

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**CONCORDIA UNIVERSITY, ST. PAUL,
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
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YEARS ENDED JUNE 30, 2010 AND 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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
LarsonAllen LLP

Minneapolis, Minnesota
September 30, 2010

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009**

| | 2010 | 2009 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 1,659,027 | \$ 1,189,088 |
| Funds on Deposit with Concordia University System | 1,757,689 | - |
| Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$831,653 in 2010 and \$703,188 in 2009 | 1,757,026 | 1,447,931 |
| Federal Grants Receivable | 397,678 | 131,914 |
| State Grants Receivable | 364,959 | 414,330 |
| Inventories, Prepaid Expenses, and Other Assets | 679,929 | 923,247 |
| Contributions Receivable - Net of Allowance for Doubtful Accounts of \$100,865 in 2010 and \$-0- in 2009 | 4,939,584 | 6,229,536 |
| Trusts and Annuities Receivable | 817,786 | 757,578 |
| Funds on Deposit with Bond Trustee | 311,984 | 279,983 |
| Loans Receivable - Federal Perkins Loan Program | 2,759,591 | 2,544,438 |
| Land, Buildings, and Equipment - Net | 47,508,406 | 46,245,591 |
| Investment in LCMS Foundation | 15,596,539 | 13,973,762 |
| Long-Term Investments | 2,612,327 | 2,503,936 |
| Funds Held by Third-Party Trustees | 3,220,735 | 2,962,989 |
| Cash Value of Life Insurance | 590,189 | 558,012 |
| Bond Issuance Costs - Net | 627,392 | 654,607 |
| | \$ 85,600,841 | \$ 80,816,942 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable and Other Liabilities | \$ 1,960,130 | \$ 4,564,250 |
| Funds Advanced by Concordia University System | - | 298,340 |
| Deposits Payable | 1,062,342 | 933,725 |
| Deferred Revenue | 1,746,069 | 1,686,523 |
| Loans Payable | 4,150,757 | 379,000 |
| Obligation Under Capital Lease | 504,948 | 615,832 |
| Bonds Payable - Net of Discounts | 23,256,096 | 23,770,406 |
| Refundable Advances - Federal Perkins Loan Program | 2,680,861 | 2,588,382 |
| Total Liabilities | 35,361,203 | 34,836,458 |
| NET ASSETS | | |
| Undesignated | 648,446 | (3,523,785) |
| Net Investment in Land, Buildings, and Equipment | 19,934,637 | 19,569,723 |
| Total Unrestricted | 20,583,083 | 16,045,938 |
| Temporarily Restricted | 6,656,410 | 7,919,803 |
| Permanently Restricted | 23,000,145 | 22,014,743 |
| Total Net Assets | 50,239,638 | 45,980,484 |
| Total Liabilities and Net Assets | \$ 85,600,841 | \$ 80,816,942 |

