

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

**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 financial statements of Concordia University, St. Paul, an educational institution of the Lutheran Church – Missouri Synod, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Regents
Concordia University, St. Paul

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, 2014 and 2013, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 9, 2014

CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and Cash Equivalents	\$ 11,740,712	\$ 6,196,792
Funds on Deposit with Concordia University System	5,165,117	4,861,984
Accounts and Interest Receivable - Net of Allowance for Doubtful Accounts of \$879,106 in 2014 and \$756,215 in 2013	1,508,835	1,672,883
Due from Food Service Company	-	1,000,000
Federal Grants Receivable	842,659	687,159
State Grants Receivable	145,742	415,186
Inventories, Prepaid Expenses, and Other Assets	520,450	350,132
Contributions Receivable - Net of Allowance for Doubtful Accounts of \$26,768 in 2014 and \$31,826 in 2013	380,826	938,913
Trusts and Annuities Receivable	1,005,415	1,029,531
Funds on Deposit with Bond Trustee	469,188	426,088
Loans Receivable - Federal Perkins Loan Program	2,485,380	2,392,089
Land, Buildings, and Equipment - Net	46,761,613	44,667,096
Investment in LCMS Foundation	23,001,131	21,556,547
Long-Term Investments	3,746,189	3,239,351
Funds Held by Third-Party Trustees	12,809,336	4,052,974
Cash Value of Life Insurance	756,927	713,890
Bond Issuance Costs - Net	518,536	545,750
	\$ 111,858,056	\$ 94,746,365
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bonds Payable - Net of Discounts	\$ 20,023,848	\$ 20,823,160
Deposits Payable	281,525	250,028
Refundable Advance - Food Service Company	923,077	1,000,000
Deferred Revenue	3,152,151	2,096,489
Obligation Under Capital Lease	2,045,571	711,472
Accounts Payable and Other Liabilities	3,384,263	3,890,515
Interest Rate SWAP Agreements	1,189,457	1,171,796
Refundable Advances - Federal Perkins Loan Program	2,594,052	2,589,747
Total Liabilities	33,593,944	32,533,207
NET ASSETS		
Undesignated	11,870,970	7,762,779
Net Investment in Land, Buildings, and Equipment	23,698,437	22,189,655
Total Unrestricted	35,569,407	29,952,434
Temporarily Restricted	5,658,677	4,383,298
Permanently Restricted	37,036,028	27,877,426
Total Net Assets	78,264,112	62,213,158
Total Liabilities and Net Assets	\$ 111,858,056	\$ 94,746,365

