-</u>	<u>23,177,984</u>
Income on Cash and Cash Equivalents	32,494	-	-	32,494
Income on Long-Term Investments	133,180	419,838	17,248	570,266
Auxiliary Enterprises	4,222,692	-	-	4,222,692
Other	344,709	-	-	344,709
Total Revenue	<u>27,911,059</u>	<u>419,838</u>	<u>17,248</u>	<u>28,348,145</u>
<b>GAINS AND OTHER ADDITIONS</b>				
Change in Value of Split-Interest Agreements	-	16,548	(139,028)	(122,480)
Change in Value of Funds Held by Third-Party Trustees	-	-	(187,741)	(187,741)
Write-Down of Pledge Receivable	-	-	(500,000)	(500,000)
Net Gains (Losses) on Investments	(2,287,366)	199,221	463,043	(1,625,102)
Total Gains and Other Additions	<u>(2,287,366)</u>	<u>215,769</u>	<u>(363,726)</u>	<u>(2,435,323)</u>
Subtotal	<u>27,768,067</u>	<u>2,446,328</u>	<u>163,190</u>	<u>30,377,585</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>2,839,674</u>	<u>(2,839,674)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains, and Other Additions	<u>30,607,741</u>	<u>(393,346)</u>	<u>163,190</u>	<u>30,377,585</u>
<b>EXPENSES</b>				
Educational and General:				
Academic Programs:				
Instruction-Divisional	9,984,152	-	-	9,984,152
Other Instructional Programs	1,606,307	-	-	1,606,307
Support Programs:				
Academic Support	2,889,461	-	-	2,889,461
Student Services	6,034,143	-	-	6,034,143
Institutional Support	6,230,230	-	-	6,230,230
Fund Raising	1,271,530	-	-	1,271,530
Total Educational and General	<u>28,015,823</u>	<u>-</u>	<u>-</u>	<u>28,015,823</u>
Auxiliary Enterprises	5,166,052	-	-	5,166,052
Total Expenses	<u>33,181,875</u>	<u>-</u>	<u>-</u>	<u>33,181,875</u>
<b>CHANGES IN NET ASSETS</b>	<u>(2,574,134)</u>	<u>(393,346)</u>	<u>163,190</u>	<u>(2,804,290)</u>
Net Assets - Beginning - Before Effect of Change in Accounting Principle	19,534,302	3,523,085	21,269,024	44,326,411
Cumulative Effect of Change in Accounting Principle	<u>146,253</u>	<u>-</u>	<u>-</u>	<u>146,253</u>
Net Assets - Beginning - After Effect of Change in Accounting Principle	<u>19,680,555</u>	<u>3,523,085</u>	<u>21,269,024</u>	<u>44,472,664</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 17,106,421</u>	<u>\$ 3,129,739</u>	<u>\$ 21,432,214</u>	<u>\$ 41,668,374</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, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND GRANTS</b>				
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>
<b>REVENUE</b>				
Tuition and Fees	28,879,065	-	-	28,879,065
Less: Scholarship Allowances	(7,253,619)	-	-	(7,253,619)
Net Tuition and Fees	<u>21,625,446</u>	<u>-</u>	<u>-</u>	<u>21,625,446</u>
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>
<b>GAINS AND OTHER ADDITIONS</b>				
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>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>3,595,619</u>	<u>(3,595,619)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Gains, and Other Additions	<u>33,409,079</u>	<u>(415,118)</u>	<u>2,711,149</u>	<u>35,705,110</u>
<b>EXPENSES</b>				
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	6,598,985	-	-	6,598,985
Institutional Support	5,232,632	-	-	5,232,632
Fund Raising	1,189,961	-	-	1,189,961
Total Educational and General	<u>26,277,486</u>	<u>-</u>	<u>-</u>	<u>26,277,486</u>
Auxiliary Enterprises	6,015,217	-	-	6,015,217
Total Expenses	<u>32,292,703</u>	<u>-</u>	<u>-</u>	<u>32,292,703</u>
<b>CHANGE IN OPERATING NET ASSETS</b>	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)
<b>CHANGES IN NET ASSETS</b>	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
<b>NET ASSETS - ENDING</b>	<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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ (2,804,290)	\$ 2,800,208
Adjustments to Reconcile Changes in Net Assets to Cash and Cash Equivalents Provided by Operating Activities:		
Cumulative Effect from Change in Accounting Principle	146,253	-
Bad Debt Expense	155,897	124,391
Depreciation Expense	1,287,656	1,266,029
Impairment Loss on Property and Equipment	-	612,199
Donated Securities and Property	(557,791)	(246,043)
Net Unrealized (Gains) Loss on Investments	321,674	(283,970)
Net Realized (Gains) Loss on Investments	-	(11,685)
Increase in Cash Value of Life Insurance	(37,109)	(50,536)
Interest, Dividends, and Gains Restricted for Long-Term Investment	(480,291)	(732,848)
Amortization of Bond Issuance Costs	21,810	11,004
Amortization of Bond Discount	4,630	2,511
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	(116,885)	36,262
Federal and State Grants Receivable	49,227	110,069
Inventories, Prepaid Expenses, and Other Assets	34,873	(16,941)
Contributions Receivable	1,553,113	(1,064,827)
Funds Held by Third-Party Trustees	187,742	(160,977)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	3,310,883	235,678
Deposits Payable	413,164	(82,820)
Deferred Revenue	(602,344)	(186,886)
Refundable Advances - Federal Perkins Loan Program	68,336	(107,454)
Net Cash and Cash Equivalents Provided by Operating Activities	2,956,548	2,253,364
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in Funds on Deposit with Concordia University System	-	139,357
Purchases of Equipment	(13,239,488)	(1,927,703)
Proceeds from Sales of Investments	623,252	401,428
Purchases of Investments	(138,032)	(154,549)
Investment in LCMS Foundation	1,284,657	(2,026,739)
Increase in Federal Perkins Loans Receivable	2,023	141,650
Net Cash and Cash Equivalents Used by Investing Activities	(11,467,588)	(3,426,556)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt, net of discount	18,059,686	500,000
Issuance Costs on Long-Term Debt	(486,304)	-
Line of Credit Payments	(75,360)	-
Interest, Dividends, and Gains Restricted for Reinvestment	480,291	732,848
Funds Advanced by (Repayments to) by Concordia University System	(479,906)	876,900
Increase in Funds on Deposit with Bond Trustee	(8,096,905)	(17,136)
Obligation Under Capital Lease - Principal Repayments	(116,398)	(109,069)
Minnesota Higher Education Facilities Authority Revenue Bonds - Principal Repayments	(400,000)	(545,000)
Net Cash and Cash Equivalents Provided by Financing Activities	8,885,104	1,438,543
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	374,064	265,351
Cash and Cash Equivalents - Beginning of Year	801,773	536,422
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,175,837	\$ 801,773
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 700,781	\$ 517,211

