

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

**FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORTS**

YEARS ENDED JUNE 30, 2020 AND 2019



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**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
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INDEPENDENT AUDITORS' REPORT

Board of Regents
Concordia University, St. Paul
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Concordia University, St. Paul (the Organization), an educational institution of the Lutheran Church – Missouri Synod, which comprise the statements of financial position as of June 30, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, St. Paul as of June 30, 2020 and 2019, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility ratio supplemental schedule and financial responsibility supplemental disclosure are presented for purposes of additional analysis and not a required part of the financial statements. The financial responsibility ratio supplemental schedule, and financial responsibility ratio supplemental disclosure are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by the Government Auditing Standards

In accordance with the Government Auditing Standards, we have also issued our report dated October 5, 2020, with the exception of Note 21 and the financial responsibility ratio supplemental schedule and financial responsibility ratio supplemental disclosure as to which the date is April 30, 2021, on our consideration of Concordia University, St. Paul's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Concordia University, St. Paul's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in Government Auditing Standards in considering Concordia University, St. Paul's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota

October 5, 2020, with the exception of Note 21 and the financial responsibility ratio supplemental schedule and financial responsibility ratio supplemental disclosure as to which the date is April 30, 2021.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

ASSETS	2020	2019
Cash and Cash Equivalents	\$ 44,231,773	\$ 24,757,126
Funds on Deposit with Concordia University System	-	5,124,304
Accounts and Interest Receivable, Net of Allowance for Doubtful Accounts of \$1,858,052 in 2020 and \$1,549,898 in 2019	2,079,648	1,616,680
Federal Grants Receivable	389,579	1,520,293
State Grants Receivable	779,858	69,471
Inventories, Prepaid Expenses, and Other Assets	931,693	682,369
Trusts and Annuities Receivable	1,562,399	985,953
Loans Receivable - Federal Perkins Loan Program and Other Loans	1,363,016	1,519,527
Land, Buildings, and Equipment, Net	52,693,669	53,572,770
Investment in LCMS Foundation	30,143,568	29,129,496
Long-Term Investments	7,259,687	10,354,212
Funds Held by Third-Party Trustees	9,040,145	10,432,067
Cash Value of Life Insurance	774,485	760,360
Total Assets	\$ 151,249,520	\$ 140,524,628
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bonds Payable, Net of Discounts	\$ 14,298,954	\$ 15,179,566
Deposits Payable	457,993	526,063
Refundable Advance - Food Service Company	461,538	538,462
Deferred Revenue	6,689,606	4,008,435
Obligation Under Capital Lease	791,178	152,407
Accounts Payable and Other Liabilities	6,941,562	4,360,209
Interest Rate SWAP Agreements	366,966	435,692
Refundable Advances - Federal Perkins Loan Program	1,531,513	1,880,740
Total Liabilities	31,539,310	27,081,574
NET ASSETS		
Net Assets Without Donor Restrictions	74,967,576	68,689,187
Net Assets With Donor Restrictions	44,742,634	44,753,867
Total Net Assets	119,710,210	113,443,054
Total Liabilities and Net Assets	\$ 151,249,520	\$ 140,524,628

See accompanying Notes to Financial Statements.

CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUE			
Tuition and Fees, Net of Student Aid and Scholarships of \$11,948,275	\$ 55,316,783	\$ -	\$ 55,316,783
Income on Cash and Cash Equivalents	282,870	-	282,870
Income on Long-Term Investments	181,505	563,188	744,693
Auxiliary Enterprises	5,967,829	-	5,967,829
Other	546,211	-	546,211
Total Revenue	<u>62,295,198</u>	<u>563,188</u>	<u>62,858,386</u>
SUPPORT AND GRANTS			
Concordia University System	-	32,305	32,305
Federal Grants	3,280,565	-	3,280,565
State Grants	1,653,667	-	1,653,667
Other	2,157,587	1,933,090	4,090,677
Total Support and Grants	<u>7,091,819</u>	<u>1,965,395</u>	<u>9,057,214</u>
GAINS AND OTHER ADDITIONS			
Change in Value of Split-Interest Agreements	-	576,446	576,446
Change in Value of Funds Held by Third-Party Trustees	-	(1,391,923)	(1,391,923)
Gain on Interest Rate Swap Agreement	68,726	-	68,726
Net Gains on Investments	19,924	290,579	310,503
Total Gains and Other Additions	<u>88,650</u>	<u>(524,898)</u>	<u>(436,248)</u>
Subtotal	69,475,667	2,003,685	71,479,352
Net Assets Released from Restrictions	<u>2,014,918</u>	<u>(2,014,918)</u>	<u>-</u>
Total Revenue, Support and Grants, Gains, and Other Additions	71,490,585	(11,233)	71,479,352
EXPENSES			
Educational and General:			
Academic Programs:			
Instruction-Divisional	18,517,374	-	18,517,374
Other Instructional Programs	2,256,252	-	2,256,252
Support Programs:			
Academic Support	4,093,256	-	4,093,256
Student Services	24,552,678	-	24,552,678
Scholarship and Fellowship	697,475	-	697,475
Institutional Support	9,006,217	-	9,006,217
Fundraising	1,552,586	-	1,552,586
Total Educational and General	<u>60,675,838</u>	<u>-</u>	<u>60,675,838</u>
Auxiliary Enterprises	4,536,358	-	4,536,358
Total Expenses	<u>65,212,196</u>	<u>-</u>	<u>65,212,196</u>
CHANGE IN NET ASSETS	6,278,389	(11,233)	6,267,156
Net Assets - Beginning of Year	<u>68,689,187</u>	<u>44,753,867</u>	<u>113,443,054</u>
NET ASSETS - END OF YEAR	<u>\$ 74,967,576</u>	<u>\$ 44,742,634</u>	<u>\$ 119,710,210</u>

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUE			
Tuition and Fees, Net of Student Aid and Scholarships of \$10,678,758	\$ 49,998,008	\$ -	\$ 49,998,008
Income on Cash and Cash Equivalents	310,833	-	310,833
Income on Long-Term Investments	289,333	584,954	874,287
Auxiliary Enterprises	6,236,819	-	6,236,819
Other	489,669	-	489,669
Total Revenue	<u>57,324,662</u>	<u>584,954</u>	<u>57,909,616</u>
SUPPORT AND GRANTS			
Concordia University System	-	31,270	31,270
Federal Grants	2,025,685	-	2,025,685
State Grants	1,440,708	-	1,440,708
Other	1,680,825	1,886,063	3,566,888
Total Support and Grants	<u>5,147,218</u>	<u>1,917,333</u>	<u>7,064,551</u>
GAINS AND OTHER ADDITIONS			
Change in Value of Split-Interest Agreements	-	(66,398)	(66,398)
Change in Value of Funds Held by Third-Party Trustees	-	(332,092)	(332,092)
Loss on Sale of Fixed Assets	(542,900)	-	(542,900)
Loss on Interest Rate Swap Agreement	(101,586)	-	(101,586)
Net Gains on Investments	302,053	982,711	1,284,764
Total Gains and Other Additions	<u>(342,433)</u>	<u>584,221</u>	<u>241,788</u>
Subtotal	62,129,447	3,086,508	65,215,955
Net Assets Released from Restrictions	<u>2,510,023</u>	<u>(2,510,023)</u>	<u>-</u>
Total Support and Grants, Revenue, Gains and Other Additions	64,639,469	576,485	65,215,955
EXPENSES			
Educational and General:			
Academic Programs:			
Instruction-Divisional	18,416,437	-	18,416,437
Other Instructional Programs	2,136,270	-	2,136,270
Support Programs:			
Academic Support	4,049,091	-	4,049,091
Student Services	21,658,749	-	21,658,749
Institutional Support	6,239,876	-	6,239,876
Fundraising	1,683,242	-	1,683,242
Total Educational and General	<u>54,183,665</u>	<u>-</u>	<u>54,183,665</u>
Auxiliary Enterprises	4,543,380	-	4,543,380
Total Expenses	<u>58,727,045</u>	<u>-</u>	<u>58,727,045</u>
CHANGE IN NET ASSETS	5,912,425	576,485	6,488,910
Net Assets - Beginning of Year	<u>62,776,762</u>	<u>44,177,382</u>	<u>106,954,144</u>
NET ASSETS - END OF YEAR	<u>\$ 68,689,187</u>	<u>\$ 44,753,867</u>	<u>\$ 113,443,054</u>

