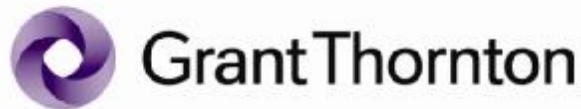


**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
CONCORDIA UNIVERSITY CHICAGO
JUNE 30, 2010 AND 2009**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Regents
Concordia University

We have audited the accompanying consolidated statements of financial position of Concordia University (the "University") as of June 30, 2010 and 2009, and the related consolidated 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 established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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 accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Chicago, Illinois
November 2, 2010

Concordia University Chicago
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 763,991	\$ 980,168
Accounts receivable - net of allowance for doubtful accounts of \$1,752,287 in 2010 and \$1,780,177 in 2009	2,576,492	2,416,773
Prepaid expenses and other assets	3,721,367	2,816,711
Contributions and grants receivable - net of allowance for doubtful accounts of \$133,947 in 2010 and \$100,000 in 2009	2,437,354	2,256,007
Charitable remainder and lead trusts	642,740	578,722
Loans receivable - net of allowance for doubtful loans of \$285,475 in 2010 and \$256,900 in 2009	683,599	765,399
Investments	14,246,239	13,001,171
Assets restricted as to use	3,981,290	-
Land, buildings and equipment - net	47,371,919	47,445,891
	<u>\$ 76,424,991</u>	<u>\$ 70,260,842</u>
TOTAL ASSETS		
Liabilities		
Accounts payable and other liabilities	\$ 4,377,146	\$ 3,706,266
Compensated absences accrual	451,995	410,608
Deferred revenues	3,635,160	2,417,522
Refundable government student loan funds	711,825	746,004
Interest rate swap agreement	543,005	386,825
Loans payable		
Lutheran Church Extension Fund loan	6,727,705	4,833,804
Lutheran Church–Missouri Synod loan	2,080,998	5,281,028
Bank loan	5,565,156	7,221,847
Bonds payable	30,000,000	24,920,000
	<u>54,092,990</u>	<u>49,923,904</u>
Total liabilities		
Net assets		
Unrestricted deficit	(6,058,210)	(7,771,710)
Temporarily restricted	17,775,001	17,857,396
Permanently restricted	10,615,210	10,251,252
	<u>22,332,001</u>	<u>20,336,938</u>
Total net assets		
	<u>\$ 76,424,991</u>	<u>\$ 70,260,842</u>
TOTAL LIABILITIES AND NET ASSETS		

The accompanying notes are an integral part of these statements.

Concordia University Chicago
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2010 and 2009

	2010						2009					
	Unrestricted		Total	Temporarily restricted	Permanently restricted	Total	Unrestricted		Temporarily restricted	Permanently restricted	Total	
	Budgeted activities	Endowment and capital campaign related					Budgeted activities	Endowment and capital campaign related				
Operating revenues and gains												
Tuition and fees	\$ 54,997,980	\$ -	\$ 54,997,980	\$ -	\$ -	\$ 54,997,980	\$ 46,432,474	\$ -	\$ 46,432,474	\$ -	\$ -	\$ 46,432,474
Less scholarship and fellowships	(11,706,239)	-	(11,706,239)	-	-	(11,706,239)	(9,342,348)	-	(9,342,348)	-	-	(9,342,348)
Net tuition and fees	43,291,741	-	43,291,741	-	-	43,291,741	37,090,126	-	37,090,126	-	-	37,090,126
Government grants and contracts	-	-	-	272,671	-	272,671	-	-	-	388,813	-	388,813
Private gifts and grants	682,280	276,155	958,435	1,333,066	-	2,291,501	1,122,194	28,494	1,150,688	2,584,574	-	3,735,262
Pooled investments endowment payout	613,892	-	613,892	7,343	-	621,235	89,074	-	89,074	620,539	-	709,613
Non-pooled investments return	2,260	-	2,260	27,513	-	29,773	13,552	-	13,552	27,848	-	41,400
Auxiliary services	5,973,966	-	5,973,966	-	-	5,973,966	5,289,279	-	5,289,279	-	-	5,289,279
Other	254,853	-	254,853	-	-	254,853	311,499	-	311,499	-	-	311,499
Net assets released from restrictions	1,327,450	455,139	1,782,589	(1,782,589)	-	-	2,229,293	83,150	2,312,443	(2,312,443)	-	-
Total	52,146,442	731,294	52,877,736	(141,996)	-	52,735,740	46,145,017	111,644	46,256,661	1,309,331	-	47,565,992
Operating expenses												
Academic programs												
Instruction - Divisional	26,250,785	-	26,250,785	-	-	26,250,785	22,272,046	-	22,272,046	-	-	22,272,046
Other instructional programs	2,368,539	-	2,368,539	-	-	2,368,539	2,248,900	-	2,248,900	-	-	2,248,900
Academic support	2,907,605	-	2,907,605	-	-	2,907,605	2,859,606	-	2,859,606	-	-	2,859,606
Student services	4,384,273	-	4,384,273	-	-	4,384,273	4,091,159	-	4,091,159	-	-	4,091,159
Auxiliary enterprises	8,261,054	-	8,261,054	-	-	8,261,054	8,178,126	-	8,178,126	-	-	8,178,126
Management and general	6,336,002	-	6,336,002	-	-	6,336,002	5,573,348	-	5,573,348	-	-	5,573,348
Fundraising	532,988	1,103,297	1,636,285	-	-	1,636,285	868,936	777,879	1,646,815	-	-	1,646,815
Total	51,041,246	1,103,297	52,144,543	-	-	52,144,543	46,092,121	777,879	46,870,000	-	-	46,870,000
Operating revenues and gains in excess of (less than) operating expenses	\$ 1,105,196	\$ (372,003)	733,193	(141,996)	-	591,197	\$ 52,896	\$ (666,235)	(613,339)	1,309,331	-	695,992
Non-operating revenues												
Private gifts and grants:												
Net change in funds held in trust			-	-	118,076	118,076			-	-	(188,920)	(188,920)
Other			-	-	242,635	242,635			-	-	211,522	211,522
Unrealized gain (loss) on interest rate swap agreement			(156,180)	-	-	(156,180)			(248,987)	-	-	(248,987)
Net gain on disposals of land buildings and equipment			3,200	-	-	3,200			-	-	-	-
Pooled endowment investment return in excess (less than) endowment payout			1,133,287	59,601	3,247	1,196,135			(3,588,536)	-	(4,980)	(3,593,516)
Net assets released from restrictions based on change in law			-	-	-	-			6,614	(6,614)	-	-
Net assets released from restrictions			-	-	-	-			(63,081)	63,081	-	-
CHANGE IN NET ASSETS			1,713,500	(82,395)	363,958	1,995,063			(4,507,329)	1,365,798	17,622	(3,123,909)
Net assets (deficiency) at beginning of year			(7,771,710)	17,857,396	10,251,252	20,336,938			(3,264,381)	16,491,598	10,233,630	23,460,847
Net assets (deficiency) at end of year			\$ (6,058,210)	\$ 17,775,001	10,615,210	\$ 22,332,001			\$ (7,771,710)	\$ 17,857,396	\$ 10,251,252	\$ 20,336,938

The accompanying notes are an integral part of these statements.