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, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------------|---------------------------|----------------------|
| SUPPORT AND GRANTS | | | | |
| Concordia University System | \$ - | \$ 4,630 | \$ - | \$ 4,630 |
| Federal Grants | 314,200 | - | - | 314,200 |
| State Grants | 1,442,873 | - | - | 1,442,873 |
| Other | 845,160 | 1,897,646 | 795,115 | 3,537,921 |
| Total Support and Grants | <u>2,602,233</u> | <u>1,902,276</u> | <u>795,115</u> | <u>5,299,624</u> |
| REVENUE | | | | |
| Tuition and Fees | 36,188,496 | - | - | 36,188,496 |
| Less: Scholarship Allowances | (9,627,985) | - | - | (9,627,985) |
| Net Tuition and Fees | <u>26,560,511</u> | <u>-</u> | <u>-</u> | <u>26,560,511</u> |
| Income on Cash and Cash Equivalents | 33,525 | - | - | 33,525 |
| Income on Long-Term Investments | 98,527 | 369,225 | 14,463 | 482,215 |
| Loss on Property Disposal | (160,741) | - | - | (160,741) |
| Auxiliary Enterprises | 5,231,738 | - | - | 5,231,738 |
| Other | 435,625 | - | - | 435,625 |
| Total Revenue | <u>32,199,185</u> | <u>369,225</u> | <u>14,463</u> | <u>32,582,873</u> |
| GAINS AND OTHER ADDITIONS | | | | |
| Change in Value of Split-Interest Agreements | - | 7,771 | 52,437 | 60,208 |
| Change in Value of Funds Held by Third-Party Trustees | - | - | 256,745 | 256,745 |
| Write-Down of Pledge Receivable | - | - | (133,358) | (133,358) |
| Net Gains (Losses) on Investments | 1,720,590 | - | - | 1,720,590 |
| Total Gains and Other Additions | <u>1,720,590</u> | <u>7,771</u> | <u>175,824</u> | <u>1,904,185</u> |
| Subtotal | <u>36,522,008</u> | <u>2,279,272</u> | <u>985,402</u> | <u>39,786,682</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>3,542,665</u> | <u>(3,542,665)</u> | <u>-</u> | <u>-</u> |
| Total Support and Grants, Revenue, Gains and Other Additions | 40,064,673 | (1,263,393) | 985,402 | 39,786,682 |
| EXPENSES | | | | |
| Educational and General: | | | | |
| Academic Programs: | | | | |
| Instruction-Divisional | 10,801,014 | - | - | 10,801,014 |
| Other Instructional Programs | 2,128,656 | - | - | 2,128,656 |
| Support Programs: | | | | |
| Academic Support | 2,808,410 | - | - | 2,808,410 |
| Student Services | 7,680,046 | - | - | 7,680,046 |
| Institutional Support | 5,099,801 | - | - | 5,099,801 |
| Fund Raising | 1,280,241 | - | - | 1,280,241 |
| Total Educational and General | <u>29,798,168</u> | <u>-</u> | <u>-</u> | <u>29,798,168</u> |
| Auxiliary Enterprises | 5,729,360 | - | - | 5,729,360 |
| Total Expenses | <u>35,527,528</u> | <u>-</u> | <u>-</u> | <u>35,527,528</u> |
| CHANGE IN NET ASSETS | 4,537,145 | (1,263,393) | 985,402 | 4,259,154 |
| Net Assets - Beginning | <u>16,045,938</u> | <u>7,919,803</u> | <u>22,014,743</u> | <u>45,980,484</u> |
| NET ASSETS - ENDING | <u>\$ 20,583,083</u> | <u>\$ 6,656,410</u> | <u>\$ 23,000,145</u> | <u>\$ 50,239,638</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, 2009**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| SUPPORT AND GRANTS | | | | |
| Concordia University System | \$ 116,380 | \$ - | \$ - | \$ 116,380 |
| Federal Grants | 316,091 | - | - | 316,091 |
| State Grants | 1,283,690 | - | - | 1,283,690 |
| Other | 767,644 | 8,808,763 | 613,446 | 10,189,853 |
| Total Support and Grants | <u>2,483,805</u> | <u>8,808,763</u> | <u>613,446</u> | <u>11,906,014</u> |
| REVENUE | | | | |
| Tuition and Fees | 34,435,897 | - | - | 34,435,897 |
| Less: Scholarship Allowances | (8,916,180) | - | - | (8,916,180) |
| Net Tuition and Fees | <u>25,519,717</u> | <u>-</u> | <u>-</u> | <u>25,519,717</u> |
| Income on Cash and Cash Equivalents | 55,062 | - | - | 55,062 |
| Income on Long-Term Investments | 116,454 | 426,487 | 18,547 | 561,488 |
| Auxiliary Enterprises | 5,074,766 | - | - | 5,074,766 |
| Other | 384,075 | - | - | 384,075 |
| Total Revenue | <u>31,150,074</u> | <u>426,487</u> | <u>18,547</u> | <u>31,595,108</u> |
| GAINS AND OTHER ADDITIONS | | | | |
| Change in Value of Split-Interest Agreements | - | (37,071) | (185,109) | (222,180) |
| Change in Value of Funds Held by Third-Party Trustees | - | - | (72,722) | (72,722) |
| Write-Down of Pledge Receivable | - | - | (500,000) | (500,000) |
| Net Gains (Losses) on Investments | <u>(3,149,473)</u> | <u>-</u> | <u>-</u> | <u>(3,149,473)</u> |
| Total Gains and Other Additions | <u>(3,149,473)</u> | <u>(37,071)</u> | <u>(757,831)</u> | <u>(3,944,375)</u> |
