

**CONCORDIA UNIVERSITY**  
**IRVINE, CALIFORNIA**  
**an Educational Institution of**  
**The Lutheran Church–Missouri Synod**

**FINANCIAL STATEMENTS**  
**Including Independent Auditors' Report**

**As of and for the Years Ended June 30, 2017 and 2016**

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**TABLE OF CONTENTS**

---

Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 29

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents  
Concordia University  
Irvine, California

We have audited the accompanying financial statements of Concordia University, Irvine, California (the "University"), an educational institution of The Lutheran Church - Missouri Synod, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Concordia University, Irvine, California as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 31, 2017

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church – Missouri Synod**

STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2017 and 2016

<b>ASSETS</b>		
	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 2,046,367	\$ 2,068,330
Funds on deposit with related parties (Note 6)	18,845,783	14,768,175
Cash and cash equivalents	20,892,150	16,836,505
Receivables		
Student accounts, net of allowance for doubtful accounts of \$1,081,000 in 2017 and \$842,000 in 2016	1,885,064	1,770,065
Contributions (Note 20)	6,515,921	2,053,886
Foundation (Note 2)	2,234,139	2,207,063
Other	247,412	219,507
Prepaid expenses and other assets (Notes 6, 8)	2,703,721	2,766,666
Note receivable (Note 21)	272,054	223,535
Long-term investments (Note 7)	41,411,762	40,382,830
Beneficial interest in split interest agreements (Note 9)	1,162,918	1,146,786
Beneficial interest in perpetual funds (Note 10)	1,018,066	964,155
Interest in net assets of Concordia University Foundation (Note 2)	6,066,982	5,432,296
Land, buildings and equipment, net (Note 11)	61,878,860	60,193,656
<b>TOTAL ASSETS</b>	<b>\$ 146,289,049</b>	<b>\$ 134,196,950</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,069,354	\$ 1,207,763
Accrued liabilities	4,865,601	3,960,361
Deferred revenue	6,238,637	6,166,285
Endowment assets held for the Foundation (Note 2)	4,912,053	4,600,704
Loan payable (Note 12)	28,286	42,427
Bonds payable (Note 13)	25,084,750	26,000,511
Interest rate exchange agreement liability (Notes 3, 18)	1,006,989	1,804,332
Total Liabilities	43,205,670	43,782,383
<b>NET ASSETS</b>		
Undesignated	11,671,862	11,400,792
Board-designated endowment funds (Note 19)	4,566,218	3,664,330
Net investment in property and equipment	36,794,110	34,193,145
Total unrestricted	53,032,190	49,258,267
Temporarily restricted (Note 4)	29,330,878	21,380,711
Permanently restricted (Note 4)	20,720,311	19,775,589
Total Net Assets	103,083,379	90,414,567
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 146,289,049</b>	<b>\$ 134,196,950</b>

See accompanying notes to financial statements.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church – Missouri Synod**

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017  
With Comparative Totals for June 30, 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
<b>OPERATING REVENUES, GAINS, AND OTHER SUPPORT</b>				
Tuition and fees	\$ 82,956,181			\$ 82,956,181
Less: Scholarship allowances	(22,998,555)			(22,998,555)
Net tuition and fees	59,957,626			59,957,626
Government and other grants	287,028			287,028
Contributions - operating	614,270	\$ 1,061,897		1,676,167
Long-term investment income and gains allocated to operations		600,444		600,444
Sales and services of auxiliary enterprises	9,993,650			9,993,650
Forgiveness to Concordia University Foundation (Note 2)	(1,384,316)			(1,384,316)
Other income	149,435			149,435
	69,617,693	1,662,341		71,280,034
Net assets released from restrictions (Note 5)	1,669,537	(1,669,537)		
Total Operating Revenues, Gains and Other Support	71,287,230	(7,196)		71,280,034
<b>OPERATING EXPENSES</b>				
Educational and general				
Academic programs:				
Instruction - divisional	28,665,732			28,665,732
Other instructional programs	683,081			683,081
Support programs:				
Academic support	5,327,223			5,327,223
Student services	15,312,489			15,312,489
Institutional support	12,604,797			12,604,797
	62,593,322			62,593,322
Auxiliary enterprises	7,256,859			7,256,859
Total Operating Expenses	69,850,181			69,850,181
<b>Change in Net Assets from Operating Activities</b>	1,437,049	(7,196)		1,429,853
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment activities				
Net appreciation (depreciation) on endowments	165,573	1,534,863	\$ 12,140	1,712,576
Investment income on endowments	121,245	127,762		249,007
Net appreciation on long-term investments	625,719	47,141		672,860
Investment income on long-term investments	301,188	130,687		431,875
Total long-term investment earnings	1,213,725	1,840,453	12,140	3,066,318
Less: Long-term investment income and gains allocated to operations		(600,444)		(600,444)
	1,213,725	1,240,009	12,140	2,465,874
Contributions-capital giving activities and endowments		6,527,085	577,963	7,105,048
Change in interest in net assets of Concordia University Foundation (Note 2)		329,013	305,673	634,686
Support from Concordia University Foundation (Note 2)	40,085			40,085
Contributions of beneficial interest in perpetual funds and split-interest agreements				139,202
Change in value of beneficial interest in split-interest agreements		21,895	(4,963)	16,932
Change in value of beneficial interest in perpetual funds			53,909	53,909
Unrealized gain (loss) on interest rate exchange agreements (Note 18)	797,343			797,343
Other income-capital activities	125,082			125,082
Net assets released from restrictions (Note 5)	160,639	(160,639)		
<b>Change in Net Assets from Nonoperating Activities</b>	2,336,874	7,957,363	944,722	11,238,959
<b>Change in Net Assets</b>	3,773,923	7,950,167	944,722	12,668,812
<b>Net Assets - Beginning of Year</b>	49,258,267	21,380,711	19,775,589	90,414,567
<b>NET ASSETS - END OF YEAR</b>	\$ 53,032,190	\$ 29,330,878	\$ 20,720,311	\$ 103,083,379