Concordia University Chicago
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 1,995,063	\$ (3,123,909)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	2,532,750	2,632,918
Loans receivable cancellations and adjustments - net	31,516	6,005
Net gain on disposals of land, buildings and equipment	(3,200)	-
Unrealized loss on interest rate swap agreement	156,180	248,987
Net realized and unrealized (gains) losses on pooled endowment investments not used in endowment payout	(1,196,705)	3,593,516
Net realized and unrealized (gains) losses included in non-pooled endowment investments return	(76,494)	81,966
Contributions restricted for long-term investment	(360,711)	(22,602)
(Increase) decrease in		
Accounts receivable	(159,719)	(170,734)
Prepaid expenses and other assets	(904,656)	(164,948)
Contributions and grants receivable	(181,347)	(1,923,827)
Charitable remainder and lead trusts	(64,018)	211,865
Increase (decrease) in		
Accounts payable and other liabilities	670,880	(127,763)
Compensated absences accrual	41,387	(34,850)
Deferred revenue	1,217,638	296,348
Refundable - U.S. Government student loan funds	(34,179)	8,310
Net cash provided by operating activities	<u>3,664,385</u>	<u>1,511,282</u>
Cash flows from investing activities		
Proceeds from sales of fixed assets	3,200	-
Purchases of fixed assets	(2,458,778)	(1,557,225)
Proceeds from sales of long-term investments	974,424	547,388
Purchases of long-term investments	(667,526)	(1,624,193)
Endowment payout in excess of dividends and interest	(278,767)	34,654
Perkins loans receivable		
Principal repayments	90,318	87,904
Advances	(40,034)	(104,950)
Net cash used in investing activities	<u>(2,377,163)</u>	<u>(2,616,422)</u>
Cash flows from financing activities		
Contributions restricted or designated long-term investment	360,711	22,602
Increase in assets restricted as to use	(3,981,290)	-
Net (payments) proceeds on Lutheran Church–Missouri Synod loan	(3,200,030)	2,564,269
Proceeds from issuance of Lutheran Church Extension Fund loan	6,727,705	-
Proceeds from issuance of bank loan	5,565,156	-
Proceeds from issuance of bonds	30,000,000	-
Principal payments on Lutheran Church Extension Fund loan	(4,833,804)	(151,823)
Principal payments on bank loan	(7,221,847)	(1,166,305)
Principal payments on bonds	(24,920,000)	(35,000)
Net cash (used in) provided by financing activities	<u>(1,503,399)</u>	<u>1,233,743</u>
Net decrease in cash and cash equivalents	(216,177)	128,603
Cash and cash equivalents, beginning of year	<u>980,168</u>	<u>851,565</u>
Cash and cash equivalents, end of year	<u>\$ 763,991</u>	<u>\$ 980,168</u>
Supplemental data		
Interest paid	<u>\$ 1,077,282</u>	<u>\$ 1,419,946</u>

The accompanying notes are an integral part of these statements.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE A - NATURE OF ORGANIZATION

Concordia University, a.k.a. Concordia University Chicago (the “University”), an Illinois not-for-profit corporation, is a private educational institution centered in the liberal arts located in River Forest, Illinois. It is operated under the auspices of The Lutheran Church–Missouri Synod (the “Synod”), a Missouri not-for-profit corporation headquartered in St. Louis, Missouri. The University’s Board of Regents, responsible for the management of the University, consists of 18 members (five of whom are elected by the Synod).

Five not-for-profit corporate and trust entities operate as corporate-wide entities directly under the auspices of the Synod:

- Lutheran Church Extension Fund (“LCEF”)
- Concordia Publishing House (“CPH”)
- The Lutheran Church–Missouri Synod Foundation (“LCMS Foundation”)
- Concordia Plan Services (“CPS”)
- Concordia Historical Institute

The Synod has established several Program and Service Boards to guide and carry out the programmatic activities of the Synod. One of these Boards, the Board for University Education (the “BUE”), broadly oversees the activities of ten colleges and universities, including Concordia University Chicago. Concordia University System (“CUS”), a not-for-profit corporate entity operating under the auspices of the Synod, carries out the activities and policies of the Synod and the BUE as it applies to the Synod higher education institutions. The Concordia Administrative Information System (“CAIS”), a CUS department, is housed on the campus of the University and oversees the management of the software accounting system utilized by most of the Synod higher education institutions.

Thirty-five Synodical districts, all separate entities operating under the auspices of the Synod, represent the Synod to the various LCMS congregations across the country and around the world. The district in which the University is located, the Northern Illinois District, elects five members of the University’s Board of Regents.

The majority of students enrolled at the University rely, at least in part, on funds received from federal financial aid and loan programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE A - NATURE OF ORGANIZATION - Continued

Revenues are derived principally from the University's educational programs in the form of tuition and fees and related forms of revenue. Additional revenues come from contributions, as well as income derived from investments. During the year ended June 30, 2010, the University received contributions of \$94,375 from members of the University Board of Regents, \$32,085 from members of the Foundation Board of Directors, and \$10,167 from the Synod. During the year ended June 30, 2009, the University received contributions of \$222,809 from members of the University Board of Regents, \$193,902 from members of the Foundation Board of Directors, and \$159,871 from the Synod.

Auxiliary enterprises revenue includes income from student housing, employee housing, food service, computer services, bookstore, transportation, convention and conferences, athletics, and music performances. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing these services. During the years ended June 30, 2010 and 2009, auxiliary enterprises revenues include \$142,460 and \$147,960, respectively, of rental income received from CAIS for use of its facilities. The University was directly reimbursed \$568,613 during the year ended June 30, 2009, for payroll and other expenses incurred associated with providing this service. Additionally, the University paid CAIS \$577,165 and \$420,474 during the years ended June 30, 2010 and 2009, respectively, for certain computer and software services provided to the University, allocated among the various functions of the University in the consolidated statement of activities. Auxiliary revenues received during the years ended June 30, 2010 and 2009, also include \$102,694 and \$96,113, respectively, of rental income received from CPH, which operates the bookstore.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements include the accounts of the University and Concordia University Foundation, Inc. (the "Foundation"). These statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation. Substantially all of the assets shown in the consolidated financial statements except land, buildings and equipment, approximate fair value. Financial liabilities are recorded at cost, which approximates fair value.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation

The University follows the professional standards reporting requirements for the financial statements of not-for-profit organizations. Accordingly, the University reports information regarding its consolidated financial position and consolidated activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets:

- Unrestricted net assets include all net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or removed by actions of the University pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.
- Permanently restricted net assets are limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the University. Income derived by these assets is either unrestricted or is used to support the donor-specified activity.