| Subtotal | 30,484,406 | 9,198,179 | (125,838) | 39,556,747 |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>3,915,585</u> | <u>(3,915,585)</u> | <u>-</u> | <u>-</u> |
| Total Support and Grants, Revenue, Gains and Other Additions | 34,399,991 | 5,282,594 | (125,838) | 39,556,747 |
| EXPENSES | | | | |
| Educational and General: | | | | |
| Academic Programs: | | | | |
| Instruction-Divisional | 10,655,608 | - | - | 10,655,608 |
| Other Instructional Programs | 1,631,556 | - | - | 1,631,556 |
| Support Programs: | | | | |
| Academic Support | 2,916,748 | - | - | 2,916,748 |
| Student Services | 7,265,071 | - | - | 7,265,071 |
| Institutional Support | 5,017,534 | - | - | 5,017,534 |
| Fund Raising | 1,360,729 | - | - | 1,360,729 |
| Total Educational and General | <u>28,847,246</u> | <u>-</u> | <u>-</u> | <u>28,847,246</u> |
| Auxiliary Enterprises | 6,397,391 | - | - | 6,397,391 |
| Total Expenses | <u>35,244,637</u> | <u>-</u> | <u>-</u> | <u>35,244,637</u> |
| CHANGE IN NET ASSETS BEFORE ADOPTION OF FSP 117-1 | (844,646) | 5,282,594 | (125,838) | 4,312,110 |
| Reclassification of Net Assets Resulting from the Adoption of FSP 117-1 | <u>(215,837)</u> | <u>(492,530)</u> | <u>708,367</u> | <u>-</u> |
| CHANGE IN NET ASSETS | (1,060,483) | 4,790,064 | 582,529 | 4,312,110 |
| Net Assets - Beginning | <u>17,106,421</u> | <u>3,129,739</u> | <u>21,432,214</u> | <u>41,668,374</u> |
| NET ASSETS - ENDING | <u>\$ 16,045,938</u> | <u>\$ 7,919,803</u> | <u>\$ 22,014,743</u> | <u>\$ 45,980,484</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, 2010 AND 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 4,259,154 | \$ 4,312,110 |
| Adjustments to Reconcile Changes in Net Assets to Cash and Cash Equivalents Provided (Used) by Operating Activities: | | |
| Bad Debt Expense | 346,195 | 155,897 |
| Depreciation Expense | 1,886,120 | 2,250,219 |
| Loss on Sale of Fixed Assets | 160,741 | - |
| Net Unrealized (Gains) Loss on Investments | (230,002) | 558,961 |
| Contributions Restricted for Investment in Endowment | (793,466) | (613,446) |
| Increase in Cash Value of Life Insurance | (32,177) | (41,551) |
| Amortization of Bond Issuance Costs | 27,215 | 27,212 |
| Amortization of Bond Discount | 5,691 | 5,689 |
| (Increase) Decrease in Assets: | | |
| Accounts and Interest Receivable | (655,290) | (343,673) |
| Federal and State Grants Receivable | (216,393) | (187,306) |
| Inventories, Prepaid Expenses, and Other Assets | 243,318 | (24,943) |
| Contributions Receivable | 1,229,744 | (5,049,439) |
| Funds Held by Third-Party Trustees | (257,746) | 72,722 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable and Other Liabilities | (2,604,120) | (1,200,695) |
| Deposits Payable | 128,617 | (848,857) |
| Deferred Revenue | 59,546 | 450,015 |
| Refundable Advances - Federal Perkins Loan Program | 92,479 | 18,581 |
| Net Cash and Cash Equivalents Provided (Used) by Operating Activities | 3,649,626 | (458,504) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Equipment | (3,382,435) | (7,084,640) |
| Proceeds on Sale of Fixed Assets | 72,759 | - |
| Proceeds from Sales of Investments | 161,551 | 226,747 |
| Funds on Deposit with CUS | (1,757,689) | - |
| Purchases of Investments | (39,940) | (48,947) |
| Investment in LCMS Foundation | (1,622,777) | 2,202,182 |
| Increase in Federal Perkins Loans Receivable | (215,153) | (485,597) |
| Net Cash and Cash Equivalents Used by Investing Activities | (6,783,684) | (5,190,255) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Long-Term Debt | 5,670,756 | - |
| Payments on Long-Term Debt | (1,535,000) | - |
| Line of Credit Payments | (364,000) | (60,640) |
| Proceeds from Contributions Restricted for Investment in Endowment | 793,466 | 613,446 |
| Repayments to by Concordia University System | (298,340) | (598,654) |
| Increase (Decrease) in Funds on Deposit with Bond Trustee | (32,001) | 8,007,992 |
| Obligation Under Capital Lease - Principal Repayments | (110,884) | (125,134) |
| Minnesota Higher Education Facilities Authority Revenue Bonds - Principal Repayments | (520,000) | (2,175,000) |
| Net Cash and Cash Equivalents Provided by Financing Activities | 3,603,997 | 5,662,010 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 469,939 | 13,251 |
| Cash and Cash Equivalents - Beginning of Year | 1,189,088 | 1,175,837 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 1,659,027 | \$ 1,189,088 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest Paid | \$ 398,666 | \$ 564,780 |