See accompanying notes to financial statements.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA**  
an Educational Institution of  
The Lutheran Church – Missouri Synod

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
<b>OPERATING REVENUES, GAINS, AND OTHER SUPPORT</b>				
Tuition and fees	\$ 80,133,836			\$ 80,133,836
Less: Scholarship allowances	(19,517,548)			(19,517,548)
Net tuition and fees	60,616,288			60,616,288
Government and other grants	286,422			286,422
Contributions - operating	332,604	\$ 1,032,203		1,364,807
Long-term investment income and gains allocated to operations		561,213		561,213
Sales and services of auxiliary enterprises	9,097,857			9,097,857
Forgiveness to Concordia University Foundation (Note 2)	(1,165,034)			(1,165,034)
Other income	274,558			274,558
	69,442,695	1,593,416		71,036,111
Net assets released from restrictions (Note 5)	1,723,617	(1,723,617)		
Total Operating Revenues, Gains and Other Support	71,166,312	(130,201)		71,036,111
<b>OPERATING EXPENSES</b>				
Educational and general				
Academic programs:				
Instruction - divisional	28,120,357			28,120,357
Other instructional programs	890,656			890,656
Support programs:				
Academic support	5,615,678			5,615,678
Student services	14,726,918			14,726,918
Institutional support	13,125,013			13,125,013
	62,478,622			62,478,622
Auxiliary enterprises	7,144,817			7,144,817
Total Operating Expenses	69,623,439			69,623,439
<b>Change in Net Assets from Operating Activities</b>	1,542,873	(130,201)		1,412,672
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment activities				
Net appreciation (depreciation) on endowments	(72,158)	(173,872)	\$ 372	(245,658)
Investment income on endowments	215,855	64,053		279,908
Net appreciation (depreciation) on long-term investments	(70,721)	118,723		48,002
Investment income on long-term investments	259,768	150,107		409,875
Total long-term investment earnings	332,744	159,011	372	492,127
Less: Long-term investment income and gains allocated to operations		(561,213)		(561,213)
	332,744	(402,202)	372	(69,086)
Contributions-capital giving activities and endowments		3,225,914	713,553	3,939,467
Reclassification of prior year gifts	81,939	492,996	(574,935)	
Change in interest in net assets of Concordia University Foundation (Note 2)		(199,097)	(64,214)	(263,311)
Support from Concordia University Foundation (Note 2)	84,837			84,837
Contributions of beneficial interest in perpetual funds and split-interest agreements			139,202	139,202
Change in value of beneficial interest in split-interest agreements		(39,885)	(15,404)	(55,289)
Change in value of beneficial interest in perpetual funds			(26,858)	(26,858)
Unrealized loss on interest rate exchange agreements (Note 18)	(19,516)			(19,516)
Net assets released from restrictions (Note 5)	56,278	(56,278)		
<b>Change in Net Assets from Nonoperating Activities</b>	536,282	3,021,448	171,716	3,729,446
Change in Net Assets	2,079,155	2,891,247	171,716	5,142,118
Net Assets - Beginning of Year	47,179,112	18,489,464	19,603,873	85,272,449
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 49,258,267</b>	<b>\$ 21,380,711</b>	<b>\$ 19,775,589</b>	<b>\$ 90,414,567</b>

See accompanying notes to financial statements.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church – Missouri Synod**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 12,668,812	\$ 5,142,118
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation expense	4,795,784	4,477,560
Change in allowance for doubtful accounts	239,205	90,722
Unrealized (gain) loss on interest rate exchange agreement	(797,343)	19,516
Change in value of beneficial interest in split-interest agreements	(16,932)	101,419
Change in value of beneficial interest in perpetual funds	(53,909)	(30,403)
Net (gain) loss on long term investments	(2,228,353)	814,134
Change in interest in net assets of Concordia University Foundation, net (Note 2)	(634,686)	263,311
Amortization of bond issuance costs	26,739	64,173
(Increase) decrease in assets		
Student accounts receivables, net	(354,204)	(349,983)
Foundation receivables	(27,076)	(171,393)
Other receivables	(27,905)	288,255
Change in note receivable	(48,519)	276,465
Prepaid expenses and other assets	62,945	(1,103,880)
Increase (decrease) in liabilities		
Accounts payable - operations	(62,720)	(100,691)
Accrued liabilities	(173,250)	377,641
Deferred revenue	72,352	1,490,075
Contributions restricted for investment in permanent endowments	(577,963)	(852,755)
Contributions restricted for land, buildings and equipment	(6,527,085)	(3,225,914)
Net Cash Flows From Operating Activities	<u>6,335,892</u>	<u>7,570,370</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of land, buildings and equipment	(5,478,187)	(5,214,680)
Proceeds from sale of real estate		37,100
Endowment assets held for the Foundation	311,349	275,335
Proceeds from sale of long-term investments	2,083,834	18,273
Purchases of long-term investments	(884,415)	(782,579)
Net Cash Flows From Investing Activities	<u>(3,967,419)</u>	<u>(5,666,551)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for		
Investment in permanent endowments	328,763	873,331
Investment in land, buildings and equipment	2,315,050	1,172,028
Principal repayments on loan payable	(14,141)	(14,141)
Principal repayments of bonds payable	(942,500)	(780,000)
Net Cash Flows From Financing Activities	<u>1,687,172</u>	<u>1,251,218</u>
<b>Net Change in Cash and Cash Equivalents</b>	4,055,645	3,155,037
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>16,836,505</u>	<u>13,681,468</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 20,892,150</u>	<u>\$ 16,836,505</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 503,413	\$ 633,457
Noncash investing and financing activities		
Property payables included in accounts payable and accrued expenses	1,248,448	245,647

See accompanying notes to financial statements.