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 6,267,156	\$ 6,488,910
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Bad Debt Expense	673,857	392,510
Depreciation Expense	3,590,840	2,772,012
Loss on Sale of Fixed Assets	-	542,900
Net Unrealized Losses (Gains) on Investments	385,021	(274,097)
Realized Gains on Investments	(644,893)	(715,368)
Change in Value of SWAP Agreements	(68,726)	101,586
Change in Value of Split-Interest Agreement	(576,446)	66,397
Contributions Restricted for Investment in Endowment	(926,043)	(365,919)
Increase (Decrease) in Cash Value of Life Insurance	(14,125)	40,390
Amortization of Bond Issuance Costs	16,211	16,210
Amortization of Bond Discount	3,177	3,177
(Increase) Decrease in Assets:		
Accounts and Interest Receivable	(1,136,825)	(615,353)
Federal and State Grants Receivable	420,327	574,829
Inventories, Prepaid Expenses, and Other Assets	(249,324)	47,883
Funds Held by Third-Party Trustees	1,391,922	332,092
Increase (Decrease) in Liabilities:		
Accounts Payable and Other Liabilities	2,581,353	1,181,871
Deposits Payable	(68,070)	181,497
Deferred Revenue	2,681,171	527,558
Refundable Advances - Food Service Company	(76,924)	(76,923)
Refundable Advances - Federal Perkins Loan Program	(349,227)	26,758
Net Cash Provided by Operating Activities	13,900,432	11,248,920
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Building and Equipment	(1,780,634)	(13,144,869)
Proceeds on Sale of Fixed Assets	-	25,000
Proceeds from Sales of Investments	6,186,179	8,246,265
Funds on Deposit with CUS	5,124,304	322,610
Purchases of Investments	(2,831,782)	(2,329,026)
Investment in LCMS Foundation	(1,014,072)	(2,016,303)
Decrease in Federal Perkins Loans Receivable	156,511	187,980
Net Cash Provided (Used) by Investing Activities	5,840,506	(8,708,343)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(900,000)	(1,025,000)
Payments on Capital Leases	(292,334)	(271,090)
Proceeds from Contributions Restricted for Investment in Endowment	926,043	365,919
Increase in Funds on Deposit with Bond Trustee	-	138,358
Net Cash Used by Financing Activities	(266,291)	(791,813)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,474,647	1,748,764
Cash and Cash Equivalents - Beginning of Year	24,757,126	23,008,362
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 44,231,773	\$ 24,757,126
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Change in Value of SWAP Agreement	\$ (68,726)	\$ 101,586
Fixed Assets Purchased through Capital Lease	\$ 931,105	\$ -
Interest Paid	\$ 662,008	\$ 699,318

See accompanying Notes to Financial Statements.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Concordia University, St. Paul (the University or the Organization), a Minnesota nonprofit corporation, is a private, Lutheran liberal arts educational institution operated under the auspices of The Lutheran Church – Missouri Synod (Synod), which establishes broad operating and financial policies through its Board for University Education (BUE)/Concordia University System (CUS). The University's board of regents is responsible for the management of the University. Some members of the board are elected through the Synod and others are selected through the board.

Revenues are derived principally from the University's educational programs in the form of tuition and fees and also from auxiliary enterprise activities and contributions.

The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (DOE). Disbursements under each program are subject to disallowance and repayment by the University. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the DOE.

Auxiliary enterprises revenue includes income from the childcare center, student housing, employee housing, food service, bookstore, transportation, convention and conferences, and music performances. Accordingly, the auxiliary enterprise expenses include all costs incurred in providing these services.