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, 2010 AND 2009**

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 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 is responsible for the management of the University. Some members of the board are elected through the Synod and others are selected through the board.

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 (\$-0- in 2010 and \$116,380 in 2009) 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, 2010 AND 2009**

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, 2010 and 2009, cash restricted for federal loan and state grant programs totaled \$633,613 and \$821,979, 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, 2010 AND 2009**

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.

Fair Value Measurement

The University accounts for its investments at fair value. The University has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Financial assets and liabilities recorded on the Statements of Financial Position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

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, 2010 consisted of \$13,571 of interest paid, less \$-0- of interest earned for a net amount of \$13,571. Interest capitalized during the year ended June 30, 2009 consisted of \$53,299 of interest paid, less \$41,685 of interest earned for a net amount of \$11,434.

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.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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 \$119,899 and \$92,684 for the years ended June 30, 2010 and 2009, respectively. Amortization expense was \$27,215 and \$27,212 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009. 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.

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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 University 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 2007 to 2009 are open to examination by federal, local and state authorities.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

Advertising

The University expenses the costs of advertising as they are incurred. Advertising expense was \$750,342 and \$776,787 for the years ended June 30, 2010 and 2009, respectively.

Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 30, 2010, the date the financial statements were available to be issued.

NOTE 2 FUNDS ON DEPOSIT WITH CONCORDIA UNIVERSITY SYSTEM

Funds on deposit with CUS totaled \$1,757,689 and \$-0- at June 30, 2010 and 2009, respectively. 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 rate of 2.125% during the year. During the years ended June 30, 2010 and 2009, interest earned on these deposits totaled \$17,794 and \$402, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

In June 2009, CUS approved a \$2,431,000 line of credit to support current operations. During the years ended June 30, 2010 and 2009, when the University was a net borrower from the CUS line of credit, interest was charged at rates ranging from 5.250% to 6.375%. At June 30, 2010 and 2009, these short-term line of credit borrowings totaled \$-0- and \$298,340, respectively. Interest paid in fiscal years 2010 and 2009 on these borrowings totaled \$20,950 and \$36,567, respectively, which was reported as an institutional support expense on the statements of activities.

In June 2010, CUS approved a \$2,552,000 line of credit, which is available to the University during the 2010-11 fiscal year for short-term cash flow purposes.

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NOTE 3 CONTRIBUTIONS RECEIVABLE

At June 30, 2010 and 2009, contributors have unconditionally promised to give the University \$6,711,461 and \$7,969,282, respectively. Of these amounts, \$1,432,092 and \$1,347,833, 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, | |
|--|--------------|--------------|
| | 2010 | 2009 |
| Amounts Due: | | |
| Within One Year | \$ 1,678,202 | \$ 1,782,930 |
| One to Five Years | 3,707,808 | 4,944,877 |
| After Five Years | 1,325,451 | 1,241,475 |
| | 6,711,461 | 7,969,282 |
| Less: Present Value Component | (853,226) | (982,168) |
| Less: Estimated Uncollectible Pledges | (100,865) | - |
| | \$ 5,757,370 | \$ 6,987,114 |
| Amounts are Reflected in the Financial Statements as Follows: | | |
| Contributions Receivable | \$ 4,939,584 | \$ 6,229,536 |
| Trusts and Annuities Receivable | 817,786 | 757,578 |
| Total | \$ 5,757,370 | \$ 6,987,114 |