**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

Concordia University (the University), a California non-profit corporation, is a private, Lutheran educational institution centered in the liberal arts. It is operated under the auspices of The Lutheran Church–Missouri Synod (the Synod), a Missouri non-profit corporation headquartered in St. Louis, Missouri. The University's Board of Regents, responsible for the management of the University, consists of up to 17 members (four of whom are elected by the Synod).

Five non-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 Irvine. Concordia University System (CUS), a non-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 oversees the management of the software accounting system utilized by Concordia University Irvine.

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 Concordia University Irvine is located, the Pacific Southwest District, elects five members of the University's Board of Regents.

The majority of the students enrolled at the University rely, at least in part, on funds received from federal financial aid and loan programs under the 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.

The University and its Foundation, Concordia University Foundation (CUF), are financially interrelated organizations as defined in financial accounting standards. The University has recorded its interest in CUF assets as described in Note 2.

The University operates a Representative Office in China and owns Concordia Enterprises, Limited, Hong Kong. These entities are used to promote the University's Master of Arts in International Studies program. All expenses are paid by the University and are included in the accompanying financial statements.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

---

The accounting policies of the University reflect practices common to college and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

**General** - For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

***Permanently Restricted Net Assets*** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

***Temporarily Restricted Net Assets*** - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

***Unrestricted Net Assets*** - Net assets not subject to donor-imposed stipulations.

Revenues are derived principally from the University's educational programs in the form of tuition and fees. Auxiliary enterprise revenues include income primarily from student housing, food services, and conferences. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing those services. Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenue.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories on net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

---

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Revenues from government grants are recognized as they are earned in accordance with the terms of the agreements. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

**Cash Equivalents** - The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

**Student Accounts Receivable** - Student accounts receivable are carried at the unpaid balance of the amount billed to students for tuition and fees, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received. Receivables are generally unsecured.

A student account receivable is considered to be past due and a late fee is charged if any portion of the receivable balance is outstanding for more than 30 days after the billing date. The University does not charge interest on accounts receivable that are past due.

**Contributions Receivable** - At June 30, 2017, the University had approximately \$1,620,000 of intentions to contribute, of which approximately \$1,232,000 were restricted for the Music Worship and Theology building and \$288,000 were restricted for Grimm Hall. At June 30, 2016, the University had approximately \$960,000 of intentions to contribute, of which approximately \$589,000 were restricted for the Music Worship and Theology building and \$288,000 were restricted for Grimm Hall. Payments collected for Grimm Hall are remitted as payment on the related debt. The pledge documents related to these contributions include the notation that the pledges are regarded as expressions of intent to contribute, rather than promises to pay and therefore not recorded as assets.

**Grants to Specified Students** - Amounts received under the Federal Pell Grant Program and the state Cal Grant Program designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amounts of Federal Pell Grants approximated \$2,466,000 and \$2,430,000, during the years ended June 30, 2017 and 2016, respectively. The amounts of Cal Grants approximated \$3,256,000 and \$2,955,000, during the years ended June 30, 2017 and 2016, respectively.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

---

**Land, Buildings, and Equipment** - Land, buildings, improvements and equipment are recorded at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation. Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes land, buildings, and equipment expenditures in excess of \$5,000. Title to land and buildings is principally in the name of the University with reversionary clauses to the Synod.

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

Buildings	40 years
Building improvements	15 years
Equipment, furniture and other	3 to 15 years

Depreciation expense includes amortization expense on equipment under capital lease.

**Income Tax Status** - The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt position (unrelated trade or business activities). The University is also exempt from state income taxes.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2017 and 2016. The University's tax returns are subject to review and examination by federal and state authorities.

**Deferred Revenue** - Certain revenue related to future education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of course. Tuition, housing and related revenue is recognized ratably over the period of instruction.

The University also has deferred revenue/advances from vendors related to its food and maintenance operations. The amounts deferred approximate \$137,000 and \$240,000 for the years ended June 30, 2017 and 2016, respectively. Revenue is being recognized on a straight line basis over the applicable periods of the agreements.

**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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising Expenses** - Advertising expenses approximated \$3,624,000 and \$3,620,000 for the years ended June 30, 2017 and 2016, respectively. Advertising costs are expensed when incurred.

**Unemployment Compensation** - The University has elected to pay unemployment compensation claims as they arise.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

---

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Interest Rate Exchange Agreements** - The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are recognized as either assets or liabilities on the statement of financial position and are measured at fair value. Because the interest rate exchange agreements are often held for the life of the strategy, they may reflect significant unrealized gains or losses depending on the change in value since the inception of the contract.

**Reclassifications** – Certain amounts appearing in the 2016 financial statements have been reclassified to conform with the 2017 presentation. The reclassifications have no effect on the reported amounts of total net assets or change in total net assets.

**New Accounting Pronouncements** - The following Accounting Standards have been issued, but are not yet effective:

ASU 2014-09, *Revenue from Contracts with Customers* - ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early application permitted for fiscal years beginning after December 15, 2016.

ASU 2016-02, *Leases* - ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021), with early adoption permitted.

ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted.

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* – ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted.

The University is assessing the impact these standards will have on its financial statements.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

**NOTE 2 - CONCORDIA UNIVERSITY FOUNDATION**

The University has authorized the Concordia University Foundation (CUF) to solicit contributions on its behalf. The CUF's articles of incorporation state its specific and primary purpose is to provide financial support for the University.