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Tuition and Fees	\$ 41,329,102	\$ -	\$ -	\$ 41,329,102
Less: Scholarship Allowances	(6,589,126)	-	-	(6,589,126)
Net Tuition and Fees	34,739,976	-	-	34,739,976
Income on Cash and Cash Equivalents	30,002	-	-	30,002
Income on Long-Term Investments	38,568	408,190	14,072	460,830
Auxiliary Enterprises	5,813,781	-	-	5,813,781
Other	405,956	-	-	405,956
Total Revenue	41,028,283	408,190	14,072	41,450,545
SUPPORT AND GRANTS				
Concordia University System	-	39,886	-	39,886
Federal Grants	553,346	-	-	553,346
State Grants	1,066,062	-	-	1,066,062
Other	2,350,876	1,298,189	385,234	4,034,299
Total Support and Grants	3,970,284	1,338,075	385,234	5,693,593
GAINS AND OTHER ADDITIONS				
Change in Value of Split-Interest Agreements	-	24,144	(48,260)	(24,116)
Change in Value of Funds Held by Third-Party Trustees	-	-	8,756,361	8,756,361
Loss on Interest Rate Swap Agreement	(17,661)	-	-	(17,661)
Net Gains on Investments	498,156	2,376,832	51,195	2,926,183
Total Gains and Other Additions	480,495	2,400,976	8,759,296	11,640,767
Subtotal	45,479,062	4,147,241	9,158,602	58,784,905
NET ASSETS RELEASED FROM RESTRICTIONS				
	2,871,862	(2,871,862)	-	-
Total Support and Grants, Revenue, Gains and Other Additions	48,350,924	1,275,379	9,158,602	58,784,905
EXPENSES				
Educational and General:				
Academic Programs:				
Instruction-Divisional	16,249,783	-	-	16,249,783
Other Instructional Programs	2,076,317	-	-	2,076,317
Support Programs:				
Academic Support	3,074,280	-	-	3,074,280
Student Services	9,745,750	-	-	9,745,750
Institutional Support	5,113,119	-	-	5,113,119
Fundraising	1,316,276	-	-	1,316,276
Total Educational and General	37,575,525	-	-	37,575,525
Auxiliary Enterprises	5,158,426	-	-	5,158,426
Total Expenses	42,733,951	-	-	42,733,951
CHANGE IN NET ASSETS				
	5,616,973	1,275,379	9,158,602	16,050,954
Net Assets - Beginning	29,952,434	4,383,298	27,877,426	62,213,158
NET ASSETS - ENDING	<u>\$ 35,569,407</u>	<u>\$ 5,658,677</u>	<u>\$ 37,036,028</u>	<u>\$ 78,264,112</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Tuition and Fees	\$ 41,183,906	\$ -	\$ -	\$ 41,183,906
Less: Scholarship Allowances	<u>(13,034,982)</u>	-	-	<u>(13,034,982)</u>
Net Tuition and Fees	28,148,924	-	-	28,148,924
Income on Cash and Cash Equivalents	33,178	-	-	33,178
Income on Long-Term Investments	66,526	415,668	12,805	494,999
Auxiliary Enterprises	5,383,954	-	-	5,383,954
Other	<u>471,726</u>	-	-	<u>471,726</u>
Total Revenue	34,104,308	415,668	12,805	34,532,781
SUPPORT AND GRANTS				
Concordia University System	30,000	11,830	-	41,830
Federal Grants	660,315	-	-	660,315
State Grants	1,159,187	-	-	1,159,187
Other	<u>1,027,663</u>	<u>1,454,090</u>	<u>1,061,704</u>	<u>3,543,457</u>
Total Support and Grants	2,877,165	1,465,920	1,061,704	5,404,789
GAINS AND OTHER ADDITIONS				
Change in Value of Split-Interest Agreements	-	188,810	57,024	245,834
Change in Value of Funds Held by Third-Party Trustees	-	-	459,802	459,802
Gains on Interest Rate Swap Agreement	712,444	-	-	712,444
Insurance Proceeds	112,110	-	-	112,110
Net Gains on Investments	<u>653,303</u>	<u>939,148</u>	<u>19,334</u>	<u>1,611,785</u>
Total Gains and Other Additions	1,477,857	1,127,958	536,160	3,141,975
Subtotal	38,459,330	3,009,546	1,610,669	43,079,545
NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,550,417</u>	<u>(2,509,832)</u>	<u>(40,585)</u>	<u>-</u>