NOTE 4 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2010 and 2009:

| | 2010 | | |
|---------------------------------|---------------|-----------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | \$ 5,033,147 | \$ - | \$ 5,033,147 |
| Buildings | 56,898,127 | (16,878,785) | 40,019,342 |
| Building and Other Improvements | 2,632,969 | (1,982,213) | 650,756 |
| Equipment | 5,477,401 | (3,672,240) | 1,805,161 |
| Total | \$ 70,041,644 | \$ (22,533,238) | \$ 47,508,406 |

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NOTE 4 LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)

| | 2009 | | |
|---------------------------------|----------------------|-----------------------------|----------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | \$ 5,266,647 | \$ - | \$ 5,266,647 |
| Buildings | 49,567,564 | (15,436,934) | 34,130,630 |
| Building and Other Improvements | 2,632,969 | (1,840,845) | 792,124 |
| Equipment | 5,401,641 | (3,418,675) | 1,982,966 |
| Construction in Progress | 4,073,224 | - | 4,073,224 |
| Total | <u>\$ 66,942,045</u> | <u>\$ (20,696,454)</u> | <u>\$ 46,245,591</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, 2010 and 2009 follow:

| | 2010 | 2009 |
|-----------------------|----------------------|----------------------|
| Mutual Funds | \$ 2,309,267 | \$ 2,079,264 |
| Cash and Money Market | 298,448 | 420,060 |
| LCEF Notes | 4,612 | 4,612 |
| Total Investments | <u>\$ 2,612,327</u> | <u>\$ 2,503,936</u> |
| LCMS Foundation: | | |
| Standard Funds: | | |
| Fixed Income | \$ 8,857,560 | \$ 7,950,388 |
| Equity | 6,713,979 | 5,998,374 |
| LCEF Certificate | 25,000 | 25,000 |
| Total LCMS Foundation | <u>\$ 15,596,539</u> | <u>\$ 13,973,762</u> |

Income on long-term investments of \$482,215 and \$561,488 for the years ended June 30, 2010 and 2009, respectively, is net of custodial fees of \$99,679 and \$81,998, 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, 2010 and 2009, 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, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|---------------------------|---------------------|---------------------|
| LCMS Foundation | \$ 587,155 | \$ 536,118 |
| Alive in Christ Endowment | 308,946 | 270,316 |
| Trust Held at Wells Fargo | <u>2,324,634</u> | <u>2,156,555</u> |
| Total | <u>\$ 3,220,735</u> | <u>\$ 2,962,989</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, 2010 and 2009 with accumulated amortization at June 30, 2010 and 2009 of \$1,172,750 and \$1,066,150, respectively. Amortization included in depreciation expense was \$106,600 for the years ended June 30, 2010 and 2009. Future minimum payments required are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|--------------------------------|-------------------|
| 2011 | \$ 141,379 |
| 2012 | 141,379 |
| 2013 | 141,379 |
| 2014 | <u>140,612</u> |
| Total Capital Lease Obligation | 564,749 |
| Payments Representing Interest | <u>(59,801)</u> |
| Total Principal Payments | <u>\$ 504,948</u> |

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NOTE 8 LONG-TERM DEBT

Bonds Payable

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, 2010 and 2009, the University's payable to MHEFA was \$23,256,096 and \$23,770,406, respectively, net of the unamortized discount of \$128,904 and \$134,594, respectively.

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2010 and 2009, the bonds bore an interest rate of .35% and 2%, 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> |
|-----------------------------|-----------------------------|
| 2011 | \$ 580,000 |
| 2012 | 650,000 |
| 2013 | 720,000 |
| 2014 | 805,000 |
| 2015 | 885,000 |
| Thereafter | 19,745,000 |
| Total Principal Payments | <u><u>\$ 23,385,000</u></u> |

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, 2010, the University was in compliance with the debt service coverage ratio and the net asset growth ratio.

Funds on deposit with the bond trustee totaling \$311,984 and \$279,983 at June 30, 2010 and 2009, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2010, the University has outstanding letters of credit with Bremer Bank for \$7,075,671 and \$16,592,597 in relation to the bond issue.

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

Loan Payable

Effective July, 2009, the University entered into a \$5,800,000 loan with Bremer Bank for the Seafoam Stadium. At June 30, 2010, the balance on this loan was \$4,150,757. Under the terms of the loan agreement, the interest rate is equal to one percent per annum in excess of prime rate, with a rate no less than 4.75%. At June 30, 2010, the loan bore an interest rate of 4.75%. The principal portion is due annually on January 31 and is schedule to mature on January 31, 2014.