Condensed Statements of Financial Position of CUF as of June 30:

	2017	2016
Other assets	\$ 2,677	\$ 1,452
Contributions receivable	8,350	10,354
Pledges Receivable	300,000	
Endowment assets held by the University	4,912,053	4,600,704
Notes receivable	2,375,213	2,338,465
Beneficial interest in split interest agreements	259,086	245,500
Future interest in residence	595,973	585,029
Total assets	<u>\$ 8,453,352</u>	<u>\$ 7,781,504</u>
Accounts payable		
Others	\$ 29,038	\$ 20,658
University	2,234,139	2,207,063
Accrued expenses	123,193	121,487
Total liabilities	2,386,370	2,349,208
Total net assets	<u>6,066,982</u>	<u>5,432,296</u>
Total liabilities and net assets	<u>\$ 8,453,352</u>	<u>\$ 7,781,504</u>

Condensed Statements of Activities of CUF for the years ended June 30:

	2017	2016
Total operating support, revenues and other additions	\$ 2,460,823	\$ 2,221,522
Total operating expenditures and distributions	<u>(2,449,879)</u>	<u>(2,225,252)</u>
Change in net assets from operating activities	(10,944)	(3,730)
Total nonoperating activities	<u>623,742</u>	<u>(259,581)</u>
Change in net assets	634,686	(263,311)
Net assets beginning of year	<u>5,432,296</u>	<u>5,695,607</u>
Net assets end of year	<u>\$ 6,066,982</u>	<u>\$ 5,432,296</u>

The University provides facilities and staff for the operation and administration of the Foundation's activities and pays for various operating expenses. Certain direct expenses are paid for by the Foundation.

During the years ended June 30, 2017 and 2016, University forgave expenses of \$1,384,316 and \$1,165,034, respectively, from CUF. Forgiveness of expenses and grants received are shown as support from (forgiveness to) CUF on the University's statements of activities as operating activities.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 2 - CONCORDIA UNIVERSITY FOUNDATION (cont.)**

---

The University's interest in net assets of the Foundation of \$6,066,982 and \$5,432,296 at June 30, 2017 and 2016, respectively, is temporarily and permanently restricted.

The CUF change in net assets for the years ended June 30, 2017 and 2016 is reflected in the University statement of activities as change in interest in net assets of Concordia University Foundation.

The Foundation received property through an estate in 2007. The Foundation was an equal co-owner along with one other non-profit entity. During 2015, a developer purchased the property for \$5,800,000. An initial payment of \$1,000,000 was received. The remaining \$4.8 million is a promissory note which is payable upon the resolution of litigation. The note is secured by the property.

Concordia University Foundation's 50% share of the sale was \$2,900,000 and a payment of \$500,000 was received during 2015. The Foundation's share of the promissory note was \$2,400,000 and has been recorded at its net present value of \$2,355,249 and \$2,315,164 at June 30, 2017 and 2016, respectively. The note is noninterest bearing. Interest was imputed at approximately 2.47%. During the years ended June 30, 2017 and 2016, the Foundation granted interest of \$40,085 and \$84,837 to the University, respectively. The grant received is shown as support from the Foundation on the University's statements of activities as nonoperating activities. Unamortized interest as of June 30, 2017 and 2016 totaled approximately \$45,000 and \$85,000, respectively.

---

**NOTE 3 - FAIR VALUE MEASUREMENTS**

---

***Fair Value Hierarchy*** - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)**

---

***Valuation Techniques and Inputs***

Level 1 - Level 1 assets include:

- > Investments in mutual funds for which quoted prices are readily available.

Level 2 - Level 2 assets include:

- > Investments in money market funds. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 2 liabilities include:

- > Interest rate exchange liability for which a quoted price is not readily available. The fair value is estimated using an income approach by calculating the present value of the estimated future cash flows and credit valuation adjustments which are based on observable inputs to a valuation model (interest rates, credit spreads, etc.).

Level 3 - Level 3 assets include:

- > Investments in LCMS Foundation in which the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs. The University is invested in the fixed income fund and equity fund.
- > Investments in beneficial interest in split interest agreements and perpetual trusts administered by the LCMS Foundation for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

There have been no changes in the techniques and inputs used as of June 30, 2017 and 2016.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.



**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)**

---

The following table presents information about the University's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 based upon the three-level hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
LCMS Foundation funds	\$ 480,007			\$ 480,007
Money market fund	475,711		\$ 475,711	
Mutual funds	29,855,284	\$ 29,855,284		
Beneficial interest in funds held by others	<u>2,180,984</u>			<u>2,180,984</u>
Total	<u>\$ 32,991,986</u>	<u>\$ 29,855,284</u>	<u>\$ 475,711</u>	<u>\$ 2,660,991</u>
<b>LIABILITIES</b>				
Interest rate exchange agreement	<u>\$ 1,006,989</u>	<u>\$ -</u>	<u>\$ 1,006,989</u>	<u>\$ -</u>

The following table presents information about the University's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 based upon the three-level hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
LCMS Foundation funds	\$ 461,381			\$ 461,381
Money market fund	547,440		\$ 547,440	
Mutual funds	29,008,134	\$ 29,008,134		
Beneficial interest in funds held by others	<u>2,110,941</u>			<u>2,110,941</u>
Total	<u>\$ 32,127,896</u>	<u>\$ 29,008,134</u>	<u>\$ 547,440</u>	<u>\$ 2,572,322</u>
<b>LIABILITIES</b>				
Interest rate exchange agreement	<u>\$ 1,804,332</u>	<u>\$ -</u>	<u>\$ 1,804,332</u>	<u>\$ -</u>

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

**NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)**

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Balance June 30, 2016	Net realized and unrealized gains	Purchases	Sales	Balance June 30, 2017
Assets					
LCMS Foundation funds	\$ 461,381	\$ 18,626	\$ 14,011	\$ (14,011)	\$ 480,007
Beneficial interest in funds held by others	<u>2,110,941</u>	<u>70,844</u>		<u>(801)</u>	<u>2,180,984</u>
Total	<u>\$ 2,572,322</u>	<u>\$ 89,470</u>	<u>\$ 14,011</u>	<u>\$ (14,812)</u>	<u>\$ 2,660,991</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at June 30, 2017.