Total Support and Grants, Revenue, Gains and Other Additions	41,009,747	499,714	1,570,084	43,079,545
EXPENSES				
Educational and General:				
Academic Programs:				
Instruction-Divisional	12,646,906	-	-	12,646,906
Other Instructional Programs	2,049,843	-	-	2,049,843
Support Programs:				
Academic Support	2,918,966	-	-	2,918,966
Student Services	8,817,473	-	-	8,817,473
Institutional Support	5,209,107	-	-	5,209,107
Fundraising	<u>1,324,878</u>	-	-	<u>1,324,878</u>
Total Educational and General	32,967,173	-	-	32,967,173
Auxiliary Enterprises	<u>5,030,630</u>	-	-	<u>5,030,630</u>
Total Expenses	37,997,803	-	-	37,997,803
CHANGE IN NET ASSETS	3,011,944	499,714	1,570,084	5,081,742
Net Assets - Beginning	<u>26,940,490</u>	<u>3,883,584</u>	<u>26,307,342</u>	<u>57,131,416</u>
NET ASSETS - ENDING	<u>\$ 29,952,434</u>	<u>\$ 4,383,298</u>	<u>\$ 27,877,426</u>	<u>\$ 62,213,158</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, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 16,050,954	\$ 5,081,742
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by Operating Activities:		
Bad Debt Expense	314,201	231,126
Depreciation Expense	2,585,933	2,505,426
Net Unrealized Gains on Investments	(292,758)	(37,693)
Realized Gains on Investments	(1,971)	(207,719)
Change in Value of SWAP Agreements	17,661	(712,445)
Contributions Restricted for Investment in Endowment	(443,613)	(1,124,178)
Increase in Cash Value of Life Insurance	(43,037)	(57,008)
Amortization of Bond Issuance Costs	27,214	27,214
Amortization of Bond Discount	5,688	5,688
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	(150,153)	(885,882)
Federal and State Grants Receivable	113,944	(389,903)
Inventories, Prepaid Expenses, and Other Assets	(170,318)	(7,060)
Contributions Receivable	582,203	1,148,915
Due from Food Service Company	1,000,000	(1,000,000)
Funds Held by Third-Party Trustees	(8,756,362)	(459,801)
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	(506,252)	1,248,439
Deposits Payable	31,497	(257,005)
Deferred Revenue	1,055,662	609,354
Refundable Advances - Food Service Company	(76,923)	1,000,000
Refundable Advances - Federal Perkins Loan Program	4,305	(38,211)
Net Cash Provided by Operating Activities	11,347,875	6,680,999
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Equipment	(2,634,879)	(710,124)
Proceeds from Sales of Investments	620,492	291,796
Funds on Deposit with CUS	(303,133)	289,287
Purchases of Investments	(832,601)	(216,042)
Investment in LCMS Foundation	(1,444,584)	(1,324,056)
(Increase) Decrease in Federal Perkins Loans Receivable	(93,291)	32,798
Net Cash Used by Investing Activities	(4,687,996)	(1,636,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(805,000)	(1,920,000)
Payments on Capital Leases	(711,472)	(677,631)
Proceeds from Contributions Restricted for Investment in Endowment	443,613	1,124,178
Decrease in Funds on Deposit with Bond Trustee	(43,100)	(43,500)
Net Cash Used by Financing Activities	(1,115,959)	(1,516,953)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,543,920	3,527,705
Cash and Cash Equivalents - Beginning of Year	6,196,792	2,669,087
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,740,712	\$ 6,196,792
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Equipment Purchased with Capital Lease	\$ 2,045,571	\$ -
Interest Paid	\$ 805,741	\$ 868,302