The University is an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986, as amended, and has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax on its related exempt activities under IRC Section 501(a).

During the fiscal year 2020, the University acquired the Accelerated Bachelor of Science in Nursing Program from Concordia University-Portland.

Accrual Basis

The financial statements of the University have been prepared on the accrual basis of accounting.

Basis of Presentation

Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Without Donor Restrictions – Those resources over which the board of regents has discretionary control. The board-designated amounts represent those amounts which the board has set aside for a particular purpose.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the University or passage of time as well as resources subject to a donor-imposed restriction that they be maintained permanently by the University. The donors of these resources permit the University to use all or part of the income earned, including capital appreciation, or related investment income for purposes with no restrictions or restrictions satisfied by actions or the passage of time.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents include currency, demand deposits, and liquid investments with a maturity, at time of purchase, of three months or less. Cash and cash equivalents do not include investments the University has both the ability and intent to hold long-term. At times throughout the year, the cash and cash equivalent balances may exceed amounts insured by the Federal Deposit Insurance Corporation. At June 30, 2020 and 2019, cash restricted for federal Perkins loan totaled \$168,497 and \$361,211, respectively. Income earned on cash and cash equivalents, as reported on the statements of activities, includes income earned on the University's CUS deposit account described in Note 2.

Accounts Receivables

Receivables are stated at net realizable value. The University provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Accounts past due more than 90 days are individually analyzed for collectability. Accounts registered for a payment plan are not charged interest until after the payment plan expires. Accounts for which no payments have been received are individually assessed for collectability and are written off. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is recorded when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government grants and contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the University will record such disallowance at the time the determination is made.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants and Contracts (Continued)

A portion of the University's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific contract or grant provisions. The University received cost reimbursable grants of \$273,083 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to customers (students), in an amount that reflects the consideration expected to be entitled in exchange for those goods or services.

The following table shows the University's gross tuition revenue disaggregated according to the timing of the transfer of goods or service and by source, as of the years ended June 30, 2020 and 2019, respectively:

Revenue Recognized Over Time:	2020	2019
Undergraduate Tuition and Fees	\$ 46,866,291	\$ 40,428,940
Graduate Tuition and Fees	16,917,489	16,752,176
International Tuition and Fees	3,481,278	3,495,650
Total	\$ 67,265,058	\$ 60,676,766

The following table shows the University's auxiliary revenues disaggregated according to the timing of the transfer of goods or service and by source, as of the years ended June 30, 2020 and 2019, respectively:

Revenue Recognized Over Time:	2020	2019
Housing	\$ 2,577,435	\$ 3,170,574
Dining	1,355,222	1,383,581
Rental Income	1,441,886	940,958
Tuition Fees	532,070	566,071
Other Fees	101,896	175,635
Total	\$ 6,008,509	\$ 6,236,819

The University's contract assets and liabilities consist of the following as of June 30, 2020 and 2019, respectively:

	2020	2019
Accounts Receivable - Students	\$ 3,845,447	\$ 2,899,820
Deferred Revenue - Students	6,689,606	4,008,435
Total	\$ 10,535,053	\$ 6,908,255

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Performance Obligations and Revenue Recognition

The University has four academic terms: fall, spring, summer 1, and summer 2. Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, proratably over the term of the related semester. Auxiliary revenue is recognized in the fiscal year in which housing and food services are provided, proratably over the term of the related semester. Any payments received prior to fiscal year-end related to academic terms that occur subsequent to fiscal year-end are recorded as deferred revenue in the accompanying statements of financial position.

Customer contracts generally have separately stated prices for each performance obligation contained in the contract. Therefore, each performance obligation generally has its own standalone selling price. Arrangements for payment are agreed to prior to registration of the student's first academic term. Many students obtain Title IV or other financial aid resulting in the University receiving a significant amount of the transaction price at the beginning of the academic term.

The University does not require students to live on campus for the entire time of study and the price of educational services and residential services are not dependent on one another. Therefore, housing and tuition revenue do not need to be combined according to Accounting Standards Codification 606-15-25-9.