\$ 89,470

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Balance June 30, 2015	Net realized and unrealized losses	Purchases	Sales	Balance June 30, 2016
Assets					
LCMS Foundation funds	\$ 473,635	\$ (12,254)	\$ 20,822	\$ (20,822)	\$ 461,381
Beneficial interest in funds held by others	<u>2,181,957</u>	<u>(82,147)</u>	<u>139,203</u>	<u>(128,072)</u>	<u>2,110,941</u>
Total	<u>\$ 2,655,592</u>	<u>\$ (94,401)</u>	<u>\$ 160,025</u>	<u>\$ (148,894)</u>	<u>\$ 2,572,322</u>

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2016.

\$ (94,401)

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 4 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

---

Temporarily restricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Academic programs		
Instruction - divisional	\$ 1,104,253	\$ 1,052,632
Support programs		
Academic support	382,803	395,382
Auxiliary enterprises	1,384,463	1,303,280
Scholarship allowances (student aid)	4,153,882	2,772,117
Property acquisitions	<u>20,758,756</u>	<u>14,355,614</u>
	27,784,157	19,879,025
Time restrictions	<u>1,546,721</u>	<u>1,501,686</u>
	<u>\$ 29,330,878</u>	<u>\$ 21,380,711</u>

Permanently restricted net assets consist of the following at June 30:

Academic programs		
Other instructional programs	\$ 539,439	\$ 539,439
Support programs		
Academic support	338,725	338,725
Student services	337,725	337,725
General operations	101,233	101,233
Scholarship allowances (student aid)	<u>19,403,189</u>	<u>18,458,467</u>
	<u>\$ 20,720,311</u>	<u>\$ 19,775,589</u>

---

**NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS**

---

Net assets were released from temporary donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished		
Academic programs		
Instruction - divisional	\$ 45,966	\$ 39,416
Other instructional programs	66,863	87,261
Support programs		
Academic support	215,161	107,613
Student services	179,927	113,613
Institutional support	263,788	276,963
Auxiliary enterprises	82,161	200,921
Scholarship allowances (student aid)	814,870	860,650
Expiration of time	<u>801</u>	<u>37,019</u>
Operating	<u>\$ 1,669,537</u>	<u>\$ 1,723,617</u>

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS (cont.)**

---

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished		
Property acquisitions	\$ 160,639	\$ 56,278
Nonoperating	<u>\$ 160,639</u>	<u>\$ 56,278</u>

---

**NOTE 6 - CONCORDIA UNIVERSITY SYSTEM AND OTHER RELATED PARTIES**

---

The University has a deposit account with Concordia University System (CUS) which includes an unsecured short-term line of credit with a maximum limit of \$6,591,600 and \$5,900,800 for the years ended June 30, 2017 and 2016, respectively. Interest is paid at 5.25%. There was no payable balance at June 30, 2017 and 2016. The line of credit has been extended in the amount of \$6,962,300 for the 2017-18 fiscal year for short-term cash flow purposes.

Cash and cash equivalents include \$463,608 and \$0 on deposit with the CUS at June 30, 2017 and 2016, respectively. These deposits represent interest-bearing demand deposits which earned interest on the daily balance in the account at a rate of 0.625% during the year ended June 30, 2017. Interest earned on these deposits totaled \$2,816 and \$2,274, respectively, for the years ended June 30, 2017 and 2016.

Cash and cash equivalents also include \$18,382,175 and \$14,768,175 on deposit in a stewardship account with the Lutheran Church Extension Fund (LCEF) at June 30, 2017 and 2016, respectively. These deposits represent interest-bearing demand deposits which earned interest on the daily balance in the account at rates ranging from 0.875% to 1% during the year ended June 30, 2017 and 0.75% to 1.0% during the year ended June 30, 2016. Interest earned on these deposits was \$207,000 and \$177,000 for the years ended June 30, 2017 and 2016, respectively.

Long term investments include approximately \$10,601,000 and \$10,365,000 in a certificate of deposit with the LCEF at June 30, 2017 and 2016, respectively. The certificate of deposit earned interest at 2.25%. Interest earned on this certificate of deposit was approximately \$235,000 and \$230,000 for the years ended June 30, 2017 and 2016, respectively.

Long term investments include \$480,007 and \$461,381 with The Lutheran Church-Missouri Synod Foundation (LCMS) at June 30, 2017 and 2016, respectively.

The University is covered under CUS's master insurance policies. The cost of these policies to the University was \$522,000 and \$613,000 for the years ended June 30, 2017 and 2016, respectively. CUS through a related Foundation (LCMS Foundation) also provides investment services and administers the majority of split interest agreements and perpetual funds held for the benefit of the University and CUF.

The University's accounts payables include \$63,192 and \$247,437 due to CUS at June 30, 2017 and 2016, respectively.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 6 - CONCORDIA UNIVERSITY SYSTEM AND OTHER RELATED PARTIES (cont.)**

---

Prepaid expenses and other assets include approximately \$241,000 of long-term loans to faculty and staff at June 30, 2017 and 2016. The balance is comprised of loans to three individuals, at June 30, 2017 and 2016, respectively, ranging from \$62,000 to \$107,000. The loans are at fixed interest rate of 2%. These loans are generally secured by deeds of trust and are repayable at the sooner of either the employee's separation from the University or the sale of the home. The reserve for uncollectible loans totaled approximately \$158,000 at June 30, 2017 and 2016.