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, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Concordia University, St. Paul (the University or the Organization), 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 2014 and \$30,000 in 2013) 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, 2014 AND 2013**

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 Regents 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 (GAAP). 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, 2014 and 2013, cash restricted for federal Perkins loan and state grant programs totaled \$277,798 and \$369,068, 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 collectability. 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 collectability 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, 2014 AND 2013**

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.

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.

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.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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 3 to 60 years.

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 \$228,755 and \$201,541 for the years ended June 30, 2014 and 2013, respectively. Amortization expense was \$27,214 for the years ended June 30, 2014 and 2013.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013. 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 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 2011 to 2013 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 \$1,565,368 and \$1,523,361 for the years ended June 30, 2014 and 2013, respectively.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2013 financial statements in order to present them in conformity with the 2014 financial statements. These reclassifications have had no effect on net assets as previously reported.

Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 9, 2014, 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 \$5,165,117 and \$4,861,984 at June 30, 2014 and 2013, 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 0.375% to 0.50%. During the years ended June 30, 2014 and 2013, interest earned on these deposits totaled \$20,288 and \$24,207, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

In June 2013, CUS approved a \$2,604,000 line of credit to support current operations. During the years ended June 30, 2014 and 2013, when the University was a net borrower from the CUS line of credit, interest was charged at rates ranging from 4.25% to 4.75%. At June 30, 2014 and 2013, these short-term line of credit borrowings totaled \$-0-. Interest paid in fiscal years 2014 and 2013 on these borrowings totaled \$-0-, which was reported as an institutional support expense on the statements of activities.

In June 2014, CUS approved a \$2,564,000 line of credit, which is available to the University during the 2014-15 fiscal year for short-term cash flow purposes.

NOTE 3 CONTRIBUTIONS RECEIVABLE

At June 30, 2014 and 2013, contributors have unconditionally promised to give the University \$2,046,780 and \$2,666,314, respectively. Of these amounts, \$1,637,013 and \$1,684,768, 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.

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NOTE 3 CONTRIBUTIONS RECEIVABLE (CONTINUED)

Management believes total contributions will be received as follows:

	June 30,	
	2014	2013
Amounts Due:		
Within One Year	\$ 372,479	\$ 889,790
One to Five Years	235,841	348,385
After Five Years	1,438,460	1,428,139
	2,046,780	2,666,314
Less: Present Value Component	(633,771)	(666,044)
Less: Estimated Uncollectible Pledges	(26,768)	(31,826)
	\$ 1,386,241	\$ 1,968,444
Amounts are Reflected in the Financial Statements as Follows:		
Contributions Receivable	\$ 380,826	\$ 938,913
Trusts and Annuities Receivable	1,005,415	1,029,531
Total	\$ 1,386,241	\$ 1,968,444

NOTE 4 LOANS RECEIVABLE – FEDERAL PERKINS LOAN PROGRAM

Loans receivable 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. At June 30, 2014 and 2013, loans receivable were \$2,539,961 and \$2,392,089, respectively, which represented 2.07% and 2.5% of total assets, respectively.

Amounts due under the Federal loan programs are guaranteed by the government and therefore, no reserves are placed on any past due balances under the program.

At June 30, 2014 and 2013, the following amounts were past due under student loan programs:

June 30,	1-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Total Past Due
2014	\$ -	\$ 581	\$ 539,241	\$ 539,822
2013	2,316	551	544,129	546,996

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NOTE 4 LOANS RECEIVABLE – FEDERAL PERKINS LOAN PROGRAM (CONTINUED)

The availability of funds for loans under the Perkins Federal loan program is dependent on reimbursement to the pool from repayments on outstanding loans. Funds advanced by the Federal government of approximately \$2.6 million and \$2.5 million at June 30, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government.

NOTE 5 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment and the related accumulated depreciation amounts at are as follows at June 30, 2014 and 2013:

	2014		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,446,491	\$ -	\$ 5,446,491
Buildings	58,381,624	(22,998,418)	35,383,206
Building and Other Improvements	2,641,265	(2,476,072)	165,193
Equipment	10,796,468	(6,118,012)	4,678,456
Construction in Progress	1,088,267	-	1,088,267
Total	<u>\$ 78,354,115</u>	<u>\$ (31,592,502)</u>	<u>\$ 46,761,613</u>
	2013		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,446,491	\$ -	\$ 5,446,491
Buildings	58,115,111	(21,434,202)	36,680,909
Building and Other Improvements	2,632,969	(2,381,663)	251,306
Equipment	7,171,314	(5,224,535)	1,946,779
Construction in Progress	341,611	-	341,611
Total	<u>\$ 73,707,496</u>	<u>\$ (29,040,400)</u>	<u>\$ 44,667,096</u>

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NOTE 6 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, 2014 and 2013 follows:

	2014	2013
Mutual Funds - Equities	\$ 2,935,921	\$ 2,558,944
Mutual Funds - Fixed Income	480,793	528,579
Cash and Money Market	325,875	147,216
LCEF Notes	3,600	4,612
Total Investments	<u>\$ 3,746,189</u>	<u>\$ 3,239,351</u>
LCMS Foundation:		
Standard Funds:		
Fixed Income	\$ 11,301,959	\$ 10,748,484
Equity	11,674,172	10,783,063
LCEF Certificate	25,000	25,000
Total LCMS Foundation	<u>\$ 23,001,131</u>	<u>\$ 21,556,547</u>

Income on long-term investments of \$460,830 and \$494,999 for the years ended June 30, 2014 and 2013, respectively, is net of custodial fees of \$151,613 and \$141,929, respectively.

