

**Federal Compliance Material Packet
Concordia University
March 14, 2007**

The information contained in this document is provided in support of the AQIP Quality Checkup Visit scheduled for April 11-13, 2007 at Concordia University.

Student Loans

Evaluation of Student Loan Default Rate

The Federal Family Educational Loan (FFEL) default rate has remained low over the past several years and continues to remain below the national average. The most current rates include: 2.9% in FY2002; 2.5% in FY2003; 3.3% in FY2004; and 3.3% in FY2005 (2005 National Average 5.1%). The rates for FY 2006 are not yet available. The university is very proud of this exceptionally low rate and will continue to strive to reduce these rates even further.

The Perkins loan default rate has been fluctuating and procedures have been instituted to reduce the rate. Over the past years the default rate was at 37.68% on 6/30/04, 25.00% on 6/30/05 and 41.96% on 6/30/06. A self-assessment of our procedures highlighted a weakness in our exit interview process. In response to this issue the university decided to move the responsibility for the exit interview process from the Business Services Office to the Student Financial Planning Office. The goal is to provide a more individualized approach to explaining students' responsibilities and therefore assuring that students have a clear understanding of how their Perkins loans relate to the other loan programs. A special emphasis is also being placed on loan consolidation. The default rate on the Perkins will continue to be monitored and our approach continually assessed to produce possible improvements.

Credits, Program Length, and Tuition

Undergraduate Programs

Concordia University operates on the semester system. August through May is divided into two semesters of approximately 16 weeks each. A two-week May Term and a twelve-week summer term make it possible for a student to earn additional semester hours of credit beyond those earned during the regular academic year. The unit of credit is the semester hour. Normally, one equivalent semester hour of credit is awarded on the basis of one 50-minute class session per week. The outside preparation required is approximately twice the time spent in class. Double/triple laboratory periods requiring less preparation are equivalent to a single lecture period. Most of the undergraduate courses offered carry three semester hours of credit.

Undergraduate degree programs require the student to complete a minimum of 128 semester hours of coursework as outlined in the Undergraduate Catalog of the university. This minimum requirement can be satisfied by completing an average of 16 semester hours of course work for each of eight semesters attended. At least one academic year (32 semester hours) of study in residence is required for graduation, preferably the last year before graduation. Students desiring to receive the Lutheran Teachers Diploma are required to complete additional coursework in theology as prescribed by the College of Education and the sponsoring church body (The Lutheran Church – Missouri Synod).

The schedule of undergraduate classes can be found on the university website at http://www.cuchicago.edu/registrar/class_schedule.asp

Graduate Programs

The unit of credit for the university graduate programs is the semester hour. Each of the two sixteen week semesters is divided into two eight week sessions during which graduate courses are offered. The majority of summer courses are also scheduled using the eight week format. Courses meet one day per week during these eight week sessions for a total of four clock hours per week (240 minutes) and a student typically completes one course in each of these sessions. Instructors utilize WebCT software to augment the in-class-instruction to augment the total “seat time” to reach the traditional norms. The out-of-class preparation for the graduate students is expected to exceed twice the amount of time spent in class.

In addition to the courses required for each master’s program, all graduate students are required to complete a capstone experience before they are certified as a program completer. The following capstone options are available to these students:

- Thesis and Oral Defense
- Independent Research paper
- Written and Oral Examination Based on Assigned Readings
- Internship/Practicum Experience and Comprehensive Paper and Oral Defense
- Recital/Composition Paper and Oral Defense
- Portfolio and Oral Defense
- Student Designed Capstone

The capstone experiences available for the various programs are listed in the Graduate Catalog. Copies of the catalog will be available during the Quality Checkup Visit and an electronic version can be located on the university website at:

<http://www.cuchicago.edu/catalogs/index.asp>

The schedule of graduate classes can be found on the university website at http://www.cuchicago.edu/registrar/class_schedule.asp

Professional and Institutional Accreditation

Various undergraduate and graduate programs of the university are currently accredited or are in the process of becoming accredited. The following table provides information concerning those programs that are currently accredited.