Future minimum principal payments, based on the loan agreement with Bremer Bank, are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| 2011 | \$ 650,757 |
| 2012 | 1,200,000 |
| 2013 | 1,200,000 |
| 2014 | 1,100,000 |
| Total Principal Payments | <u>\$ 4,150,757</u> |

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, 2010 and 2009.

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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, 2010 and 2009, 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:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Purpose Restrictions: | | |
| Academic Programs: | | |
| Instruction-Divisional | \$ 354,096 | \$ 418,379 |
| Other Instructional Programs | 247,230 | 429,698 |
| Support Programs: | | |
| Academic Support | 48,760 | 28,357 |
| Student Services | 32,034 | 29,315 |
| Instructional Support | 65,368 | 18,040 |
| Auxiliary Enterprises | - | - |
| Scholarship Allowances (Student Aid) | 516,958 | 456,005 |
| Land, Building, and Equipment Acquisitions | 17,754 | 20,000 |
| | <u>1,282,200</u> | <u>1,399,794</u> |
| Time Restrictions | <u>5,374,210</u> | <u>6,520,009</u> |
| | <u>\$ 6,656,410</u> | <u>\$ 7,919,803</u> |

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:

| | <u>June 30,</u> | |
|--------------------------------------|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| Academic Programs: | | |
| Instruction-Divisional | \$ 516,677 | \$ 554,430 |
| Support Programs: | | |
| Academic Support | 1,803,163 | 1,795,417 |
| Scholarship Allowances (Student Aid) | 12,766,620 | 11,924,657 |
| Unrestricted Operations | 7,913,685 | 7,740,239 |
| | <u>\$ 23,000,145</u> | <u>\$ 22,014,743</u> |

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NOTE 12 ENDOWMENT

The University has a donor restricted endowment fund established for the purposes of providing income to provide scholarships. As required by GAAP, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Regents of the University has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

The endowment net assets and activity for 2010 and 2009 consisted of the following:

| | Net Assets | | | Total |
|--|-----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment Fund Balance as June 30, 2008 | \$ 156,472 | \$ 995,699 | \$ 16,946,721 | \$ 18,098,892 |
| Contributions | - | 1,700 | 613,446 | 615,146 |
| Earnings: | | | | |
| Interest and Dividends | 36,054 | 426,483 | 18,547 | 481,084 |
| Realized and unrealized gains and losses | - | (3,137,647) | - | (3,137,647) |
| | <u>36,054</u> | <u>(2,711,164)</u> | <u>18,547</u> | <u>(2,656,563)</u> |
| Appropriations | (69,675) | (429,691) | - | (499,366) |
| Reclassification for UPMIFA/FSP 117-1 | (215,837) | (492,530) | 708,367 | - |
| Reclassification of net assets | <u>(3,137,647)</u> | <u>3,137,647</u> | <u>-</u> | <u>-</u> |
| Endowment Fund Balance as June 30, 2009 | (3,230,633) | 501,661 | 18,287,081 | 15,558,109 |
| Contributions | - | 2,112 | 793,466 | 795,578 |
| Adoption of FSP 117-1 reclassification of net assets | - | - | - | - |
| Earnings: | | | | |
| Interest and Dividends | 31,976 | 369,220 | 14,461 | 415,657 |
| Realized and unrealized gains and losses | 1,709,660 | - | - | 1,709,660 |
| | <u>1,741,636</u> | <u>369,220</u> | <u>14,461</u> | <u>2,125,317</u> |
| Appropriations | (31,976) | (436,607) | - | (468,583) |
| Endowment Fund Balance as June 30, 2010 | <u>\$ (1,520,973)</u> | <u>\$ 436,386</u> | <u>\$ 19,095,008</u> | <u>\$ 18,010,421</u> |

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NOTE 12 ENDOWMENT (CONTINUED)

Endowment Fund Deficiency

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were \$1,488,998 and \$3,137,647 at June 30, 2010 and 2009, respectively. The deficiency resulted from unfavorable market fluctuations that occurred during 2010 and 2009 and continued appropriation for scholarships that were deemed prudent by the Board of Regents.

Investment Strategy, Return Objectives and Risk Parameters

The University invests its endowment fund in a balanced portfolio of debt and equity securities with the objective of preservation of capital and long-term capital appreciation. The balanced portfolio investment return objective is to produce real returns, net of inflation of approximately 5% over time at a moderate level of risk to invested capital.