To help ensure observance of limitations and restrictions placed on the use of resources available to the University, management maintains the accounts of the University in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics are combined.

Net assets are further segregated by management into the following subclasses:

- Operating funds - All temporarily restricted and unrestricted net assets are classified as operating net assets except as designated below.
- Endowment and similar funds - Certain unrestricted net assets have been pooled with available permanently restricted net assets for the purpose of investing the total of such assets as a single endowment fund.
- Net investment in plant - Unrestricted and temporarily restricted net assets that have been utilized for the investment in property, plant and equipment, net of accumulated depreciation.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

- Funds held in trust - Certain net assets are held by a third-party trustee and are not in the control of the University.
- Annuity and life income funds - Certain permanently restricted net assets are held by third parties in the form of annuity and life income funds.

Net assets (deficiency) as of June 30, 2010 and 2009, are summarized by fund as follows:

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating funds	\$(11,550,242)	\$ 3,215,328	\$ -	\$(8,334,914)
Endowment and similar funds - Foundation (note O)	3,886,962	376,691	9,255,242	13,518,895
Net investment in plant	1,605,070	14,182,982	-	15,788,052
Funds held in trust	-	-	1,218,241	1,218,241
Annuity and life income funds	-	-	65,040	65,040
Other	-	-	76,687	76,687
Total net assets (deficiency)	<u>\$(6,058,210)</u>	<u>\$17,775,001</u>	<u>\$10,615,210</u>	<u>\$22,332,001</u>

	2009			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating funds	\$(10,917,348)	\$ 3,004,513	\$ -	\$(7,912,835)
Endowment and similar funds - Foundation (note O)	2,475,845	218,632	9,036,611	11,731,088
Net investment in plant	669,793	14,634,251	-	15,304,044
Funds held in trust	-	-	1,100,167	1,100,167
Annuity and life income funds	-	-	62,650	62,650
Other	-	-	51,824	51,824
Total net assets (deficiency)	<u>\$(7,771,710)</u>	<u>\$17,857,396</u>	<u>\$10,251,252</u>	<u>\$20,336,938</u>

All revenues and expenses are considered operating revenues and expenses, with the exception of the following:

- Permanently restricted contributions.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

- All return on endowment investments in excess of (less than) the endowment payout used to support operations.
- Gains or losses from the sale or disposition of land, buildings and equipment, and art objects.
- Changes to amounts of funds held in trust.
- Unrealized gain or loss on the fair value of the interest rate swap agreement.
- Endowment and similar funds' net assets meeting the requirements for the release of net assets that are retained as endowment funds.

Unrestricted operating revenues and expenses are classified as either budgeted activities or as endowment and capital campaign related. Endowment and capital campaign related activities include the following:

- Unrestricted bequests - By policy adopted by the Board of Regents effective July 1, 2006, unrestricted bequests are not being used for operations and are being transferred to the Foundation for addition into the endowment investment funds.
- Capital campaign expenses and offsetting revenues - Expenses associated with the launching and running a capital campaign aimed at raising operating, endowment and capital funds are classified as endowment and capital campaign related in the year incurred. Offsetting revenues funding the expenses shall be classified as endowment and capital campaign related in the year raised.
- Uncollectible pledges on permanently restricted funds.

The consolidated financial statements of the University include the financial statements of the Foundation in accordance with professional accounting standards on the reporting of related entities by not-for-profit organizations, which requires consolidation when the entity controls and has an economic interest in the consolidated organization. The Foundation is a separate Illinois not-for-profit corporation formed to promote the University through solicitation of funds to encourage various activities of the University, to administer the endowment assets of the University, and to administer gifts and bequests given to it by donors for purposes of supporting the educational and religious objectives of the University. The Foundation is administered by a Board of Directors elected by its corporate member, the University. The Foundation receives

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

support and other services from the University without charge, the amount of which management believes cannot be reasonably estimated. These expenses are recorded by the University as if the expenses were incurred directly on behalf of the University.

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 held by the Foundation for long-term included in investments. At times throughout the year, certain cash and cash equivalent balances may exceed amounts insured by the Federal Deposit Insurance Corporation.

Accounts Receivable and Related Allowance for Doubtful Accounts

Accounts receivable primarily include amounts due to the University for tuition and fees. The University grants credit to students and generally does not require collateral or other security in extending credit to students. Balances are stated net of an allowance for doubtful accounts. The allowance estimates are based on past collection experience, an aging analysis of outstanding balances, and expected payment information obtained from a third-party collection agency.

Loans Receivable

Loans receivable consist of funds advanced to students under the Federal Perkins Loan Program. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances.

Prepaid Expenses and Other Assets

Accounts included in prepaid expenses and other assets include the following:

Marketing fees deposits - Beginning in the year ending June 30, 2007, the University paid a deposit related to marketing services being performed on behalf of the University. These amounts are owned by the University until certain time and performance objectives are met.

Prepaid insurance - The Synod negotiates and contracts all insurance policies on behalf of the University, charging the University for its allocated share of the cost. Virtually all policies in existence at June 30, 2010, cover the period of April 1, 2010 through March 31, 2011, over which period the costs are amortized. Unamortized costs are recorded as prepaid expenses. During the years ended June 30, 2010 and 2009, the total insurance expense recognized in the consolidated statements of activities was \$551,257 and \$424,194, respectively.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Expenses and Other Assets - Continued

Prepaid admissions marketing costs and expense - The University incurred certain marketing fees and expenses directly attributable to the receipt of future tuition revenues.

Inventories - Inventories include office supply inventories, buildings and grounds repairs and maintenance supply inventories, and fuel inventories, and are stated at cost (first-in, first-out method).

Cash surrender value of life insurance - The University is designated as the owner and beneficiary of flexible premium adjustable life insurance policies, the cash surrender value of which is recorded as a donation at the date of the gift. Premium payments are required to be made by the donor to continue coverage to the maturity dates.

Library books and hymnals - Library books and hymnals purchased after June 30, 2005, for and maintained in either the University library or the University chapel are capitalized and amortized over a period of ten years.

Unamortized debt issuance costs and expenses - Costs associated with the issuance of bonds described in note K are amortized over the weighted-average life of the bonds, which approximates the effective interest method. Additionally, the costs associated with the reissuance of a supporting letter of credit are amortized over the life of the letter of credit. Finally, certain guarantee and other credit costs associated with the certain loans and bonds described in notes J and K are paid in advance and amortized according to the period covered.

Unamortized course development costs and expenses - The University incurred certain costs and expenses in the development of online courses. These costs are amortized over a three-year period.