Program(s)	Accreditation Agency	Next Renewal Date
Initial Teacher Certification Programs (Graduate and Undergraduate)	National Council for Accreditation of Teacher Education (NCATE)	Fall 2009
Initial Teacher Certification Programs (Graduate and Undergraduate)	Illinois State Board of Education (ISBE)	Fall 2009
Community Counseling (Graduate) School Counseling (Graduate)	Council for Accreditation of Counseling and Related Educational Programs (CACREP)	June 30, 2011
Bachelor of Arts in Music Bachelor of Music Education Master of Church Music	National Association of Schools of Music (NASM)	2008-09 Academic Year

The table below lists the programs of the university where accreditation is being sought by the appropriate academic departments of the university.

Program(s)	Accreditation Agency	Status
Social Work Program (Undergraduate)	Council on Social Work Education (CSWE)	Precandidacy Stage
Business Program(s) (Undergraduate)	International Assembly for Collegiate Business Education (IACBE)	Site Visit Fall 2007 or Spring 2008

Student Complaints

Concordia University has a multifaceted approach to receiving and disposing of non-trivial complaints. Student complaints fall into one of two categories: academic or non-academic. The student handbook, which outlines for the students the appropriate steps for registering a complaint, is accessible to all Concordia faculty, staff, and students via the university's intranet http://intranet.cuchicago.edu/STUDENT_SERVICES/2006-2007%20Student%20Handbook.pdf. Additionally, all students receive a hard copy of the student handbook at the beginning of the academic year. Copies of this handbook will be made available to the visiting team during the Checkup visit.

Academic Complaints

If a student has a complaint about an evaluation, course content, or course procedure, the student is first encouraged to talk with the instructor of the course. If the complaint is not disposed of at this level, then the student must adhere to the following route when appealing the decision of the instructor: The Department Chairperson; The College Dean; The Sr. Vice President for Academics; The President; The Board of Regents. As with all official appeals, they must be submitted in writing and clearly state the basis for the appeal. Once an appeal is submitted and reviewed by the university official, the student will receive a written response to the appeal. All appeals are to be handled fairly and expediently. All records pertaining to academic complaints are kept with the appropriate college dean. Every effort is made to resolve the complaint at the appropriate level.

Non – Academic Complaints

The student handbook clearly defines both the formal and informal complaint reporting processes for matters of sex discrimination, as defined by Title IX, and sexual harassment.

In matters of sex discrimination, the grievant is asked to first discuss the matter with the alleged offender. If the matter is not resolved at this level, then the student should speak with the next person in authority in the alleged offender area. If the matter can not be appropriately disposed of through informal means, then the student must begin the formal complaint process by submitting a written complaint to the Title IX Coordinator. The complaint must state the nature of the complaint, the evidence of which it is based, a statement of the informal procedure result, and the redress sought. The coordinator, in accordance with Title IX regulations, will determine if the grievance is applicable to the rules of Title IX. If so, the coordinator will attempt to solve the grievance. The grievant and the alleged offender will be notified in writing of the decision. If one of the parties feels that the matter was not disposed of appropriately, then they must submit in writing a request for a Title IX hearing committee to be assembled to review the case. Either party can continue the appeal route beyond the hearing committee to the President and eventually to the Board of Regents. Every effort is made to resolve the complaint at the appropriate level. Additionally, official notification is made in writing to both the grievant and the alleged offender. Records of all Title IX sex discrimination complaints are kept with the Title IX coordinator.

Concordia University's student handbook outlines for students, staff, and faculty what specifically constitutes sexual harassment, and subsequently what steps should be taken if someone feels that they have been discriminated against. Students that feel that they have been subjected to sexual harassment are asked to immediately report the situation to any member of the University's administrative cabinet, any departmental dean level administrator, or the Director of Human Resources. Legitimacy of the complaint is initially determined by the Director of Human Resources and the Vice President for Administration, and at which point the determination is made as to the university official that will independently investigate the complaint. All records, files, and related materials to the

investigation involving a student sexual harassment complaint are kept in the office of the Vice President for Student Life.

All other non-academic student complaints are directed to the Dean of Students. The Dean of Students is responsible for determining the legitimacy of the complaint, and responsible for directing the student to the appropriate university representative that can best assist the student with their complaint. All non-trivial written complaints and dispositions, excluding matters of sex discrimination and sexual harassment, are kept with the Dean of Students.