---

**NOTE 7 - LONG-TERM INVESTMENTS**

---

The University had the following investments at June 30:

	Interest Rates	Maturity Dates	2017	2016
LCMS Foundation				
Fixed income fund	Varies	Demand	\$ 272,072	\$ 277,161
Equity fund	Varies	Demand	207,935	184,220
Total LCMS Foundation			<u>480,007</u>	<u>461,381</u>
LCEF certificate of deposit - at cost	2.25%	5 years	10,600,760	10,365,875
Northern Trust:				
Money market	Varies	Demand	475,711	547,440
Mutual funds				
Domestic equity	Varies	Demand	11,145,938	10,406,671
International equity	Varies	Demand	4,976,045	3,489,775
Emerging market	Varies	Demand	1,482,262	1,030,021
Corporate fixed income	Varies	Demand	5,969,222	10,716,917
Government fixed income	Varies	Demand	3,996,079	-
Fixed income EFT	Varies	Demand	751,334	2,218,600
Real estate	Varies	Demand	767,251	715,862
Commodities	Varies	Demand	767,153	430,288
Total mutual funds			<u>29,855,284</u>	<u>29,008,134</u>
			<u>\$ 41,411,762</u>	<u>\$ 40,382,830</u>

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Net gains on investments reflected in the statements are shown net of related investment management fees. For the years ended June 30, 2017 and 2016 these fees totaled \$112,610 and \$141,383, respectively.

---

**NOTE 8 - CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES**

---

The University is designated as the owner and beneficiary of life insurance policies which were received as donations. At both June 30, 2017 and 2016, the insurance coverage aggregated approximately \$2,335,000. The cash surrender value, included in prepaid expenses and other assets on the statements of financial position, totaled approximately \$495,000 and \$442,500 at June 30, 2017 and 2016, respectively.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS**  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 9 - BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENTS**

---

Beneficial interest in split interest agreements consist primarily of irrevocable charitable remainder trusts and charitable gift annuities. The assets associated with such agreements are held by the LCMS Foundation, a related third-party trustee. Contributions are recognized at the dates the agreements become irrevocable to the University and are recorded at the present value of the estimated future benefits to be received when the assets are distributed to the University. The valuations of the agreements are calculated by the LCMS Foundation. The agreements are revalued annually, and any resulting actuarial gain or loss is reflected in the statement of activities as a change in value of beneficial interest in split-interest agreements.

---

**NOTE 10 - BENEFICIAL INTEREST IN PERPETUAL FUNDS**

---

Beneficial interest in perpetual funds are funds held by the LCMS Foundation, a related third-party trustee, and consist of irrevocable trusts and endowments from which the University is to receive the income in perpetuity. The principal is held in trust by the LCMS Foundation and will never revert to the University. The perpetual stream of income is viewed by the University as promises to give by the individuals who established the trusts and has been recorded at the fair value of the trusts at June 30, 2017 and 2016, which closely approximates the estimated net present value of the perpetual income stream.

Given the nature of the promises, the University recorded these contributions as permanently restricted net assets. Distributions received are 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 in the statement of activities as a change in value of beneficial interest in perpetual funds.

---

**NOTE 11 - LAND, BUILDINGS AND EQUIPMENT**

---

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

	<u>2017</u>	<u>2016</u>
Land	\$ 909,999	\$ 909,999
Art collection	125,841	125,841
Buildings	85,577,683	85,577,683
Buildings improvements	17,847,525	14,105,388
Equipment, furniture and other	11,349,732	10,404,974
Construction in progress	<u>6,669,108</u>	<u>4,875,015</u>
	122,479,888	115,998,900
Less: Accumulated depreciation	<u>(60,601,028)</u>	<u>(55,805,244)</u>
	<u>\$ 61,878,860</u>	<u>\$ 60,193,656</u>

Construction in progress consists primarily of costs related to the University's master plan and the Music, Worship and Theology building. Remaining contract commitments related to the Music, Worship and Theology building as of June 30, 2017 are approximately \$26,000,000.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

**NOTE 12 - LOAN PAYABLE**

The University has a loan agreement with Bon Appétit for the construction of a campus retail operation. The loan requires yearly principal-only payments of \$14,141. Interest is 10% and will be paid by increasing the profit split percentage between the University and Bon Appétit. As of June 30, 2017 and 2016, the balance of this loan was \$28,286 and \$42,427, respectively.

Future minimum principal payments are as follows for the years ending June 30:

2018	\$ 14,141
2019	<u>14,145</u>
Total Principal Payments	<u>\$ 28,286</u>

**NOTE 13 - BONDS PAYABLE**

In December 2011, the University entered into an agreement with the California Municipal Finance Authority to issue \$31,275,000 in refunding revenue bonds, Series 2011A. Bond proceeds were used to refinance existing debt. The Series 2011A-1 bonds are guaranteed by the Synod. The bonds are secured by a first deed of trust and assignment of rent and leases on the campus located at 1530 Concordia West and pledges and receipts for the capital campaign related to Grimm Hall. Under the terms of the bond indenture, interest is payable monthly at a variable rate. The interest rate at June 30, 2017 and 2016 was 1.8439% and 1.6703%, respectively. Principal is due quarterly and the bonds are scheduled to mature in October 2031.