Transaction Price

Revenue, or transaction price, is measured as the amount of consideration expected to be received in exchange for transferring goods or services. Tuition and auxiliary revenues are reported at established rates, net of financial assistance provided by the University.

Students may receive discounts, scholarships, or refunds, which gives rise to variable consideration. The amounts of discounts or scholarships are applied to individual student accounts when such amounts are awarded. Therefore, the transaction price is reduced directly by these discounts or scholarships from the amount of the standard rates charged.

Students who adjust their course load or withdraw completely within the first two weeks of the academic term (add/drop period) may receive a full or partial refund in accordance with the University's refund policy.

If a student withdraws prior to completing an academic term, federal regulations permit the University to retain only a set percentage of the total tuition and auxiliary revenues received from such student, which varies with, but generally equals or exceeds, the percentage of the academic term completed by such student. Payment amounts received by the University in excess of such set percentages of tuition are refunded to the student or the appropriate funding source.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction Price (Continued)

For contracts with similar characteristics and historical data on refunds, the expected value method is applied in determining the variable consideration related to refunds. Estimates of the University's expected refunds are determined at the outset of each academic term, based upon actual experience in previous academic terms. All refunds are netted against revenue during the applicable academic term. Management believes it is not probable that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with variable consideration is subsequently resolved.

Management reassesses collectibility throughout the period revenue is recognized by the University on a student-by-student basis. This reassessment is based upon new information and changes in facts and circumstances relevant to a student's ability to pay. Management also reassesses collectibility when a student withdraws from the institution and has unpaid charges.

Contract Balances

Tuition, fees, and auxiliary revenues are recognized in the period classes and services are provided and amounts received for future periods are reported as deferred revenue. Students are billed at the beginning of each academic term and payment is due at that time. The University's performance obligations are to provide educational services in the form of instruction as well as housing facilities and meals during the academic term. As these performance obligations are satisfied over the academic term, deferred revenue is reduced. A significant portion of student payments are from Title IV financial aid and other programs and are generally received during the first month of the respective term. When payments are received, accounts receivable is reduced.

The following table depicts activities for deferred revenue related to tuition and fees and auxiliary revenues:

Balance at June 30, 2019	Refunds Issued	Revenue Recognized Included in June 30, 2019 Balance	Cash Received in Advance of Performance	Balance at June 30, 2020
<u>\$ 4,008,435</u>	<u>\$ 266,714</u>	<u>\$ 3,741,721</u>	<u>\$ 6,689,606</u>	<u>\$ 6,689,606</u>

The balance of deferred revenue at June 30, 2020 will be recognized as revenue over the academic term beginning on July 1, 2020, as services are rendered.

Inventories

Inventories consist of fuel oil.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional promises are not included as support until such time as the conditions are substantially met.

Fair Value Measurement

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

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

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

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

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

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings, and Equipment

Capital assets are defined as assets exceeding \$5,000. Land, buildings, improvements, and equipment are recorded at cost, except for property received by gift, which is recorded at fair value on the date of receipt. Major additions and betterments that improve or extend the life of the respective assets are capitalized while replacements, maintenance, and repairs are expensed as incurred. Title to land and buildings is principally in the name of the University with reversionary clauses to the Synod. Buildings, improvements, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets from 3 to 60 years.

Investments

Investments are carried at fair value based on quoted market prices. Realized and unrealized gains and losses, reflected in the statements of activities, are determined by comparison of the investment cost to proceeds at the time of disposal and to market values at the financial statement date.

The board of regents has interpreted state law as requiring the original value of an endowment gift to be maintained as the permanent endowment corpus. Realized gains as well as the net appreciation of permanent endowment funds may be expended for the same purpose as the endowment was established, unless explicit donor restrictions specify other treatment.

Contributed Services

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

Deferred Revenue

Deferred revenue represents tuition and fees received from students who have registered for undergraduate summer school courses and graduate and continuing studies courses as of June 30, 2020 and 2019. Accordingly, deferred revenue will be recognized as tuition and fee revenue in the subsequent fiscal year when it is earned.