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, 2008 AND 2007**

**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 (\$156,959 in 2008 and \$153,227 in 2007) 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.

**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.



**CONCORDIA UNIVERSITY, ST. PAUL  
AN EDUCATIONAL INSTITUTION OF  
THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

**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, 2008 and 2007, cash restricted for federal loan and state grant programs totaled \$647,955 and \$640,908, 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.

**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.

**CONCORDIA UNIVERSITY, ST. PAUL  
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THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

Interest capitalized during the year ended June 30, 2008 consisted of \$291,269 of interest paid, less \$393,686 of interest earned for a net amount of (\$102,417).

**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.

**CONCORDIA UNIVERSITY, ST. PAUL  
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THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 \$65,472 and \$46,766 for the years ended June 30, 2008 and 2007, respectively. Amortization expense was \$21,810 and \$11,004 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007. 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.

**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). The University's tax returns are subject to review and examination by federal, state and local authorities. The tax returns for the years 2005 to 2007 are open to examination by federal, local and state authorities.

Effective July 1, 2007, the University adopted the provisions of FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of FIN 48 had no impact on the University's financial statements.

**CONCORDIA UNIVERSITY, ST. PAUL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Instruments**

The University's financial instruments are cash and cash equivalents, accounts receivable, pledges receivable, investments, deposits with bond trustees, accounts payable, and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The carrying value of contributions receivable is based on discounted cash flows, which approximates fair value at June 30, 2008. Investments and deposits with bond trustees are carried at fair value. The fair value of the University's long-term debt is estimated based on the current rates offered to the University for debt of similar terms and maturities. Under this method, the carrying value of the University's long-term debt approximates fair value at June 30, 2008. The fair value of the University's long-term debt approximates fair value because the debt's interest rates are variable.