Bonds payable outstanding at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
California Municipal Finance Authority – Series 2011A-1	\$ 18,210,000	\$ 19,152,500
California Municipal Finance Authority – Series 2001A-2	<u>6,874,750</u>	<u>6,874,750</u>
Principal outstanding on bonds	25,084,750	26,027,250
Less: Deferred debt acquisition costs, net		<u>(26,739)</u>
	<u>\$ 25,084,750</u>	<u>\$ 26,000,511</u>

Future minimum principal payments are as follows for the years ending June 30:

2018	\$ 977,500
2019	1,012,500
2020	1,047,500
2021	1,085,000
2022	1,125,000
Thereafter	<u>19,837,250</u>
Total Principal Payments	<u>\$ 25,084,750</u>

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 13 - BONDS PAYABLE (cont.)**

---

The University adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, during the year ended June 30, 2017. Under the new guidance, debt issue costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. As required by the new guidance, the amendments were applied retrospectively to the year ended June 30, 2016.

Costs of bond issuance are deferred and amortized over the life of the related indebtedness. Amortization expense was \$26,739 and \$64,173 for the years ended June 30, 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, interest expense on bonds of approximately \$503,000 and \$633,000, respectively, was included in the statement of activities. As discussed in Note 18, the University entered into interest rate exchange agreements which fixed the interest rate on a portion of these bonds. The amount above includes payments made under these exchange agreements.

The bond indentures contain restrictive covenants relating to the debt service coverage ratio, unrestricted net assets requirements, and others. The University was in compliance with debt covenants during fiscal years 2017 and 2016.

---

**NOTE 14 - OPERATING LEASES**

---

The University has operating leases for off-campus office and classroom space. Rental expense associated with these leases totaled approximately \$605,000 and \$554,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments on long-term leases in effect on June 30, 2017 are as follows:

Year Ending June 30,	
2018	\$ 485,000
2019	406,000
2020	315,000
2021	386,000
2022	<u>49,000</u>
	<u>\$ 1,641,000</u>

On August 18, 2017, an existing lease was amended to extend the remaining lease term to 72 periods and provide additional space. Over the course of the lease, the remaining monthly payments range from \$43,000 to \$49,500.

---

**NOTE 15 - DEFINED BENEFIT PLAN**

---

The University participates in the worker benefit plans of the Lutheran Church – Missouri Synod, including the Concordia Retirement Plan. 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, 2017 and 2016 totaled approximately \$2,739,000 and \$2,736,000, respectively.



**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 16 - OTHER COMMITMENTS**

---

The University has total commitments of approximately \$1,829,000 and \$3,631,000 on various contracts for professional services related to future maintenance services at June 30, 2017 and 2016, respectively.

---

**NOTE 17 - ALLOCATION OF EXPENSES**

---

The University allocated the following expenses to program and support functions for the years ended June 30:

	2017	2016
Operation and maintenance of plant	\$ 4,558,497	\$ 5,140,869
Depreciation	4,795,784	4,477,560
Interest	503,413	633,457
	<u>\$ 9,857,694</u>	<u>\$ 10,251,886</u>

---

**NOTE 18 - INTEREST RATE EXCHANGE AGREEMENT**

---

Interest rate exchange agreements provide for a periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparties.

As of June 30, 2016, the University had an interest rate swap on the Series 2011A bonds through July 1, 2020 which effectively fixed the interest rate at 3.175%. In fiscal 2017, the University restructured the interest rate swap on the Series 2011A bonds, which extended the agreement through July 1, 2026 to effectively fix the interest rate at 2.25%. Under both agreements, the University either pays additional interest or receives an additional interest credit depending on the relationship between the variable and fixed rates.

In fiscal 2017 and 2016, the University paid \$503,331 and \$633,457, respectively, more than it received in interest under the exchange agreement. The difference between interest received and interest paid under the exchange agreement is recorded as interest expense in the statements of activities.

The derivative instrument is reported in the statements of financial position at fair value as of June 30, 2017 and 2016 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative	
	Statement of Financial Position	Fair Value
	Location	
		2017      2016
Interest rate exchange agreement	Interest rate exchange agreement liability	<u>\$ 1,006,989</u> <u>\$ 1,804,332</u>

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS**  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 18 - INTEREST RATE EXCHANGE AGREEMENT (cont.)**

---

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivative Recognized in the Statement of Activities	Amount of Gain (Loss) on Derivative Recognized in the Statement of Activities	
		2017	2016
Interest rate exchange agreement	Unrealized gain (loss) on interest rate exchange agreement	\$ 797,343	\$ (19,516)

Providing that the University holds the agreements to maturity, the value of the derivative will be zero. The swapping transactions can be terminated at market rates at any time during the term of the agreements.

---

**NOTE 19 - ENDOWMENT**

---

The University's endowment consists of 175 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, term endowment funds and funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The University's governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 19 - ENDOWMENT (cont.)**

---

The University's endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 3,698,947	\$ 16,362,597	\$ 20,061,544
Board-designated endowment funds	\$ 4,566,218			4,566,218
Total endowment net assets	<u>\$ 4,566,218</u>	<u>\$ 3,698,947</u>	<u>\$ 16,362,597</u>	<u>\$ 24,627,762</u>

The University's endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 2,636,766	\$ 15,723,548	\$ 18,360,314
Board-designated endowment funds	\$ 3,664,330			3,664,330
Total endowment net assets – University	<u>\$ 3,664,330</u>	<u>\$ 2,636,766</u>	<u>\$ 15,723,548</u>	<u>\$ 22,024,644</u>

Temporarily restricted donor-restricted endowment funds include \$425,252 and \$437,335 of term endowment funds as of June 30, 2017 and 2016, respectively.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