Third Party Comments

The following notice was published in local and community newspapers (Forest Leaves, Wednesday Journal & Chicago Tribune), the regional publication of the sponsoring church body (Northern Light), and was included as an e-mail announcement to faculty, staff, and students of the university.

Third Party Comment Advertisement

Concordia University Chicago is seeking comments from the public about the University in preparation for its periodic evaluation by its regional accrediting agency. As part of its participation in the Academic Quality Improvement Program (AQIP), the University will undergo an on-site, Quality Check-Up visit April 11-13, 2007, by a team representing the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Concordia University Chicago has been accredited by the Commission since 1950. The team will review the institution's ongoing ability to meet the Commission's Criteria for Accreditation.

The public is invited to submit comments regarding the university by paper mail addressed to:

Public Comment on Concordia University Chicago
Commission on Institutions of Higher Education
North Central Association of Colleges and Schools
30 North LaSalle Street, Suite 2400
Chicago, IL 60602

The public can also submit comments regarding the college electronically to:

<http://www.ncahlc.org/wrapped/thirdparty.php>

Comments must address substantive matters related to the quality of the institution or its academic programs. Comments must be signed; comments cannot be treated as confidential.

All comments must be received by April 1, 2007

Title IV Compliance

Audit Results

The Student Financial Planning Office is audited on a yearly basis to assure compliance with Title IV Federal regulations. The last A-133 audit, June 30, 2006, showed no material findings with regard to the processing of Federal aid. This was also the case for the previous years audit.

The Illinois Student Assistance Commission last performed an audit in June 2005. They reviewed a sample of State and Federal programs for the 2002-2003 and 2003-2004 academic-years. There were no findings related to Pell or the verification process, and only one loan related issue was identified. As of the writing of this report, all issues have been addressed and steps taken to guard against repeat findings.

Documents Related to Title IV Compliance

The following documents have been gathered and are available from the Office of Student Financial Planning:

Default rates and related supporting documentation
Program Participation Agreement
Eligibility and Certification Approval Report
FISAP
Illinois Board of Higher Education Survey
ISAC Audit conducted in 2005
A-133 (June 30, 2006)

Other Documents Available:

Previous A-133 Reports are available from Business Services Office
Campus Security Reports (Clery Act) are available for the campus community on the Intranet at http://intranet.curf.edu/STUDENT_SERVICES/ASR%202006.pdf
Off campus visitors to the university website can access the information at http://www.cuchicago.edu/student_life/security/annual_security_report.pdf
The report can also be obtained by contacting the Campus Security Office at (708) 209-3639
FERPA information is available at <http://www.cuchicago.edu/registrar/ferpa.asp>

Title IV HEA Program with Provisional Approval until June 30, 2009

The United States Department of Education has authorized Concordia University Chicago to participate in the Title IV, HEA Program with Provisional Approval until June 30, 2009. Concordia University Chicago has been on Provisional Certification status since June of 2006 due to a USDOE financial ratio analysis of the June 30, 2005 financial statements.

What ultimately led to Concordia University Chicago's Provisional Certification status were operating losses of almost \$21 million over a three-year period ending June 30, 2003, accompanied by the accumulation of debt and the spending down of unrestricted funds invested as endowment. Although the University did not meet the financial ratio requirements as of June 30, 2003, but the USDOE performed its review of the June 30, 2003 and June 30, 2004 financial statements simultaneously in the fall of 2005. During the year ended June 30, 2004, approximately \$8.5 million of gains on the sales of property and other extraordinary one-time gains enabled the University to show a \$5.5 million operating surplus. The resulting financial ratio analysis by USDOE did not require that the University be put in Provisional Certification status.

The university continued to implement many budget improvement initiatives, as well as taking many actions to pay down debt. One of its actions was to refinance its entire debt structure, dramatically bringing down the costs of servicing the debt. To accomplish this feat, the University paid off as much debt as it could, and converted some of the debt to short-term in nature. By the year ended June 30, 2005, the university rebounded to operating at near break-even. However, although the refinancing had a positive impact on the University's overall financial position, it had the impact of reducing the University's "expendable resources" (a major factor in the USDOE financial ratio analysis). As a result, although the University's financial position and operations were significantly improving, the USDOE financial ratio analysis resulted in the University being put on Provisional Certification status.