Functional Allocation of Expense

Salaries and related expenses are allocated based on actual time spent. Expenses, other than salaries and related expenses that are not directly identifiable by program or support service are allocated based on the best estimates of management.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The University is exempt from federal income taxes under Section 501(c)(3) of the IRC. The University qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The University's tax returns are subject to review and examination by federal, state, and local authorities.

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

Advertising

The University expenses the costs of advertising as they are incurred. Advertising expense was \$209,203 and \$319,385 for the years ended June 30, 2020 and 2019, respectively.

Subsequent Events

In preparing the financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 5, 2020, the date the financial statements were available to be issued.

Risks and Uncertainties

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to Concordia University, St. Paul, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, declines in enrollment, loss of auxiliary revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes Concordia University, St. Paul is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 2 AVAILABLE RESOURCES AND LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit with the Concordia University System.

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NOTE 2 AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

For purposes of analyzing resources available to meet general expenditures over a (twelve)12-month period, the university considers all expenditures related to its ongoing activities of teaching, athletics, and student services as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of the university's cash and shows positive cash generated by operations for fiscal years 2020 and 2019.

As of June 30, 2020 and 2019, respectively, the following financial assets could readily be available within one year of the balance sheet date to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents Without Donor Restrictions	\$ 42,018,910	\$ 22,771,386
Accounts Receivable, Net and Grants Receivables	3,311,875	3,270,771
Funds on Deposit with the Concordia University System	-	5,124,304
Investments not Encumbered by Donor or Board Restrictions	3,291,728	6,498,657
Payout on Donor Restricted Endowments for Use Over Next 12 Months	875,000	864,000
Payout on Quasi-Endowments for Use Over Next 12 Months	90,000	85,000
Total	<u>\$ 49,587,513</u>	<u>\$ 38,614,118</u>

NOTE 3 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION

The University reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program activities (Instruction, research, academic support, student services, scholarship and fellowships, and auxiliary enterprises) or support services (Institutional management and fundraising) whenever possible. Expenses which are not directly identifiable by program or support service including operation and maintenance of plant expenses are allocated based on depreciation expense, interest expense is allocated based on the programs and/or supporting functions that directly benefit from the related debt issuance. Salary costs and related benefits are charged directly to the program they relate to and related costs are allocated based on full-time equivalents.

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NOTE 3 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the years ended June 30, 2020 and 2019:

	2020								Total
	Program Activities			Support Activities					
	Instructional	Instructional - Other	Auxiliary Enterprises	Academic Support	Student Services	Scholarships and Fellowships	Institutional Support	Advancement	
Salaries and Wages	\$ 12,956,989	\$ 564,415	\$ 431,825	\$ 2,090,235	\$ 5,743,291	\$ -	\$ 1,924,550	\$ 807,121	\$ 24,518,426
Benefits	1,571,625	89,525	83,877	392,936	1,097,386	-	428,303	153,137	3,816,789
Payroll Taxes	883,056	24,488	28,170	106,795	383,941	-	104,714	57,254	1,588,418
Total Salaries and Related Expenses	15,411,670	678,428	543,872	2,589,966	7,224,618	-	2,457,567	1,017,512	29,923,633
Professional Fees	2,225,871	374,850	2,310,488	597,732	2,104,742	-	2,040,725	171,422	9,825,830
Advertising and Promotion	12,938	617	244	-	176,413	-	15,818	16,408	222,438
Recruitment	-	-	-	325	11,904,824	-	12,337	-	11,917,486
Offices Expenses	155,526	16,842	9,804	31,655	112,200	-	125,018	194,946	645,991
Information Technology	282,448	11,922	21,222	449,908	162,624	-	265,698	3,734	1,197,556
Occupancy	80,885	357,299	333,569	83,519	967,884	-	1,187,847	467	3,011,470
Travel	53,920	62,329	1,071	16,872	701,055	-	56,768	19,665	911,680
Conf., Conv., and Meetings	12,211	24,957	-	51,073	18,822	-	5,215	6,924	119,202
Interest	-	-	645,446	-	-	-	35,949	-	681,395
Bad Debt and Bank Fees	76	879	-	-	4,319	-	715,227	8,783	729,284
Depreciation	131,424	708,605	610,467	210,958	716,440	-	1,204,907	8,039	3,590,840
Insurance	-	-	-	-	910	-	441,297	44,616	486,823
Hospitality	56,174	13,907	3,278	9,233	285,828	-	40,471	59,196	468,087
Student Aid Expense	-	-	-	-	-	697,475	-	-	697,475
Other	94,231	5,617	56,897	52,015	171,999	-	401,373	874	783,006
Total Expenses	<u>\$ 18,517,374</u>	<u>\$ 2,256,252</u>	<u>\$ 4,536,358</u>	<u>\$ 4,093,256</u>	<u>\$ 24,552,678</u>	<u>\$ 697,475</u>	<u>\$ 9,006,217</u>	<u>\$ 1,552,586</u>	<u>\$ 65,212,196</u>