**Advertising**

The University expenses the costs of advertising as they are incurred. Advertising expense was \$734,021 and \$1,807,971 for the years ended June 30, 2008 and 2007, respectively.

**Sabbatical Leave**

The University adopted the provisions of Emerging Issues Task Force 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*, as of July 1, 2007, which requires that accrual of sabbatical leave and other similar benefits be made only when certain conditions are met. The University reduced its accrual of sabbatical leave from the year ended June 30, 2007 by \$146,253 through a change in accounting principle as of July 1, 2007, to reflect the implementation of this standard.

**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 totaled \$-0- at both June 30, 2008 and 2007. Funds on deposit during the year included interest-bearing demand deposits of operational cash, funds set aside for capital purchases and short-term line of credit borrowings. These are demand deposits which earn interest on the daily balance in the account at rates ranging from 2.875% to 4.125%. During the years ended June 30, 2008 and 2007, interest earned on these deposits totaled \$6,094 and \$6,398, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

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**NOTE 2 FUNDS ON DEPOSIT WITH CONCORDIA UNIVERSITY SYSTEM (CONTINUED)**

In April 2007, CUS approved a \$2,225,000 line of credit to support current operations. During the years ended June 30, 2008 and 2007, 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, 2008 and 2007, these short-term line of credit borrowings totaled \$896,994 and \$1,376,900, respectively. Interest paid in fiscal years 2008 and 2007 on these borrowings totaled \$34,238 and \$38,667, respectively, which was reported as an institutional support expense on the statements of activities.

In June 2008, CUS approved a \$2,316,000 line of credit, which is available to the University during the 2008-09 fiscal year for short-term cash flow purposes.

**NOTE 3 CONTRIBUTIONS RECEIVABLE**

At June 30, 2008 and 2007, contributors have unconditionally promised to give the University \$3,279,613 and \$4,450,491, respectively. Of these amounts, \$1,808,300 and \$1,990,260, 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,	
	2008	2007
Amounts Due:		
Within One Year	\$ 1,294,745	\$ 1,710,374
One to Five Years	221,402	796,939
After Five Years	1,763,467	1,943,178
	3,279,614	4,450,491
Less: Present Value Component	(836,168)	(940,587)
Less: Estimated Uncollectible Pledges	(504,544)	(16,662)
	\$ 1,938,902	\$ 3,493,242
Amounts are Reflected in the Financial Statements as Follows:		
Contributions Receivable	\$ 959,144	\$ 2,391,005
Trusts and Annuities Receivable	979,758	1,102,237
Total	\$ 1,938,902	\$ 3,493,242

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

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2008 and 2007:

	2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,331,336	\$ -	\$ 5,331,336
Buildings	35,345,914	(14,638,162)	20,707,752
Building and Other Improvements	2,632,969	(1,697,782)	935,187
Equipment	4,677,608	(3,155,664)	1,521,944
Construction in Progress	12,914,951	-	12,914,951
Total	<u>\$ 60,902,778</u>	<u>\$ (19,491,608)</u>	<u>\$ 41,411,170</u>

  

	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	<u>\$ 49,558,669</u>	<u>\$ (20,099,333)</u>	<u>\$ 29,459,336</u>

**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, 2008 and 2007 follow:

	2008	2007
Mutual Funds	\$ 2,638,227	\$ 2,959,901
Cash and Money Market	597,859	525,291
LCEF Notes	4,612	4,612
Total Investments	<u>\$ 3,240,698</u>	<u>\$ 3,489,804</u>
LCMS Foundation:		
Standard Funds:		
Fixed Income	\$ 8,090,153	\$ 7,866,895
Equity	8,060,791	9,568,706
LCEF Certificate	25,000	25,000
Total LCMS Foundation	<u>\$ 16,175,944</u>	<u>\$ 17,460,601</u>