As a result of the Provisional Certification status, the University was required to (and agreed) to post surety in the form of a Letter of Credit equal to the 10% of the Title IV, HEA program funds received. The University complied with this request and is in regular communication with the Department of Education. Verbal communications with the USDOE has provided assurance that this Letter of Credit requirement shall be removed once the University's year-end financial statements "pass" the USDOE financial ratio analysis, even though it will continue on Provisional Certification status until June 30, 2009.

The University further improved its operating results during the year ended June 30, 2006, achieving an operating budget surplus of \$86,000. The operating budget for the year ended June 30, 2007 (FY 2007) is \$41 million, increased from \$27 million in FY 2004, and reflects an operating surplus of \$635,000. The anticipated net operating surplus is currently projected to be somewhere between \$800,000 to \$1,000,000. A large reason for the University's financial improvement is due to the success of the graduate programs which for two years in a row have contributed to record total enrollment levels. This past fall 2006, total enrollment increased to 3,710 an increase of 33% over the previous fall semester. And Undergraduate enrollment continues to increase incrementally and freshman to sophomore retention rates for the past two years have increased, by 3% and 7%, respectively.

But even with this continued improvement, the University remained undercapitalized as of June 30, 2006, so it expects the USDOE financial ratio analysis to once again result in the need to continue the Letter of Credit requirement for another year. However, it is

anticipated that the June 30, 2007 financial statements shall “pass,” allowing the University terminate the letter of credit some time in the fall of 2007 or spring of 2008.

In addition, as required of an institution in Provisional Certification status, Concordia University Chicago has complied with the USDOE request to report and obtain approval for additional campus locations at which existing graduate programs are offered and to whom student enrolled are disbursed TITLE IV federal loans. At the writing of this document, CUC has received verbal approval for the additional fifty-eight sites and is awaiting written confirmation and receipt of the ECAR. A requirement of this approval was to increase the Letter of Credit requirement to 10% of the Title IV, HEA program funds expected to be received over the next fiscal year. This increase was made to provide for the significant enrollment and financial increases. The University has received bank approval for this increase, and is the process of negotiating the final documents.

Advertising and Recruitment Materials

The university website www.CUChicago.edu contains material used in the recruitment of both graduate and undergraduate students. The university will make specific recruitment materials used by the Office of Admissions (graduate and undergraduate) available to the visiting team during their time on the campus. The following list provides some of the points made in these recruitment materials:

What Makes Concordia University Chicago Special

- 1) Record breaking enrollment for two years in a row has increased total enrollment to 3,710 students for Fall Term 2006.
- 2) 40 states and a dozen countries are represented in our undergraduate student body.
- 3) 30% of our undergraduate students are from states other than Illinois.
- 4) 70% of undergraduates live on campus.
- 5) We offer a variety of graduate programs offered traditionally on campus and through cohorts on and off campus.
- 6) In U.S. News and World Report’s 2007 rankings issue, Concordia is ranked #51 in the University- Master’s (Midwest) category.
- 7) Our location offers important advantages that are not found in many other schools of similar size. We’re only 10 miles west of downtown Chicago, where students will find opportunities to enjoy the arts and popular culture, find meaningful internships and meet future employers.