Land, Buildings and Equipment

Land, buildings, improvements and equipment are recorded at cost, except for property received by gift, which is recorded at fair value on the date of receipt. Title to land and buildings is in the name of the University, with reversionary clauses to the Synod. These reversionary clauses are subordinate to the collateralization interests associated with bonds and loans payable described in notes J and K.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Land, Buildings and Equipment - Continued

Buildings, improvements and equipment are depreciated using the straight-line method over the following estimated useful lives:

Parking garage, athletic facilities	60 years
Other buildings	39 - 50 years
Athletic field	25 years
Building and other improvements	10 - 50 years
Equipment	5 - 30 years

Investments

Investments are carried at fair value, with all returns on investments (including realized and unrealized gains and losses) reflected in the consolidated statements of activities. Endowment assets are managed by the Foundation and pooled to the extent allowable for investment purposes. Endowment return on investments is allocated to the University and the Foundation on the basis of the composition of net assets at the beginning of each quarter.

Funds held in trust that consist of irrevocable trusts from which the University is to receive the income in perpetuity are recorded as investments. The principal is held in trust by LCMS Foundation and are not available to be used by the University. Given the nature of the promises, the University records the contributed principal 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 consolidated statements of activities as changes in permanently restricted net assets.

Assets Restricted as to Use

The University has agreed to maintain certain assets to be held to fund future capital expenditures. These assets are in the custody of a third party and may only be released when the underlying conditions are met.

Art Objects

The University has a collection of art objects, most of which was contributed to the University during its history. The value of these objects is not recorded in the accompanying consolidated statement of financial position. The University's Board of Regents approved a process leading to the sale of a significant portion of the collection, although no timetable has been set.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interest Rate Swap Agreement

The University accounts for its interest rate swap agreements in accordance with professional accounting guidance for the accounting for derivative instruments and hedging activities. Accordingly, the University records financial instruments on the statement of financial position at fair value, with unrealized gains and losses being recorded in the statement of activities.

Compensated Absences

The University provides for and accrues vested compensated absences benefits for most of its non-temporary employees.

Deferred Revenue

Deferred revenue primarily consists of unearned summer tuition and fees collected from college students and parents of children in the Early Childhood Center (“ECC”), as well as deposits made both by students and by parents of children in ECC for future school terms. Accordingly, this deferred revenue will be recognized as tuition and fee revenue in the subsequent fiscal year when it is earned.

Gifts, Grants and Contracts Revenue

Gifts, grants and contracts are recorded as revenue when received or promised/contracted. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts, and perpetual trusts, are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is recorded as contribution revenue based on the present value of the expected cash flows to be received by the University.

All contributions are considered to be available for University unrestricted use unless specifically restricted by the donor, including unrestricted contributions to the Foundation. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Pledges of contributions for payment in future periods, including amounts expected to be received from split-interest agreements, imply a time restriction. Accordingly, pledges are accounted for as temporarily restricted net assets until both the implied time restriction is met and the purpose restriction, if any, has been fulfilled. Conditional promises to give are not included as support until the conditions are substantially met.

In accordance with professional accounting guidance for accounting for contributions received and contributions made, unconditional promises to give that are expected to be collected within one year are recognized as support and recorded as a receivable at net realizable value.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Gifts, Grants and Contracts Revenue - Continued

Unconditional promises to give not expected to be collected within one year are recorded at the present value of their estimated future cash flows and are discounted at an appropriate risk-free interest rate.

Gifts and grants, including unconditional pledges, that are restricted for buildings and equipment are recognized as increases in temporarily restricted net assets and released over the useful lives of the underlying assets acquired or constructed.

Contributed services are reported in the consolidated financial statements at fair value for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Federal Student Aid Funds

During 2010 and 2009, the University disbursed \$1,796,936 and \$1,098,218, respectively, to students under the Federal Pell Grant Program. This activity is not included in the accompanying consolidated financial statements.

Fair Value Measurements

Effective July 1, 2008, the University adopted professional accounting guidance regarding fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. Additionally, the guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements - Continued

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but which are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the University's perceived risk of that investment.

Professional guidance allows for the fair value option for financial assets and financial liabilities. This guidance provides the University with an option to elect fair value as the initial and subsequent measurement attribute for most financial assets and liabilities and certain other items. The fair value option election is applied on an instrument-by-instrument basis (with some exceptions) is irrevocable, and is applied to an entire instrument. The fair value option election may be made as of the date of initial adoption for existing eligible items. Subsequent to initial adoption, the University may elect the fair value option at initial recognition of eligible items, on entering into an eligible firm commitment, or when certain specified reconsideration events occur. Unrealized gains and losses on items for which the fair value option has been elected will be reported in the statements of activities. The University did not have any financial instruments where it elected the fair value option under this guidance.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Endowment Net Assets

In August 2008, professional guidance was issued to address accenting for endowment net asset classifications of funds subject to an enacted version of the uniform prudent management of institutional funds act, and enhanced disclosures for all endowment funds. This guidance addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). The State of Illinois enacted a version of UPMIFA on June 30, 2009 effective for years ending June 30, 2009 or after. A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. In addition, new disclosures about an organization’s donor-restricted and Board-designated endowment funds are required. The objective of the disclosures is to provide information so that financial statement users can understand the net asset classification, net asset composition, changes in net asset compositions, spending policy and related investment policy pertaining to an organization’s endowment funds. The disclosures relating to this guidance are presented in note O.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and disclosed in the accompanying notes. Actual results could differ from those estimates.

Prior-Year Reclassifications

Certain reclassifications have been made in the 2009 financial statements to conform to the presentation for 2010.

Subsequent Events

In May 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance that incorporates the accounting and disclosure requirements for subsequent events into US GAAP. The new guidance introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. The University has adopted the new guidance as of June 30, 2010, which was the required effective date.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events - Continued

The University evaluated its June 30, 2010 financial statements for subsequent events through November 2, 2010, the date the financial statements were available to be issued. The University is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

NOTE C - ALLOWANCES FOR UNCOLLECTIBLE RECEIVABLES

Allowances for uncollectible receivables as of June 30, 2010 and 2009, are summarized as follows:

	2010			2009		
	Accounts receivable	Contributions and grants receivable	Loans receivable	Accounts receivable	Contributions and grants receivable	Loans receivable
Beginning balance	\$1,780,177	\$100,000	\$256,900	\$1,849,828	\$ -	\$254,531
Bad debt expense						
Charged to expense	142,402	33,947	-	92,593	100,000	-
Collection on accounts previously written off	(5,384)	-	-	(736)	-	-
Accounts written off	(164,908)	-	-	(161,508)	-	-
Other adjustments	<u>-</u>	<u>-</u>	<u>28,575</u>	<u>-</u>	<u>-</u>	<u>2,369</u>
Ending balance	<u>\$1,752,287</u>	<u>\$133,947</u>	<u>\$285,475</u>	<u>\$1,780,177</u>	<u>\$100,000</u>	<u>\$256,900</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE D - PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as of June 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Prepaid expenses and other assets		
Insurance	\$ 329,314	\$ 391,591
Admissions marketing costs and expense	280,757	144,018
Other	447,887	167,671
Marketing fees deposit	1,000,000	1,000,000
Inventories	277,147	271,146
Library books and hymnals	99,511	84,197
Cash surrender value of life insurance	363,412	356,708
Unamortized debt issuance costs and expenses	660,320	261,926
Unamortized course development costs and expenses	<u>263,019</u>	<u>139,454</u>
	<u>\$3,721,367</u>	<u>\$2,816,711</u>