Income on long-term investments of \$570,266 and \$582,778 for the years ended June 30, 2008 and 2007, respectively, is net of custodial fees of \$99,768 and \$89,095, 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, 2008 and 2007, 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
LCMS Foundation	\$ 591,135	\$ 622,516
Alive in Christ Endowment	357,935	406,372
Trust Held at Wells Fargo	<u>2,086,641</u>	<u>2,194,565</u>
Total	<u>\$ 3,035,711</u>	<u>\$ 3,223,453</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, 2008 and 2007 with accumulated amortization at June 30, 2008 and 2007 of \$959,550 and \$852,950, respectively. Amortization included in depreciation expense was \$106,600 for the years ended June 30, 2008 and 2007. Future minimum payments required are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 160,842
2010	143,000
2011	141,379
2012	141,379
2013	141,379
Thereafter	<u>140,612</u>
Total Capital Lease Obligation	868,591
Payments Representing Interest	<u>(127,625)</u>
Total Principal Payments	<u>\$ 740,966</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. In October 2007, the University issued bonds with MHEFA with original value of \$18,155,000 in revenue bonds, Series Six-Q. At June 30, 2008 and 2007, the University's payable to MHEFA was \$25,939,718 and \$8,275,403, respectively, net of the unamortized discount of \$140,282 and \$49,597, respectively.

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2008 and 2007, the bonds bore an interest rate of 2% and 5%, respectively. The principal portion is due annually on January 1 and is scheduled to mature on April 1, 2037.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 455,000
2010	520,000
2011	580,000
2012	650,000
2013	720,000
Thereafter	23,155,000
Total Principal Payments	<u>\$ 26,080,000</u>

For the years ended June 30, 2008 and 2007, interest totaled \$596,396 and \$420,251, 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.

The bond indenture contains covenants, including a debt service coverage ratio between 1.20 to 1 and a net asset growth ratio in relation to the change in the Consumer Price Index. As of June 30, 2008, the University was not in compliance with the debt service coverage ratio or the net asset growth ratio. Subsequent to year-end the bank waived these requirements for the current fiscal year ended June 30, 2008.

Funds on deposit with the bond trustee totaling \$8,287,975 and \$191,070 at June 30, 2008 and 2007, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2008, the University has an outstanding letters of credit with Bremer Bank for \$8,067,910 and \$18,329,090 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% 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 \$289,000 at June 30, 2008 and \$468,000 at June 30, 2007.

**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, 2008 and 2007, 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,	
	2008	2007
Purpose Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 861,967	\$ 870,277
Other Instructional Programs	466,380	541,313
Support Programs:		
Academic Support	48,992	93,806
Student Services	16,944	19,813
Instructional Support	17,264	18,091
Scholarship Allowances (Student Aid)	631,420	727,398
Land, Building, and Equipment Acquisitions	325,000	10,000
	2,367,967	2,280,698
Time Restrictions	761,772	1,242,387
	\$ 3,129,739	\$ 3,523,085

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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,	
	<u>2008</u>	<u>2007</u>
Academic Programs:		
Instruction-Divisional	\$ 561,735	\$ 540,754
Support Programs:		
Academic Support	1,099,782	1,043,521
Scholarship Allowances (Student Aid)	12,655,744	12,219,126
Unrestricted Operations	7,114,953	7,465,623
	<u>\$ 21,432,214</u>	<u>\$ 21,269,024</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, 2008 and 2007, temporarily restricted net assets were released as follows:

	June 30,	
	<u>2008</u>	<u>2007</u>
Purpose Restrictions Accomplished:		
Academic Programs:		
Instruction-Divisional	\$ 140,516	\$ 77,289
Other Instructional Programs	608,450	539,608
Support Programs:		
Academic Support	318,023	309,619
Student Services	648	36,918
Institutional Support	119,873	27,825
Scholarship Allowances (Student Aid)	902,128	981,394
Fixed Assets Acquired and Placed in Service	-	1,171,158
	<u>2,089,638</u>	<u>3,143,811</u>
Expiration of Time Restrictions	750,036	451,808
	<u>\$ 2,839,674</u>	<u>\$ 3,595,619</u>

**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, 2008 and 2007 totaled \$854,807 and \$770,629, respectively.

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**NOTE 14 OPERATING LEASE**

The University rents equipment under a non-cancelable operating lease that expires in 2008. In 2008, rent expense for this lease totaled \$575,579.

Minimum annual rental payments under this lease for the year beginning in July 2008 and ending June 30, 2011 are \$388,350.

**NOTE 15 COMMITMENTS**

The University entered into an agreement with Kraus Anderson on August 22, 2007 to construct the Residence Life Center. The total amount of the agreement was \$12,943,357. The outstanding commitment as of June 30, 2008 was \$1,972,827.