- 8) Our 40-acre campus is located in River Forest, Illinois, neighbored by Oak Park, Illinois. Beautiful homes and attractive landscaping among tree-lined streets in these two safe communities contribute to the overall appeal of the University. Oak Park is the larger of the two communities and offers the amenities of an upscale, trendy community. Here students will find unique restaurants, specialty shops, galleries, stores and interesting places to visit. Boyhood home of Ernest Hemingway and the home and studio of fame architect Frank Lloyd Wright, Oak Park is well known in the Chicago area for its progressive economic and political climate.
- 9) According to the 8th edition of the *Baccalaureate Origins of Doctoral Recipients* (by Franklin & Marshall College) Concordia ranks 13th among Master's Colleges and Universities in the number of education majors who graduated between 1986-1995 who continued their education and earned doctoral degrees.
- 10) Concordia University Chicago graduates more public school teachers than any other private college in the state of Illinois.
- 11) To date, 10 Concordia alumni have received the Golden Apple Award. The Golden Apple Award is presented by the Golden Apple Foundation annually to "recognize outstanding teaching and to promote teacher recruitment." Recipients, who are usually nominated by their students, receive a \$3,000 stipend, a new Apple PC and a semester-paid sabbatical to study at Northwestern University.
- 12) Concordia is highly regarded among Lutheran Church-Missouri Synod congregations nationwide for the contributions of its graduates and faculty members to congregational life. Many popular hymns and widely used liturgical settings were composed by the University's graduates and faculty member. And, Concordia is renowned for preparing young men and women for church professions.
- 13) Concordia has highly respected music programs. Kapelle, Concordia's premier choral performance ensemble, and Wind Symphony, Concordia's premier instrumental performance ensembles are both internationally known. Both groups tour twice annually with international tours every four years. This year the Wind Symphony recorded their 10th compact disc.

The following list includes the marketing materials that will be made available to the visiting team during their visit to our campus on April 11th – 13th:

General Recruitment Materials

- "Forester" magazine
- "Spiritual Life Opportunities" brochure
- Undergraduate Catalog
- Graduate Catalog

Traditional Undergraduate: Freshmen and Transfer Students

- University Viewbook
- “General Overview” publication
- “University Profile” sheet
- “Planning for College” publication
- Transfer Student Brochure
- “Music Programs at Concordia”
- “Chicago opportunities” postcard
- “Service Leadership” postcard
- “Visit Campus” postcard
- Open House / Visit Day brochure
- “Careers for Christ” brochure
- Website Information <http://www.cuchicago.edu/admission/undergraduate>

Adult Undergraduate Students: CU-Succeed Program

- Six-Panel Brochure
- “Information Session” postcards
- “Information Packets”
- “Fact Sheet” for degree program
- “Fact Sheet” for certificate programs
- “Financial Aid for College Starts Here” brochure
- “Parish Packet” materials used in Northern Light
- Website Information <http://www.cuchicago.edu/succeed>

Graduate

- “Program Sheets” for each graduate program
- Graduate Program Brochures
- “Cohort Information Packet” for selected graduate programs
- Website Information <http://www.cuchicago.edu/admission/graduate>

Summary of the “Financial State of Affairs” of the University

The following document summarizes the evolving fiscal situation of the university since fiscal year 2001. On March 6, 2007, the Chief Financial Officer of the university shared this document with the faculty and staff as the university began the budgeting process of Fiscal Year 2008. The document provides a historical perspective as well as a conservative look to the near term future of the university.

Introduction

This paper discusses Concordia’s changing financial position; where we were at, where we are now, and where we are going. We are in the middle of a period of great

change – going from the brink of bankruptcy just 3-4 years ago to where we are at today, with plans to reach new levels in the future. I hope that it brings to you some understanding of the obstacles that we have overcome, but what challenges we continue to face.

Historical Perspective

To provide a starting point for our financial problems, one needs to look no further than our operating results during the early part of this decade. A look at the results during FY2001 through FY2003 reveals the following:

	<i>in (000's)</i>	
	Tuition and Fees Revenues	Operating Net Results
FY2001	\$ 17,612	\$ (4,343)
FY2002	21,282	(7,057)
FY2003	21,503	(9,517)

Note – The Operating Net Results reflect restatements due to changes in accounting methodology implemented in later years so as to provide consistency in reporting.

During this three-year period, we suffered operating losses totaling almost \$21 million. To be fair, some of these losses were incurred due to some one-time costs associated with some of the downsizing decisions that were made during FY2003. But regardless, by the end of FY2003, we were nearly at the point where the banks had lost faith in our ability to operate and were at the point of calling the debt. As of June 30, 2003, we had accumulated debt of over \$56 million, including an almost \$6 million loan from our own endowment fund. We did not have the ability to make payments to our vendors, and we barely had enough funds to pay payroll. Raises had not been given to employees since June 30, 2001. And finally, the federal government notified us of their intent to terminate our federal student aid programs if we were unable to convince the auditors by September 30, 2003, that we were a viable organization. This last action would have effectively closed us down.