NOTE E - CONTRIBUTIONS AND GRANTS RECEIVABLE

The present value of contributions and grants receivable at June 30, 2010 and 2009, is summarized as follows:

	<u>2010</u>			<u>2009</u>		
	Contributions receivable	Grants receivable	Total	Contributions receivable	Grants receivable	Total
Amounts due						
Within one year	\$ 728,780	\$252,528	\$ 981,308	\$ 530,447	\$ 311,952	\$ 842,399
One to five years	1,873,969	-	1,873,969	1,889,741	-	1,889,741
After five years	<u>7,000</u>	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2,609,749	252,528	2,862,277	2,420,188	311,952	2,732,140
Less						
Present value discount	(290,976)	-	(290,976)	(376,133)	-	(376,133)
Estimated uncollectible pledges	<u>(133,947)</u>	<u>-</u>	<u>(133,947)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
	<u>\$2,184,826</u>	<u>\$252,528</u>	<u>\$2,437,354</u>	<u>\$1,944,055</u>	<u>\$311,952</u>	<u>\$2,256,007</u>

The contributions receivable that are not expected to be collected within one year are discounted at a risk-adjusted rate of 5.5%.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE F - CHARITABLE REMAINDER AND LEAD TRUSTS

The charitable remainder and lead trust agreements of which the University is the beneficiary are administered by the LCMS Foundation as trustee or fiscal agent. Distributions are to be made to the University (lead trusts) or to the donor's designee (remainder trusts) during the terms of the agreements, which vary in maturity through the year 2038 as of June 30, 2010. At the end of the terms, a portion of the remaining trust assets, as defined in the trust agreements, are to be distributed to the University. As of June 30, 2010, the present value was estimated using an annualized growth rate of 6.8% and a discount rate of 4.0%. The change in value of these split-interest agreements for the years ended June 30, 2010 and 2009, resulted in gains (losses) of \$65,539 and (\$211,865), respectively. The activity in charitable remainder and lead trusts for the years ended June 30, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$578,722	\$ 790,587
Contributions of new trusts	5,918	-
Change in value of the trusts	65,539	(211,865)
Trusts closed during the year	<u>(7,439)</u>	<u>-</u>
Balance, end of year	<u>\$642,740</u>	<u>\$ 578,722</u>

NOTE G - INVESTMENTS

Investments at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>			<u>2009</u>		
	Endowment Fund	Other	Total	Endowment Fund	Other	Total
Common stock	\$ 9,202,196	\$ 23,333	\$ 9,225,529	\$11,392,745	\$ 20,731	\$11,413,476
Notes, bonds and debt securities	4,027,001	15,272	4,042,273	208,335	13,604	221,939
Cash and cash equivalents	178,685	3,788	182,473	163,917	477,678	641,595
Funds held in trust	<u>-</u>	<u>795,964</u>	<u>795,964</u>	<u>-</u>	<u>724,161</u>	<u>724,161</u>
	<u>\$13,407,882</u>	<u>\$838,357</u>	<u>\$14,246,239</u>	<u>\$11,764,997</u>	<u>\$1,236,174</u>	<u>\$13,001,171</u>

The funds held in trust are invested in mutual funds. The trustee targets a diversified asset allocation that places a greater emphasis on equity-based investments.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE H - INTEREST RATE SWAP AGREEMENT

The University is party to an interest rate swap agreement to manage the impact of future interest rate changes on underlying floating-rate debt. The agreement, maturing June 30, 2015, consists of a 10-year \$5.5 million instrument that requires the University to pay a monthly fixed rate (3.303% annual interest rate) and receive a floating rate (67% of one-month LIBOR) swap, which effectively converts a floating-rate obligation into a fixed-rate instrument. The decrease in the fair value of the interest rate swap for the years ended June 30, 2010 and 2009, is \$156,180 and \$248,987, respectively, and is reflected as an increase (decrease) in net assets in the consolidated statement of activities. During the years ended June 30, 2010 and 2009, interest expense recognized in the consolidated statements of activities is increased (decreased) by \$186,149 and \$121,662, respectively, for amounts paid between the parties. The underlying agreement is collateralized by an investment in government securities in amounts of up to \$500,000 and \$390,000 as of June 30, 2010 and 2009, respectively.

NOTE I - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment as of June 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,919,643	\$ 1,919,643
Construction in progress	1,504,456	418,974
Buildings	58,079,570	57,770,870
Building and other improvements	11,048,274	10,804,008
Equipment	<u>18,920,252</u>	<u>21,137,205</u>
	91,472,195	92,050,700
Less accumulated depreciation	<u>(44,100,276)</u>	<u>(44,604,809)</u>
	<u>\$ 47,371,919</u>	<u>\$ 47,445,891</u>

Not included in construction in progress is \$389,820 of outstanding commitments on construction contract as of June 30, 2010.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE J - LOANS PAYABLE

Loans payable as of June 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
LCEF Loan	\$ 6,727,705	\$ 4,833,804
Bank loan	5,565,156	7,221,847
Synod Loan	<u>2,080,998</u>	<u>5,281,028</u>
Total	<u>\$14,373,859</u>	<u>\$17,336,679</u>

LCEF Loan

On June 29, 2007, the University borrowed \$5,100,000 from LCEF at an interest rate equal to LCEF's cost of funds plus 2.00%, adjusted monthly. Under that loan agreement, monthly payments of \$38,400 (principal and interest, combined) were required, with a balloon payment of all amounts due on September 30, 2009. The loan was refinanced on October 29, 2009, in the amount of \$6,942,646. The refinanced LCEF loan matures on November 1, 2019 and carries the same interest rate as the previous loan. Monthly payments of \$57,652 (principal and interest, combined) are required, with a balloon payment of all remaining amounts due on the maturity date. The original loan, as well as the refinanced loan, required a security interest in the investments held by the Foundation, and a security interest both in the campus property and in the one residential property owned by the University. The refinanced loan carries an interest rate of 5.25% at June 30, 2010, and ranged from 5.25% to 6.00% during the year ended June 30, 2010, and from 6.000% to 6.375%, during the year ended June 30, 2009. Interest expense on the combined loan reported in the consolidated statement of activities for the years ended June 30, 2010 and 2009 was \$340,343 and \$306,666, respectively.