Spending Policy and How Investment Objectives Relate to Spending

The Board of Regents approved a 4% spending policy in 2005. Most of the University's endowments were established before the adoption of the spending policy and have specific requirements for spending earnings at various percentage levels and re-investing earnings back into the permanent endowment.

NOTE 13 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, 2010 and 2009, temporarily restricted net assets were released as follows:

| | June 30, | |
|---|---------------------|---------------------|
| | 2010 | 2009 |
| Purpose Restrictions Accomplished: | | |
| Academic Programs: | | |
| Instruction-Divisional | \$ 128,574 | \$ 145,849 |
| Other Instructional Programs | 457,552 | 535,329 |
| Support Programs: | | |
| Academic Support | 69,977 | 10,354 |
| Student Services | 50,578 | 82,815 |
| Institutional Support | 111,197 | 167,329 |
| Scholarship Allowances (Student Aid) | 673,771 | 761,186 |
| Fixed Assets Acquired and Placed in Service | 1,569,793 | 1,746,454 |
| | <u>3,061,442</u> | <u>3,449,316</u> |
| Expiration of Time Restrictions | 481,223 | 466,269 |
| | <u>\$ 3,542,665</u> | <u>\$ 3,915,585</u> |

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NOTE 14 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, 2010 and 2009 totaled \$1,114,267 and \$993,610, respectively.

NOTE 15 OPERATING LEASE

The University rents equipment under a non-cancelable operating lease that expires in 2011. In 2010, rent expense for this lease totaled \$388,350. Minimum annual rental payments under this lease for the period beginning in July 2010 and ending June 30, 2011 are \$388,350.

NOTE 16 FAIR VALUE MEASUREMENTS

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the University values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies.

Assets measured at fair value on a recurring basis as of June 30:

| | 2010 | | | |
|--------------------------|---------------------|-------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds - Equity | \$ 1,829,543 | \$ - | \$ 6,713,979 | \$ 8,543,522 |
| Mutual Funds - Bonds | 727,351 | 348,836 | 8,857,560 | 9,933,747 |
| Real Estate | - | - | 1,664,399 | 1,664,399 |
| LCMS Endowment Funds | - | - | 896,101 | 896,101 |
| Complementary Strategies | 43,019 | - | - | 43,019 |
| Funds with CUS | - | - | 1,757,689 | 1,757,689 |
| LCEF Funds | - | - | 29,612 | 29,612 |
| Total | <u>\$ 2,599,913</u> | <u>\$ 348,836</u> | <u>\$ 19,919,340</u> | <u>\$ 22,868,089</u> |

| | 2009 | | | |
|-----------------------|---------------------|-------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds - Equity | \$ 1,646,773 | \$ - | \$ 7,950,201 | \$ 9,596,974 |
| Mutual Funds - Bonds | 662,326 | 329,945 | 5,998,561 | 6,990,832 |
| Real Estate | - | - | 1,430,737 | 1,430,737 |
| LCMS Endowment Funds | - | - | 806,434 | 806,434 |
| LCEF Funds | - | - | 29,612 | 29,612 |
| Total | <u>\$ 2,309,099</u> | <u>\$ 329,945</u> | <u>\$ 16,215,545</u> | <u>\$ 18,854,589</u> |

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NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

The following table provides summary of changes in fair value of the University's Level 3 financial assets for the year ended June 30:

| | |
|--|----------------------|
| Balances as of July 1, 2009 | \$ 16,215,545 |
| Net Realized and Unrealized Losses on Investments | 1,803,737 |
| Investment Income | 439,377 |
| Purchases of Investments | 1,911,976 |
| Proceeds from Sales of Investments | (451,295) |
| Balance as of June 30, 2010 | <u>\$ 19,919,340</u> |
| | |
| Balances as of July 1, 2008 | \$ 18,399,943 |
| Net Realized and Unrealized Losses on Investments | (2,720,976) |
| Investment Income | 504,620 |
| Purchases of Investments | 305,148 |
| Proceeds from Sales of Investments | (273,190) |
| Balance as of June 30, 2009 | <u>\$ 16,215,545</u> |

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, 2010. 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, 2010. The fair value of the University's long-term debt approximates fair value because the debt's interest rates are variable.