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NOTE 3 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

	2019								
	Program Activities			Support Activities					Total
	Instructional	Instructional - Other	Auxiliary Enterprises	Academic Support	Student Services	Institutional Support	Advancement		
Salaries and Wages	\$ 12,788,865	\$ 537,384	\$ 487,642	\$ 2,093,664	\$ 5,583,106	\$ 1,902,943	\$ 804,692	\$ 24,198,296	
Benefits	1,534,687	86,176	99,602	387,387	1,002,037	479,023	152,508	3,741,420	
Payroll Taxes	857,641	23,772	30,956	105,485	370,830	98,537	57,774	1,544,995	
Total Salaries and Related Expenses	15,181,193	647,332	618,200	2,586,536	6,955,973	2,480,503	1,014,974	29,484,711	
Professional Fees	1,771,165	312,159	2,134,564	508,291	1,746,750	1,242,402	157,337	7,872,668	
Advertising and Promotion	29,320	3,511	108	43	248,843	30,035	7,524	319,385	
Recruitment	(600)	-	-	1,160	9,288,194	17,434	-	9,306,187	
Offices Expenses	178,210	17,794	12,426	38,209	103,966	96,508	208,745	655,858	
Information Technology	318,585	7,701	20,553	458,680	170,200	389,662	5,009	1,370,390	
Occupancy	540,350	448,894	411,140	99,356	1,103,013	462,856	68,825	3,134,434	
Travel	69,468	42,300	2,031	22,895	934,190	56,381	42,633	1,169,898	
Conf., Conv., and Meetings	21,382	698	1,143	82,789	30,794	11,710	7,946	156,462	
Interest	-	-	686,421	-	-	32,285	-	718,706	
Bad Debt and Bank Fees	59	10,034	6	7	4,962	444,784	7,321	467,173	
Depreciation	145,562	624,603	602,183	215,459	713,389	429,546	41,269	2,772,012	
Insurance	-	-	-	-	-	275,337	46,027	321,364	
Hospitality	72,308	15,296	6,664	12,970	292,933	65,546	73,162	538,879	
Other	89,435	5,948	47,942	22,696	65,541	204,886	2,470	438,918	
Total Expenses	<u>\$ 18,416,437</u>	<u>\$ 2,136,270</u>	<u>\$ 4,543,380</u>	<u>\$ 4,049,091</u>	<u>\$ 21,658,749</u>	<u>\$ 6,239,876</u>	<u>\$ 1,683,242</u>	<u>\$ 58,727,045</u>	

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NOTE 4 FUNDS ON DEPOSIT WITH CONCORDIA UNIVERSITY SYSTEM

Funds on deposit with CUS totaled \$-0- and \$5,124,304 at June 30, 2020 and 2019, respectively. Funds on deposit during the year included interest-bearing demand deposits of operational cash, funds set aside for capital purchases, and short-term line of credit borrowings. These are demand deposits which earn interest on the daily balance in the account at rate of 0.625% to 0.75%. During the years ended June 30, 2020 and 2019, interest earned on these deposits totaled \$54,636 and \$55,626, respectively, which was included on the statements of activities with income earned on cash and cash equivalents.