NOTE 7 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, 2014 and 2013, which closely approximates the net present value of the perpetual income stream.

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

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NOTE 7 FUNDS HELD BY THIRD-PARTY TRUSTEES (CONTINUED)

The Trust Held at Wells Fargo includes 1,646 acres of farmland in southeastern South Dakota. The land is appraised every three years and was appraised at an average rate of \$6,700 per acre. The value of land increased \$8,548,944 to \$10,780,000 and will remain the account value until 2017.

The funds are held by the following third party trustees at June 30, 2014 and 2013:

	2014	2013
LCMS Foundation	\$ 894,468	\$ 767,323
Alive in Christ Endowment	308,793	287,430
Trust Held at Wells Fargo	11,606,075	2,998,221
Total	<u>\$ 12,809,336</u>	<u>\$ 4,052,974</u>

NOTE 8 OBLIGATIONS UNDER CAPITAL LEASE

As of June 30, 2010, the University had capital leases for energy equipment. During 2011, the University entered into another capital lease for computer servers. During 2012, the University entered into a capital lease for laptop computers. As of June 30, 2014, the University entered into three new capital leases for computer network upgrades, laptop computers and desktop computers. The lease terms range from three to seven years. The University's equipment held under capital leases in the statements of financial position consists of the equipment cost of \$2,045,571 and \$3,396,046 at June 30, 2014 and 2013, respectively, with accumulated amortization at June 30, 2014 and 2013 of \$-0- and \$2,132,349, respectively. Amortization included in depreciation expense was \$619,849 and \$646,849 for the years ended June 30, 2014 and 2013, respectively.

Future minimum payments required are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 479,279
2016	479,279
2017	515,700
2018	371,807
2019	282,206
Thereafter	112,488
Total Capital Lease Obligation	2,240,759
Payments Representing Interest	(195,188)
Total Principal Payments	<u>\$ 2,045,571</u>

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NOTE 9 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, 2014 and 2013, the University's payable to MHEFA was \$20,023,848 and \$20,823,160, respectively, net of the unamortized discount of \$106,152 and \$111,840, respectively.

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2014 and 2013, the bonds bore an interest rate of .12% and .18%, 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>
2015	\$ 885,000
2016	925,000
2017	960,000
2018	1,020,000
2019	1,085,000
Thereafter	15,255,000
Total Principal Payments	<u>\$ 20,130,000</u>

For the years ended June 30, 2014 and 2013, interest totaled \$14,851 and \$33,995, 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, 2014, 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 \$469,188 and \$426,088 at June 30, 2014 and 2013, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2014, the University has outstanding letters of credit with Bremer Bank for \$3,761,814 and \$16,592,597 in relation to the bond issue. At June 30, 2013, the University had outstanding letters of credit with Bremer Bank for \$4,581,370 and \$16,592,597 in relation to the bond issue.

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NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Pursuant to the letter of credit reimbursement agreement should there be a failure to remarket the variable rate bonds, proceeds from a draw on the letter of credit will be used to purchase the bonds. However, should the bonds continue to remain un-remarketable, the University would be required to repay the letter of credit within 365 days of the draw. Assuming that the variable rate bonds continue to be remarketed, the scheduled payment column in the above schedule reflects the anticipated payment schedule.