Why were we in this situation? There were a variety of interrelated factors, including:

- We had just completed a \$45 million+ major construction and renovation program, **over \$25 million of it was financed through debt.**
- The initial impact of this construction was to increase staffing due to the need to program and maintain the new spaces.
- The events of September 11, 2001 had its impact on the economy and higher education in general – including Concordia University.

- Enrollment was declining even before this period. The events of this period helped accelerate this decline at a time that the University could least afford it.
- In retrospect, issues associated with the very complex and intensive implementation of new financial accounting software (SCT Banner) beginning in 2001 caused us to temporarily loosen our grasp over financial reporting and accounting. It has taken several years to fully recover from this.
- The increased debt load caused increased operating expense (interest expense) – as high as \$2.5 million per year.

The list of reasons can go on. But suffice it to say, there was not any one single reason for the decline.

The Board of Regents realized the seriousness of the situation, and began to take certain actions to turn the situation around. These actions continue today and will continue for several years. Some of the actions taken are summarized below:

FY03

Many budget reduction and downsizing measures were instituted. The Board of Regents established a State of Fiscal Exigency. Staff and management changes and reorganizations were instituted. Requests for financial and other help were made to Lutheran Church Missouri-Synod (LCMS), who responded in various ways. The result was the beginning of a turnaround plan, aimed at putting in place the groundwork for establishing long-term viability. The Lutheran Church Extension Fund (LCEF) gave us a one-year guarantee on our debt – meaning that the institution, for a one-year period, could continue to operate without fear of being closed down. But it also meant that significant improvement was required if the institution was to prevent the dooms-day scenario from playing out just one year later.

FY04

FY04 saw the implementation of many one-time initiatives aimed at helping out the institution, including LCMS giving Concordia a one-time, \$1,875,000 grant that was matched by an additional draw of \$1,875,000 from Concordia's endowment funds. Additionally, Concordia sold off most of its off-campus residential property. These and other initiatives helped to provide cash used to help pay off approximately \$10 million of debt, while helping the organization realize an **Operating Surplus** AFTER these one-time Extraordinary Items, of approximately **\$5.2 million**. While on the surface it might have appeared that life was good – but it was very misleading. Even with the one-time Extraordinary Items, we were only able to achieve a break-even cash position for the year due largely to the need to pay down debt. Looking at it a different way, Concordia's **REAL FY04 Operating Results** (excluding these one-time Extraordinary Items) was **\$3,497,000 Deficit**. This was not to criticize what had been done to that point, as the results were certainly much improved from the year before. Great progress had been made. But even with this progress, the cumulative operating

loss for the four years ended June 30, 2004 (not including the FY04 one-time gains of \$8.7 million) exceeded \$24.4 million.

FY04 also saw the start of the cohort graduate program, with masters' degrees initially being offered in Leadership and Curriculum & Instruction. With an enrollment of 20 students in fall 2003 and 154 students in spring 2004, the programs only had a minimal impact on the FY04 numbers. But already we began to see that growth in this program could help to at least temporarily get us out of our operating hole.

FY05

Optimism about FY05 allowed us to develop an operating budget that showed a small operating surplus. This optimism was based on many factors, including:

- The debt decrease and the continued impact of the many cost savings initiatives implemented in the prior 2-3 years.
- Some projected increases in undergraduate enrollment combined with tuition rate increases.
- Optimistic forecasts about the graduate cohort program enrollment growth.
- Improving enrollment in the Early Childhood program

As the year progressed, our projections were generally right on, with the exception of lower enrollment in a couple of our programs. By the end of the fiscal year, the graduate cohort programs had grown to over 800 students, and total enrollment approached 2,300 students – nearing the institution's all-time enrollment high. On January 1, 2005, we issued salary raises for the first time in 3-1/2 years. We just missed our goal of achieving an operating surplus, ending the year with an operating deficit of \$321,000 (excluding gains on the sale of property). This brought the cumulative total operating loss over a five-year period to over \$24.7 million. Things continued to get better, but it was still clear that there was still a long way to go.