Bank Loan

At June 30, 2009, \$7,221,847 was outstanding on a \$12,000,000 bank loan carrying a fixed interest rate of 5.00% per annum plus a loan service fee of 0.75% per annum. The loan agreement required monthly interest and a final principal payment of \$7,221,847 on July 1, 2009. The loan was collateralized by the campus property, as well as one residential property owned by the University. A cash collateral account of \$500,000 was required to be maintained with the bank while the loan was outstanding.

On October 29, 2009, the outstanding loan balance was refinanced in the amount of \$6,281,851. The refinanced bank loan matures on October 30, 2012, and carries an interest rate of 6.25%. Monthly payments of \$87,248 plus interest are required, with a balloon payment of all remaining amounts due on the maturity date. The loan continues to be collateralized by the campus property, as well as one residential property owned by the University.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE J - LOANS PAYABLE - Continued

Bank Loan - Continued

Interest expense on this loan reported in the consolidated statements of activities for the years ended June 30, 2010 and 2009, was \$376,784 and \$394,835, respectively.

Synod Loan

The Synod provides a line of credit to the University, renewable on July 1st of each year. This line of credit is \$5,600,000 for the year ending June 30, 2011. Management expects the line of credit to be renewed and increased, if requested, on July 1, 2011. The floating interest rates paid on funds advanced to the University, 5.25% on June 30, 2010, ranged from 5.250% to 6.000% during the year ended June 30, 2010, and from 6.000% to 6.375%, during the year ended June 30, 2009. Interest expense on the combined loan reported in the consolidated statements of activities for the years ended June 30, 2010 and 2009 was \$71,134 and \$194,925, respectively.

Minimum Payment Schedule

The University's minimum principal payments under the terms of the loan agreements above are as follows:

Years ending June 30,

2011	\$ 1,393,869
2012	3,493,523
2013	3,856,413
2014	405,927
2015	427,758
2016 and thereafter	<u>4,796,369</u>
Total	<u>\$14,373,859</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE K - BONDS PAYABLE

Bonds payable at June 30, 2010 and 2009, are summarized as follows:

	2010		2009	
	Maturity date	Outstanding principal	Maturity date	Outstanding principal
2001 Illinois Education Facilities Authority ("IEFA") Bonds		\$ -	2032	\$24,500,000
2009 Illinois Finance Authority ("IFA") Bonds	2034	30,000,000		-
1969 Revenue Mortgage Bonds		-	2019	<u>420,000</u>
Total		<u>\$30,000,000</u>		<u>\$24,920,000</u>

2001 Illinois Education Facilities Authority Bonds

In 2001, the University issued \$25,000,000 in variable rate tax-exempt revenue bonds through the IEFA to finance new construction, renovations and property acquisitions throughout the University's campus. The IEFA Bonds were supported by a bank letter of credit and carried a combined cost of 0.90% per annum. The bonds were collateralized by the campus property, as well as one residential property owned by the University. The bonds were remarketed daily and bore interest rates fluctuating between 0.23% and 0.45% during the year ended June 30, 2010, and 0.40% and 9.90% during the year ended June 30, 2009. Total interest expense on these bonds of \$29,106 and \$388,559 was recognized in the consolidated statements of activities during the years ended June 30, 2010 and 2009, respectively.

The IEFA Bonds were paid off on October 29, 2009.

2009 Illinois Finance Authority Bonds

On October 29, 2009, the University issued \$30,000,000 in variable rate tax-exempt revenue bonds through the IFA to finance certain property construction and renovation as well as the payoff of the IEFA Bonds. The 2009 IFA Bonds, which mature on November 1, 2034, are supported by a bank letter of credit and a confirming letter of credit through Federal Home Loan Bank, both of which expire on October 30, 2012, and that carry a combined cost of 1.25% per annum. The bonds are collateralized by the campus property, as well as one residential property owned by the University. Under the terms of the Reimbursement Agreement, a principal payment is due on October 1st of each year, with one-twelfth of the next scheduled principal payment required to be deposited monthly into a sinking fund beginning in November 2009. An

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE K - BONDS PAYABLE - Continued

2009 Illinois Finance Authority Bonds - Continued

initial \$25,000 deposit was made into the sinking fund upon issuance of the bonds. At issuance, \$4,850,880 of the bonds was deposited into a project fund, to be used to fund future capital expenditures. At June 30, 2010, \$3,981,290 of this total remains in the project fund, and will not be available until the University makes advance payments on the bank loan in excess of the minimum principal payment schedule described in note J. The IFA Bonds, remarketed weekly, bear an interest rate of 0.33% at June 30, 2010, and bore interest rates ranging from 0.18% to 0.35% during the year ended June 30, 2010. At June 30, 2010, the balance in the sinking fund is \$192,074.

The University's minimum payments under the underlying agreements are as follows:

<u>Years ending June 30,</u>	<u>IFA bonds - principal</u>
2011	\$ 250,000
2012	300,000
2013	300,000
2014	1,220,000
2015	1,245,000
2016 and thereafter	<u>26,685,000</u>
Total	<u>\$30,000,000</u>

1969 Revenue Mortgage Bonds

In 1969, the University issued 3.00% taxable bonds to finance the construction of a dormitory. Plant assets pledged with a net book value at June 30, 2009 of \$437,247 as collateral under this mortgage consist of the dormitory building at June 30, 2009, and the land occupied by it. At June 30, 2009, the University maintained \$52,000 of debt service and sinking funds and \$32,312 of equipment, renovation and repair reserve funds related to the Revenue Mortgage Bonds, recorded as investments in the accompanying consolidated statements of financial position. The Revenue Mortgage Bonds were paid off on May 1, 2010. Total interest expense on these bonds of \$14,350 and \$13,300 was recognized in the accompanying consolidated statements of activities during the years ended June 30, 2010 and 2009, respectively.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE L - EMPLOYEE BENEFITS AND DEFINED BENEFIT PLANS

The University participates in the retirement and survivor benefit programs provided by CPS. 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 \$1,715,314 and \$1,487,265, respectively.

NOTE M - STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in various student financial aid programs. These programs are subject to periodic review by the United States Department of Education ("USDOE"). Disbursements under each program are subject to disallowance and repayment by the University.

NOTE N - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the University. At June 30, 2010 and 2009, temporarily restricted net assets are available for the following specific purposes:

	<u>2010</u>	<u>2009</u>
Purpose restrictions		
Academic programs		
Instruction/divisional	\$ 169,854	\$ 182,131
Other instructional programs	72,819	75,809
Student services	54,724	10,551
Institutional support	21,966	94,559
Fundraising	1,361	-
Auxiliary enterprises	128,858	47,180
Student aid	121,292	56,467
Capital expenditures	35,546	26,175
Net investment in plant	14,182,982	14,634,251
Debt repayment	260,078	162,165
Time restrictions	<u>2,725,521</u>	<u>2,568,108</u>
Total	<u>\$17,775,001</u>	<u>\$17,857,396</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE N - TEMPORARILY RESTRICTED NET ASSETS - Continued

Net assets shown above as debt repayment are restricted by donors as endowment, but may also be used as collateral on debt, if necessary.