In conjunction with the bonds payable, the University entered into four interest rate swap agreements with US Bank, N.A. (the Swap Provider) in August 2011 with the objective to minimize the risks associated with market rate fluctuations. Pursuant to the terms of the swap agreement, the University pays the Swap Provider interest at fixed rates of 1.0% to 2.76%. The Swap Provider pays the Organization interest at a variable rate equal to the 1-month LIBOR Rate, reset monthly and effective the first day of the calculation period. This interest rate swap has the effect of converting the interest rate on the second note from a variable rate to net fixed rates of 1.0% to 2.76%. The swap agreements expire August 1, 2014, 2016, 2018 and 2021. As of June 30, 2014 and 2013, the notional amount of the swap agreement was \$20,330,000. The fair value of the swap agreement liability at June 30, 2014 and 2013 was \$1,189,457 and \$1,171,796, respectively. The change in value in the interest rate swap agreement was \$(17,661) and \$712,444 as of June 30, 2014 and 2013, respectively. Scheduled due dates on these swap agreements are as follows:

<u>Due Date</u>	<u>Rate</u>	<u>Amount</u>	<u>June 30 Value</u>
8/1/2014	1.00%	\$ 1,810,000	\$ (1,387)
8/1/2016	1.68%	1,980,000	(55,694)
8/1/2018	2.23%	3,440,000	(179,004)
8/1/2021	2.76%	13,100,000	(953,372)
Total		<u>\$ 20,330,000</u>	<u>\$ (1,189,457)</u>

NOTE 10 FOOD SERVICES MANAGEMENT AGREEMENT

On May 2, 2013, the University amended their food services management agreement with Sodexo America LLC (Sodexo). The agreement states that on or about July 1, 2013, Sodexo will provide an amount not to exceed \$1,000,000 to be used at the University's discretion. If the agreement terminates or is amended resulting in an adverse economic impact on Sodexo then the University will have to reimburse Sodexo the unamortized portion of the amount. Sodexo shall amortize the \$1,000,000 on a straight line basis over 13 years, commencing July 1, 2013 and continuing through August 1, 2026. Additionally, the University will pay Sodexo \$38,500 per year to help pay for part of the amortization of the \$1,000,000. At June 30, 2014 and 2013, the outstanding balance was \$923,077 and \$1,000,000, respectively.

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NOTE 11 ENVIRONMENTAL REMEDIATION

The University owns several buildings on campus that contain asbestos in various forms. In accordance with accounting standards, 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 \$322,836 and \$316,779 at June 30, 2014 and 2013, respectively.

NOTE 12 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, 2014 and 2013, 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:

	2014	2013
Purpose Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 970,790	\$ 955,294
Other Instructional Programs	234,873	184,096
Support Programs:		
Academic Support	123,213	109,238
Student Services	39,310	37,841
Instructional Support	1,305,562	487,827
Scholarship Allowances (Student Aid)	2,133,873	959,655
Land, Building, and Equipment Acquisitions	17,345	342,336
	4,824,966	3,076,287
Time Restrictions	833,711	1,307,011
	\$ 5,658,677	\$ 4,383,298

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NOTE 13 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,	
	2014	2013
Academic Programs:		
Instruction-Divisional	\$ 516,777	\$ 516,430
Support Programs:		
Academic Support	2,749,851	2,631,081
Scholarship Allowances (Student Aid)	17,550,454	15,795,109
Unrestricted Operations	16,218,946	8,934,806
	\$ 37,036,028	\$ 27,877,426

NOTE 14 ENDOWMENT

The University has board designated and donor restricted endowment funds 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.