FY06

FY06 continued the growth and the momentum, but with one major exception – the growth in the academic programs required increases in academic and support staff and infrastructure. Again, we budgeted a small operating surplus. The growth areas continued to improve, whereas certain areas continued to experience declines. By the end of FY06, graduate cohort program enrollment had grown to almost 1,700 students, some of which had to do with new masters programs beginning in Reading, ESL, MAT, and School Counseling. Total enrollment in the spring of 2006 was just under 3,000 students – well beyond our all-time highs. On January 1, 2006, we once again issued salary raises. Putting it all together, we ended the year with a real operating surplus for the first time in many years – but just barely. We proudly announced a surplus of \$86,000. Although negligible when compared to the \$24.7 million of operating losses incurred over the prior five years, it still represents a significant achievement for which we should all be proud.

As of June 30, 2006, total debt was approximately \$45 million – over \$11 million less than at June 30, 2003. Endowment fund net assets increased over the same period from \$12.1 million to \$13.4 million, although total investments at June 30, 2006 are only \$9.1 million as of the same date – the difference primarily due to the outstanding \$4.4 million loan from the endowment fund to the University.

Unfortunately, our cash position worsened, not improved, during FY06. Due largely to depreciation (a non-cash expense) and collections on old receivables, operations actually generated approximately \$2.7 million of cash -- \$2.1 million of which used to pay down debt. An additional \$1.2 million, used to fund much needed capital expenditures, resulted in a cash deficit for the year. Add in additional \$400,000 of cash that was transferred to the endowment funds, and the end result was an approximate \$1 million worsening of our cash position. So, despite the improvements, we actually operated at a cash loss for the period.

Putting it all in perspective, during the year ended June 30, 2006, we operated at a break-even position. At the end of that year, we had total debt of \$45 million (\$41 million when excluding the loan from the foundation), endowment net assets of \$13 million, and cash and investments totaling just under \$10 million. But we are still spending cash we did not have. Although a much better picture than a few years ago, we still had a long way to go.

Current Fiscal Year Status

FY07 is another pivotal year for Concordia University in many respects. In September 2007, the financial backing of much of our debt comes up for renewal. The supporting bank will only agree to provide this backing if it continues to have confidence in our ability to survive over the long-term. To do so requires not only that we achieve reasonable operating surpluses, but we must operate at least at a cash break-even while continuing to see increases in endowment net assets and decreases in debt. Couple these requirements with critical capital repairs and maintenance needs in many areas, and it indicates that the current year task is large. But we can (*and will*) meet this task.

We entered the FY07 fiscal year with a \$630,000 approved budgeted operating surplus based on total tuition and fees of almost \$40 million. Why are we budgeting such a large surplus you might ask? This amount was what was calculated to be the amount needed to achieve a break-even cash position for the year. Due to non-cash improvements in the operating budget, this target has since increased to \$850,000. The recent budget review resulted in adjustments to the budget, bringing the budgeted net to \$835,000 – essentially on pace with the target.

Obviously, this budget included the January 1, 2007 salary increase, a significant increase in the cost of pension and health benefits, and continued faculty and staff growth required to support our expanded enrollment. The budget projected cohort program enrollment to increase to over 2,600 students, and total enrollment to increase to over 3,800

students – all-time highs. We have allocated an additional \$1.2 million to capital needs – still well below what we have identified as amounts needed to be spent to address our deferred maintenance needs.

When looking at the \$835,000 projected operating surplus, one must understand that we are not in a “cushy” situation. Putting it a different way, even after factoring in all of the one-time gains realized in the past few years, it would take us approximately *20 years* of \$800,000 surpluses to make up for the operating losses incurred in the early part of this decade. And this \$800,000 total is what is needed just to get us to a break-even cash situation for the year.

Assuming that we achieve our budgeted totals (which is considered critical to our financial turnaround), debt should decrease by approximately \$1.5 million over the prior year-end. We continue to improve our operating and capital position, but only slowly. But more importantly, we can continue to show the bank that we continue to make progress toward our ultimate goal of becoming a financially viable institution.