NOTE O - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2010 and 2009 consist of various individual funds that are subject to donor-imposed restrictions that the principal be invested in perpetuity. Net assets associated with the permanently restricted net assets are classified and reported based on the existence of donor-imposed restrictions, as follows:

	<u>2010</u>	<u>2009</u>
Academic programs	\$ 327,423	\$ 323,903
Academic support	196,875	191,875
Student services	49,973	49,973
Institutional support	82,870	82,870
Operation and maintenance of plant	1,101,325	1,101,325
Auxiliary enterprises	265,850	264,950
Student aid	7,900,983	7,552,278
Student loans	15,874	15,874
Unrestricted	<u>674,037</u>	<u>668,204</u>
Total	<u>\$10,615,210</u>	<u>\$10,251,252</u>

The University's endowment, all of which are used to support the operations of the University, consists not only of those assets of donor-restricted funds that the organization must hold in perpetuity, but also donor-restricted funds. The University accounts for endowment net assets by preserving the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, 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, if any. 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, according to donor stipulations, until those amounts are appropriated for expenditure by the Foundation for the donor-stipulated purpose.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE O - PERMANENTLY RESTRICTED NET ASSETS - Continued

Prior to the year ended June 30, 2008, absent explicit donor stipulations to the contrary, the University appropriated all investment returns earned on the permanently restricted endowment funds having been used to support donor-stipulated purpose of the permanently restricted endowment fund. As of June 30, 2008, endowment assets only included those assets of donor-restricted funds that the University had to hold in perpetuity or for donor-specified periods, as all temporarily restricted funds were released.

Effective July 1, 2008, the University considers the following factors in making a determination either to appropriate or to accumulate donor-restricted endowment funds:

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,157,780 as of June 30, 2010 and \$2,052,118 as of June 30, 2009. These deficiencies resulted from unfavorable investment market fluctuations that occurred after the July 1, 2008 adoption of new standards related to the accounting for endowment-related activities and the passage of UPMIFA effective for the year ended June 30, 2009, as well as continued appropriation of endowment assets for expenditures for certain programs that were deemed prudent by the Board of Regents.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Regents, the endowment assets are invested in a manner that is intended to produce results over the long-term that exceed its endowment payout (not expected to exceed 4.5% annually) plus inflation as measured by the Consumer Price Index, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this objective.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE O - PERMANENTLY RESTRICTED NET ASSETS - Continued

The University has a policy of appropriating for distribution each year 5.0% of the endowment fund net assets average fair value over the prior 12 quarters through the end of the prior fiscal year in which the distribution is planned. It is expected that this calculation will result in an average distribution amount of approximately 4.5% of the beginning of the fiscal year endowment net asset fair value which is consistent with the long-term rate-of-return objective. The University made a one-time exception to this policy for the year ended June 30, 2010, reducing the nominal rate from 5.0% to 4.5% in an effort to reduce the unrestricted deficiency discussed above.

To satisfy its long-term rate-of-return objective, the University relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The University has an active Investment Committee that meets quarterly at a minimum to ensure the objectives of the investment policy are being met and that the strategies used to meet the objectives are in accordance with the approved investment policy.

The composition of endowment funds by type of fund as of June 30, 2010 and 2009, follows:

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$(1,157,780)	\$116,068	\$9,255,242	\$ 8,213,530
Board-designated endowment funds	<u>5,044,742</u>	-	-	<u>5,044,742</u>
Total funds	<u>\$ 3,886,962</u>	<u>\$116,068</u>	<u>\$9,255,242</u>	<u>\$13,258,272</u>
	2009			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$(2,052,118)	\$ 56,467	\$9,036,611	\$ 7,040,960
Board-designated endowment funds	<u>4,527,963</u>	-	-	<u>4,527,963</u>
Total funds	<u>\$ 2,475,845</u>	<u>\$ 56,467</u>	<u>\$9,036,611</u>	<u>\$11,568,923</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE O - PERMANENTLY RESTRICTED NET ASSETS - Continued

During the years ended June 30, 2010 and 2009, the University had the following endowment-related activities:

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 2,475,845	\$ 56,467	\$9,036,611	\$11,568,923
Investment return				
Investment income	304,027	11,645	566	316,238
Net appreciation (realized and unrealized)	<u>1,443,781</u>	<u>55,299</u>	<u>2,681</u>	<u>1,501,761</u>
Total investment return	1,747,808	66,944	3,247	1,817,999
Contributions and transfers to Board-designated endowment funds	277,830	-	215,384	493,214
Appropriations of endowment assets for expenditures	<u>(614,521)</u>	<u>(7,343)</u>	<u>-</u>	<u>(621,864)</u>
Endowment net assets, end of year	<u>\$ 3,886,962</u>	<u>\$116,068</u>	<u>\$9,255,242</u>	<u>\$13,258,272</u>
	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 5,729,774	\$ -	\$8,866,020	\$14,595,794
Net asset reclassification based on change of law	<u>(63,081)</u>	<u>63,081</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	5,666,693	63,081	8,866,020	14,595,794
Investment return				
Investment income	279,938	361,022	1,094	642,054
Net depreciation (realized and unrealized)	<u>(3,152,248)</u>	<u>(367,636)</u>	<u>(6,074)</u>	<u>(3,525,958)</u>
Total investment return	(2,872,310)	(6,614)	(4,980)	(2,883,904)
Contributions and transfers to Board-designated endowment funds	391,073	-	175,571	566,644
Appropriations of endowment assets for expenditure	<u>(709,611)</u>	<u>-</u>	<u>-</u>	<u>(709,611)</u>
Endowment net assets, end of year	<u>\$ 2,475,845</u>	<u>\$ 56,467</u>	<u>\$9,036,611</u>	<u>\$11,568,923</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE O - PERMANENTLY RESTRICTED NET ASSETS - Continued

As of June 30, 2010, over \$800,000 of permanently restricted funds with balances of \$50,000 or less have been in existence for 20 years or more. As allowed by UPMIFA, the University may take steps to release restrictions on some or all of these funds to modify burdensome or outdated donor restrictions. The Board of Regents has approved taking such steps on two such funds with balances totaling \$58,100.