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NOTE 14 ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund as of June 30:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Donor Restricted Endowment Funds	\$ (19,875)	\$ 3,724,159	\$ 23,455,583
Board Designated Endowment Funds	1,213,483	-	-	1,213,483
Total Endowment Funds	<u>\$ 1,193,608</u>	<u>\$ 3,724,159</u>	<u>\$ 23,455,583</u>	<u>\$ 28,373,350</u>

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Donor Restricted Endowment Funds	\$ (427,615)	\$ 1,671,248	\$ 22,961,790
Board Designated Endowment Funds	1,124,822	-	-	1,124,822
Total Endowment Funds	<u>\$ 697,207</u>	<u>\$ 1,671,248</u>	<u>\$ 22,961,790</u>	<u>\$ 25,330,245</u>

The endowment net assets and activity for 2014 and 2013 consisted of the following:

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance as June 30, 2012	\$ 875,905	\$ 663,057	\$ 21,854,421	\$ 23,393,383
Contributions	-	8,977	1,115,201	1,124,178
Earnings:				
Interest and Dividends	28,193	415,662	12,804	456,659
Realized and Unrealized Gains and Losses	109,619	939,118	19,949	1,068,686
Total Earnings	<u>137,812</u>	<u>1,354,780</u>	<u>32,753</u>	<u>1,525,345</u>
Appropriations	(27,064)	(685,597)	-	(712,661)
Reclassification of Net Assets	<u>(289,446)</u>	<u>330,031</u>	<u>(40,585)</u>	<u>-</u>
Endowment Fund Balance as June 30, 2013	697,207	1,671,248	22,961,790	25,330,245
Contributions	-	15,089	428,524	443,613
Earnings:				
Interest and Dividends	25,258	408,198	14,075	447,531
Realized and Unrealized Gains and Losses	475,888	2,376,832	51,194	2,903,914
Total Earnings	<u>501,146</u>	<u>2,785,030</u>	<u>65,269</u>	<u>3,351,445</u>
Appropriations	<u>(4,744)</u>	<u>(747,208)</u>	<u>-</u>	<u>(751,953)</u>
Endowment Fund Balance as June 30, 2014	<u>\$ 1,193,608</u>	<u>\$ 3,724,159</u>	<u>\$ 23,455,583</u>	<u>\$ 28,373,350</u>

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NOTE 14 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 \$19,875 and \$427,615 at June 30, 2014 and 2013, respectively. The deficiency resulted from unfavorable market fluctuations that occurred during 2014 and 2013 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.

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NOTE 15 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, 2014 and 2013, temporarily restricted net assets were released as follows:

	June 30,	
	2014	2013
Purpose Restrictions Accomplished:		
Academic Programs:		
Instruction-Divisional	\$ 373,743	\$ 183,516
Other Instructional Programs	173,379	199,692
Support Programs:		
Academic Support	20,089	-
Student Services	23,123	25,204
Institutional Support	292,567	284,098
Scholarship Allowances (Student Aid)	838,992	714,790
Fixed Assets Acquired and Placed in Service	1,106,181	1,046,164
	<u>2,828,074</u>	<u>2,453,464</u>
Expiration of Time Restrictions	43,788	56,368
	<u>\$ 2,871,862</u>	<u>\$ 2,509,832</u>

During 2013, the University transferred \$40,585 out of the permanently restricted net assets to temporarily restricted net assets. This release was approved by the donor of this Endowment.

NOTE 16 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, 2014 and 2013 totaled \$1,321,507 and \$1,298,340, respectively.

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NOTE 17 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.

The following table presents the fair value hierarchy for the balances of the assets and liability of the University measured at fair value on a recurring basis as of June 30:

	2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Mutual Funds - Equities	\$ 3,181,806	\$ 11,674,172	\$ -	\$ 14,855,978
Mutual Funds - Fixed Income	480,793	11,659,834	-	12,140,627
Real Estate	-	-	10,854,756	10,854,756
LCMS Endowment Funds	-	-	1,203,261	1,203,261
Complementary Strategies	78,127	-	-	78,127
Funds with CUS	-	-	5,165,117	5,165,117
LCEF Funds	-	-	28,600	28,600
Trusts and Annuities Receivables	-	-	1,005,415	1,005,415
Liabilities:				
Interest Rate Swap Agreement	-	(1,189,457)	-	(1,189,457)
Total	<u>\$ 3,740,726</u>	<u>\$ 22,144,549</u>	<u>\$ 18,257,149</u>	<u>\$ 44,142,424</u>
	2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds - Equities	\$ 2,833,084	\$ 10,748,688	\$ -	\$ 13,581,772
Mutual Funds - Fixed Income	528,578	11,123,294	-	11,651,872
Real Estate	-	-	2,302,304	2,302,304
LCMS Endowment Funds	-	-	1,054,753	1,054,753
Complementary Strategies	43,455	-	-	43,455
Funds with CUS	-	-	4,861,984	4,861,984
LCEF Funds	-	-	29,612	29,612
Trusts and Annuities Receivables	-	-	1,029,531	1,029,531
Liabilities:				
Interest Rate Swap Agreement	-	(1,171,796)	-	(1,171,796)
Total	<u>\$ 3,405,116</u>	<u>\$ 20,700,186</u>	<u>\$ 9,278,184</u>	<u>\$ 33,383,486</u>

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NOTE 17 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 years ended June 30:

	Real Estate	LCMS Endowment Funds	Funds With CUS	LCEF Funds	Trusts and Annuities Receivables	Total
Balances as of July 1, 2013	\$ 2,302,304	\$ 1,054,753	\$ 4,861,984	\$ 29,612	\$ 1,029,531	\$ 9,278,184
Net Realized and Unrealized Gains (Losses) on Investments	8,552,452	148,508	303,133	(1,012)	(24,116)	8,978,965
Balance as of June 30, 2014	<u>\$ 10,854,756</u>	<u>\$ 1,203,261</u>	<u>\$ 5,165,117</u>	<u>\$ 28,600</u>	<u>\$ 1,005,415</u>	<u>\$ 18,257,149</u>
Balances as of July 1, 2012	\$ 1,986,778	\$ 914,576	\$ 5,151,271	\$ 29,612	\$ 783,697	\$ 8,865,934
Net Realized and Unrealized Gains on Investments	315,526	140,177	-	-	123,385	579,088
Purchases of Investments	-	-	-	-	122,449	122,449
Proceeds from Sales of Investments	-	-	(289,287)	-	-	(289,287)
Balance as of June 30, 2013	<u>\$ 2,302,304</u>	<u>\$ 1,054,753</u>	<u>\$ 4,861,984</u>	<u>\$ 29,612</u>	<u>\$ 1,029,531</u>	<u>\$ 9,278,184</u>

The University elected to apply the concepts of Accounting Standard *Investment in Certain Entities that Calculate Net Asset Value per Share*, to its Level 3 investments. The guidance states that "if a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement."

Fair value measurements of investments in certain funds that calculate net asset value per share (or its equivalent) as of June 30 is as follows:

	Net Asset Value	2014		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual Funds - Equities	\$ 11,674,172	\$ -	Monthly	Monthly
Mutual Funds - Fixed Income	11,659,834	-	Monthly	Monthly
Total	<u>\$ 23,334,006</u>	<u>\$ -</u>		
	Net Asset Value	2013		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual Funds - Equities	\$ 10,748,688	\$ -	Monthly	Monthly
Mutual Funds - Fixed Income	11,123,294	-	Monthly	Monthly
Total	<u>\$ 21,871,982</u>	<u>\$ -</u>		

Mutual Funds – Equities invests primarily in the U.S. equity market and non-US global equity market.

Mutual Funds – Fixed Income invests primarily in investment grade, aggregate US bond market and the BB/B non-Investment grade US bond market.

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NOTE 17 FAIR VALUE MEASUREMENTS (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, 2014 and 2013, respectively. Investments and deposits with bond trustees are carried at fair value. The fair value of the interest rate swap agreements are estimated using pricing models, quoted prices of agreement with similar characteristics. 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, 2014 and 2013, respectively. The fair value of the University's long-term debt approximates fair value because the debt's interest rates are variable.