---

**NOTE 19 - ENDOWMENT (cont.)**

---

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
University endowment net assets, June 30, 2016	\$ 3,664,330	\$ 2,636,766	\$ 15,723,548	\$ 22,024,644
Investment return:				
Investment income	121,245	127,762		249,007
Net appreciation - realized and unrealized	<u>165,573</u>	<u>1,534,863</u>	<u>12,140</u>	<u>1,712,576</u>
Total investment return	286,768	1,662,625	12,140	1,961,533
Contributions	614,270		577,963	1,192,233
Appropriation of endowment assets for expenditure		(600,444)		(600,444)
Change in value of beneficial interest in funds held by others			48,946	48,946
Matured split interest agreements	<u>800</u>			<u>800</u>
University endowment net assets, June 30, 2017	4,566,218	3,698,947	16,362,597	24,627,762
Foundation endowment net assets		<u>854,210</u>	<u>4,357,714</u>	<u>5,211,924</u>
Endowment net assets, June 30, 2017	<u>\$ 4,566,218</u>	<u>\$ 4,553,157</u>	<u>\$ 20,720,311</u>	<u>\$ 29,839,686</u>

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016

**NOTE 19 - ENDOWMENT (cont.)**

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
University endowment net assets, June 30, 2015	\$ 3,054,395	\$ 2,814,802	\$ 15,487,618	\$ 21,356,815
Investment return:				
Investment income	215,855	64,053		279,908
Net appreciation (depreciation) - realized and unrealized	(72,158)	(173,872)	372	(245,658)
Total investment return	143,697	(109,819)	372	34,250
Contributions	332,605		852,755	1,185,360
Transfer	51,694			51,694
Reclassification of donor restrictions	81,939	492,996	(574,935)	
Appropriation of endowment assets for expenditure		(561,213)		(561,213)
Change in value of beneficial interest in funds held by others			(42,262)	(42,262)
University endowment net assets, June 30, 2016	3,664,330	2,636,766	15,723,548	22,024,644
Foundation endowment net assets		549,727	4,052,041	4,601,768
Endowment net assets, June 30, 2016	<u>\$ 3,664,330</u>	<u>\$ 3,186,493</u>	<u>\$ 19,775,589</u>	<u>\$ 26,626,412</u>

**Return Objectives and Risk Parameters** - 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. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce returns to meet needs of the spending rate, inflation, and portfolio fees while assuming a moderate level of investment risk.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which 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 is weighted in equity based investments and balanced with fixed income to achieve its long-term return objectives within prudent risk constraints. The University monitors its portfolio mix to ensure that it is in accordance with Board policy.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The University has a policy of appropriating for distribution each year up to a maximum of 5% of its endowment fund's average of the fair value of endowment investments for the preceding twelve quarters. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the current spending policy is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 19 - ENDOWMENT (cont.)**

---

Assets designated for endowment included in the Statements of Financial Position at June 30, 2017 and 2016 include the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,045,202	\$ 2,736,344
Long-term investments	24,171,815	21,914,866
Contributions receivable	550,000	
Other assets - cash surrender value of life insurance	348,705	348,705
Beneficial interest in split interest agreements	433,844	438,807
Beneficial interest in perpetual funds	1,018,066	964,155
Notes receivable	<u>272,054</u>	<u>223,535</u>
 Total Designated Endowment Assets	 <u><u>\$ 29,839,686</u></u>	 <u><u>\$ 26,626,412</u></u>

---

**NOTE 20 - CONTRIBUTIONS RECEIVABLE**

---

Contributions receivable include the following unconditional promises to give at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Gross amounts due in:		
Less than one year	\$ 602,297	\$ 21,000
One to five years	<u>6,373,161</u>	<u>2,175,590</u>
Total	<u><u>\$ 6,975,458</u></u>	<u><u>\$ 2,196,590</u></u>
 Temporarily restricted - capital projects	 \$ 6,725,458	 \$ 2,196,590
Permanently restricted - endowment	<u>250,000</u>	<u></u>
Total gross contributions receivable	6,975,458	2,196,590
Less: Present value discount	<u>(459,537)</u>	<u>(142,704)</u>
 Net contributions receivable	 <u><u>\$ 6,515,921</u></u>	 <u><u>\$ 2,053,886</u></u>

Contributions receivable expected to be collected within one year are recognized as support and recorded as a receivable at net realizable value. Contributions receivable expected to be collected in future years were recorded at the present value of their estimated future cash flows, discounted at an appropriate interest rate. Contributions receivable due in more than one year are discounted at 2.5%.

---

**NOTE 21 - NOTE RECEIVABLE**

---

On November 1, 2014, the University received a \$2,000,000 gift of an unsecured subordinated note receivable related to a senior housing facility. The note bears interest of 3.32%. The note has been recorded at its net present value \$272,054 and \$223,535 as June 30, 2017 and 2016, respectively, with no allowance. Payments of principal and interest are based upon the net cash flow of the facility with all accrued interest and principal due on January 1, 2055. A balance of \$272,054 and \$223,535 remain at June 30, 2017 and 2016 respectively, after payment of \$24,095 and \$476,465 was received in 2017 and 2016 respectively.

**CONCORDIA UNIVERSITY  
IRVINE, CALIFORNIA  
an Educational Institution of  
The Lutheran Church–Missouri Synod**

**NOTES TO FINANCIAL STATEMENTS  
As of and For the Years Ended June 30, 2017 and 2016**

---

**NOTE 22 - CONCENTRATIONS**

---

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Investments are diversified in order to limit credit risk. Split interest agreements and perpetual trusts are managed by the LCMS Foundation. Student receivables and other receivables are due from a variety of sources concentrated primarily in the western United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to regulation and audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

---

**NOTE 23 - SUBSEQUENT EVENTS**

---

In preparing these financial statements, the University has considered events and transactions for potential disclosure through October 31, 2017 which is the date that the financial statements were approved and available to be issued.

In October 2017, the University entered into an interest rate exchange agreement with the following terms:

- Type: Variable to fixed rate
- Notional amount: \$6,874,750
- Effective date: October 19, 2017
- Maturity date: October 1, 2024
- Fixed rate: 1.45%