NOTE P - NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets released from donor restrictions for the years ended June 30, 2010 and 2009, are summarized as follows:

	2010			2009		
	Operating	Non-operating	Total	Operating	Non-operating	Total
Purpose restrictions accomplished						
Academic programs						
Instructional/divisional	\$ 46,819	\$ -	\$ 46,819	\$ 289,073	\$ -	\$ 289,073
Other instructional programs	22,490	-	22,490	12,617	-	12,617
Academic support	-	-	-	11,185	-	11,185
Student services	33,757	-	33,757	265,495	-	265,495
Institutional support	507,692	-	507,692	285,134	-	285,134
Fundraising	6,719	-	6,719	19,316	-	19,316
Auxiliary enterprises	164,398	-	164,398	135,902	-	135,902
Student aid	360,102	-	360,102	613,925	(56,467)	557,458
Fixed assets	<u>640,612</u>	<u>-</u>	<u>640,612</u>	<u>679,796</u>	<u>-</u>	<u>679,796</u>
Total	<u>\$1,782,589</u>	<u>\$ -</u>	<u>\$1,782,589</u>	<u>\$2,312,443</u>	<u>\$(56,467)</u>	<u>\$2,255,976</u>

Non-operating net assets released are reinvested and retained as unrestricted endowment funds.

NOTE Q - INCOME TAXES

The University and the Foundation are organizations described in Section 501(c)(3) of the Internal Revenue Code (“IRC”) of 1986, as amended and, as such, are exempt from federal income tax on income earned related to exempt activities under IRC Section 501(a).

The FASB issued guidance that requires tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE Q - INCOME TAXES - Continued

threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The University is exempt from income tax under IRC section 501(c)(3), though they are subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the IRC. There are no tax positions for which a material change in any unrecognized tax benefit liability is reasonably possible in the next 12 months. There are no interest or penalties recognized in the statement of activities or statement of financial position. The tax years ended 2007, 2008 and 2009 are still open to audit for both federal and state purposes. This guidance did not have any impact on the University's financial statements.

NOTE R - ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Professional accounting standards require that an entity recognize the fair value of a liability for a conditional asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. An asset retirement obligation would be reasonably estimable if (a) it is evident that the fair value of the obligation is embodied in the acquisition price of the asset, (b) an active market exists for the transfer of the obligation, or (c) sufficient information exists to apply to an expected present value technique. In applying this professional guidance to the University, it was necessary to determine if the University will undertake any major renovation, sell, dispose or abandon any related assets, what liability would be associated with such action, and the date such action would be taken. Management is not aware of any specific asset retirement obligations. Therefore, the University has not recognized a conditional asset retirement liability as of June 30, 2010 or 2009.

NOTE S - SUBSEQUENT EVENTS

State of Illinois Capital Expenditures Grant

On July 13, 2009, the State of Illinois passed a capital expenditures bill that is expected to provide the University with approximately \$3.9 million of funding for capital expenditures (the "Grant"). The Grant total is to be broken down into a "Base Grant" and an "FTE Grant."

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE S - SUBSEQUENT EVENTS - Continued

On June 22, 2010, the Illinois Board of Higher Education approved the Base Grant, which would provide \$2,000,000 to the University. Any amounts received under the Grant must be used for approved capital expenditures between July 13, 2009 and July 12, 2014, or be returned to the State of Illinois. The University received the first distribution of \$495,049 in September 2010. The timing of the approval/receipt of the remaining \$1,504,951 under the Base Grant or any funds under the FTE Grant is unknown.

NOTE T - FAIR VALUE MEASUREMENTS

The following table summarizes assets and liabilities by fair value input levels as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder and lead trusts	\$ <u> -</u>	\$ <u> -</u>	\$ <u>642,740</u>	\$ <u>642,740</u>
Assets				
Investments				
Mutual funds	\$13,267,802	\$ -	\$ -	\$13,267,802
Cash equivalents	182,473	-	-	182,473
Funds held in trust	<u> -</u>	<u> -</u>	<u>795,964</u>	<u>795,964</u>
Total investments	13,450,275	-	795,964	14,246,239
Assets restricted as to use	<u>3,981,290</u>	<u> -</u>	<u> -</u>	<u>3,981,290</u>
Total assets	<u>\$17,431,565</u>	<u>\$ -</u>	<u>\$1,438,704</u>	<u>\$18,870,269</u>
Liabilities				
Interest rate swap agreement	\$ <u> -</u>	\$ <u>(543,005)</u>	\$ <u> -</u>	\$ <u>(543,005)</u>
Total liabilities	<u>\$ -</u>	<u>\$ (543,005)</u>	<u>\$ -</u>	<u>\$ (543,005)</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE T - FAIR VALUE MEASUREMENTS - Continued

A rollforward of the fair value measurements using unobservable inputs (Level 3) as of June 30, 2010, is as follows:

	<u>Charitable lead and remainder trusts</u>	<u>Funds held in trusts</u>
Fair value, July 1, 2009	\$578,722	\$724,161
Net change in value	64,018	118,076
Trust assets distributed	<u>-</u>	<u>(46,272)</u>
Fair value, June 30, 2010	<u>\$642,740</u>	<u>\$795,965</u>

The following table summarizes assets and liabilities by fair value input levels as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder and lead trusts	\$ <u>-</u>	\$ <u>-</u>	\$ <u>578,722</u>	\$ <u>578,722</u>
Assets				
Investments				
Mutual funds	\$11,635,415	\$ -	\$ -	\$11,635,415
Cash equivalents	641,595	-	-	641,595
Funds held in trust	<u>-</u>	<u>-</u>	<u>724,161</u>	<u>724,161</u>
Total investments	<u>12,277,010</u>	<u>-</u>	<u>724,161</u>	<u>13,001,171</u>
Total assets	<u>\$12,277,010</u>	<u>\$ -</u>	<u>\$1,302,883</u>	<u>\$13,579,893</u>
Liabilities				
Interest rate swap agreement	\$ <u>-</u>	<u>(386,825)</u>	\$ <u>-</u>	\$ <u>(386,825)</u>
Total liabilities	<u>\$ -</u>	<u>\$(386,825)</u>	<u>\$ -</u>	<u>\$(386,825)</u>

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE T - FAIR VALUE MEASUREMENTS - Continued

A roll forward of the fair value measurements using unobservable inputs (Level 3) as of June 30, 2009, is as follows:

	Charitable lead and remainder trusts	Funds held in trusts
	<u> </u>	<u> </u>
Fair value, July 1, 2008	\$ 790,587	\$799,830
Change in value of split-interest agreements	(211,865)	-
Change in value of trust assets	<u> -</u>	<u> (75,669)</u>
Fair value, June 30, 2009	<u>\$ 578,722</u>	<u>\$724,161</u>

NOTE U - FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not required to be valued under fair value accounting standards appearing on the accompanying consolidated statements of financial position for which it is practicable to estimate that value.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

Accounts Receivable and Loans Receivable

The carrying amount reported is recorded net of allowance for uncollectible accounts and approximates its fair value.

Contributions and Grants Receivable

The initial fair value of contributions and grants receivable, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows using the risk-adjusted rate, and is presumed to approximate the fair value.

Concordia University Chicago
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2010 and 2009

NOTE U - FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS - Continued

Deferred Revenue

The carrying amount recorded approximates the fair value and is based upon the tuition received in advance by the University.

Loans Payable and Bonds Payable

The carrying value of the variable loans payable and bonds payable is presumed to approximate the fair value.