You may ask why is it so difficult to “make money” with all of the improvements we have made, the increased enrollments, the more than doubling of tuition and fees over a six-year period, and our costs savings associated with operating in some areas with less than optimal numbers of personnel and the paying of salaries that are somewhat less than market. Shouldn’t we be in a great operating position at this time?

The answer to this question is somewhat subjective and complex. First you have to consider our available capital. There is no such thing as a “benchmark institution,” but it is common practice for higher education organizations to establish goals of having an endowment fund with a market value equal to 3-4 times its operating budget, and to have its debt levels not to exceed 50% of its endowment fund market value. By contrast, our endowment fund market value is a little greater than one-third of our operating budget, and our debt level is three times our endowment fund market value. These factors put us at a great disadvantage when competing with our peer institutions. And these deficiencies cannot be “fixed” overnight – they take years or decades. Our competitors have been aggressively building their endowment funds for many decades (or even over a century). We have just started.

It is not atypical for a small college or university to have 25% - 35% of its operating budget supported either by its endowment payout or annual fundraising. Our indirect support is generally under 10% from one year to the next. When considering we have a \$40 million budget, it takes a lot of effort to make up this difference. I already talked about the time it takes to build up an endowment fund, but it also takes many years to build up an annual fundraising process. Again, we cannot expect major improvements overnight. It is one step at a time.

Because of this competitive disadvantage, we are forced to make up the difference in various ways to achieve fiscal stability. We are currently successful in doing this because of

the reasons discussed above. But these may only be short-term solutions. Long-term solutions must be implemented to achieve our long-term financial objectives and goals.

Future

Obviously, financial planning is at the heart of the strategic planning process being facilitated by Alan Meyer. Any strategy, initiative, or objective must consider the financial ramifications. A capital campaign will have to contain a strong endowment component. We cannot build new facilities without funding – not just for the initial construction, but also the maintenance and upkeep. We are not in the position to borrow new monies, as we need to decrease debt. Our cash position must improve.

A financial objective of being back in a financially stable position by the year 2012 has been established. This is only five years away. To do so, the following strategies have been adopted:

- Operationally, we must achieve annual operating surpluses in the range of \$1,000,000+.
- Endowment Fund goals have been established.
- Debt must be brought down to manageable levels.
- Money must be available for ongoing capital expenditures.
- All new building initiatives must be entirely funded.
- Revenues must be increased in a diverse manner, so as to not put too much reliance on a single product line (academic program).
- Annual fundraising must significantly increase.
- Resources must be found to pay competitive salaries to faculty and staff.
- Resources must be found to enable the university to make investments in new initiatives.
- Undergraduate enrollment must be increased to desired levels.

Barring any unforeseen windfalls and incorporating the above strategies, as well as other strategic initiatives being addressed by the Strategic Plan, our financial projections show that we must continue to operate “close to the vest” for the next four years (through FY2011). Every year will be a struggle – having to be prudent with the use of our resources.

But if all goes well, by FY2012, as undergraduate enrollment begins to approach our goals of 1,400 students, our overall financial position improves dramatically. Our debt position, endowment funds, available cash, and fundraising should all be improved. We will have diversified our programs in various ways. Hopefully, we will be in a much stronger fiscal position. Achieving this position will not be easy, requiring large amounts of planning, coordination, and prioritization.

I have high confidence in this organization’s ability to make the changes necessary to achieve these goals. We have already gone through a period of extraordinary change – during which we have achieved, or almost achieved, virtually all of our goals that we had

established. A formal strategic planning process has been implemented. We have every reason to be optimistic about the expected launching of a capital campaign. New academic programs are being investigated. The infrastructure is in place to succeed.

Conclusion

I hope that I have been successful in providing you with some background behind our current financial situation, and, more importantly, give you some basis for optimism for the future while getting across just how important fiscal prudence continues to be. What we have achieved to this point has been nothing short of monumental, but we are only half way there. We just need to continue to carefully manage our resources through careful planning. But most of all, we need the continued commitment of the Board of Regents, management, faculty, staff, donors, and students.

I have attached a link to the financial pages from our 2006 Annual Report for your information and review. You may review copies of our financial statements for any of the past for years by going to the following webpage and clicking on the “Consolidated Financial Statements” link www.cuchicago.edu/about_concordia/