Annually, CUS approves a line of credit to support current operations. For fiscal years ending June 30, 2020 and 2019, respectively, the line of credit was \$5,000,000. The University did not draw on this line of credit during both years. In May 2020, CUS terminated its line of credit operations with all members of the Concordia University System. Effective May 15, 2020, the University entered into a line of credit with the Lutheran Church Extension Fund. This line of credit is \$3,000,000 with interest at the rate of 4.575% and matures on November 15, 2020. There were no borrowings for the year ended June 30, 2020.

NOTE 5 CONTRIBUTIONS RECEIVABLE

At June 30, 2020 and 2019, contributors have unconditionally promised to give the University \$2,519,248 and \$1,448,691, respectively. Of these amounts, all are held by the Lutheran Church – Missouri Synod Foundation (LCMS Foundation) as irrevocable deferred gifts of which the University is the beneficiary and will receive the principal at some future date.

Management believes total contributions will be received as follows:

	2020	2019
Amounts Due:		
Within One Year	\$ 62,790	\$ 64,327
One to Five Years	443,169	213,414
After Five Years	2,013,289	1,170,951
Total	2,519,248	1,448,692
Less: Present Value Component	(956,849)	(462,739)
Total	\$ 1,562,399	\$ 985,953
Amounts are Reflected in the Financial Statements as Follows:		
Trusts and Annuities Receivable	\$ 1,562,399	\$ 985,953

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NOTE 6 LOANS RECEIVABLE – FEDERAL PERKINS LOAN PROGRAM

Loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. At June 30, 2020 and 2019, loans receivable were \$1,363,016 and \$1,519,527, respectively, which represented 0.90% and 1.08% of total assets, respectively.

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

At June 30, 2020 and 2019, the following amounts were past due under student loan programs:

June 30,	1-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Total Past Due
2020	\$ -	\$ -	\$ 640,416	\$ 640,416
2019	-	-	594,658	594,658

The availability of funds for loans under the Perkins federal loan program is dependent on reimbursement to the pool from repayments on outstanding loans. Funds advanced by the federal government of approximately \$1.5 million and \$1.9 million at June 30, 2020 and 2019, respectively, are ultimately refundable to the government, and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government.

NOTE 7 LAND, BUILDINGS, AND EQUIPMENT

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

	2020		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,622,991	\$ -	\$ 5,622,991
Buildings	77,098,362	(33,550,840)	43,547,522
Building and Other Improvements	2,997,857	(2,625,519)	372,338
Equipment	11,775,389	(8,624,571)	3,150,818
Total	<u>\$ 97,494,599</u>	<u>\$ (44,800,930)</u>	<u>\$ 52,693,669</u>
	2019		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5,453,791	\$ -	\$ 5,453,791
Buildings	75,796,183	(31,302,549)	44,493,634
Building and Other Improvements	2,947,423	(2,572,138)	375,285
Equipment	10,615,463	(7,365,403)	3,250,060
Total	<u>\$ 94,812,860</u>	<u>\$ (41,240,090)</u>	<u>\$ 53,572,770</u>

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NOTE 8 LONG-TERM INVESTMENTS

Investments with maturities greater than or equal to one year at time of purchase are classified as long-term. In addition, investments with maturities of less than one year at time of purchase, which the University has both the ability and intent to hold long-term, are also classified as long-term investments. Details of long-term investments held by the University at June 30 as follows:

	<u>2020</u>	<u>2019</u>
Mutual Funds - Equities	\$ 4,651,777	\$ 5,812,255
Mutual Funds - Fixed Income	2,113,920	722,075
Cash and Money Market	491,389	546,762
LCEF Notes	<u>2,601</u>	<u>3,273,120</u>
Total Investments	<u>\$ 7,259,687</u>	<u>\$ 10,354,212</u>
LCMS Foundation:		
Standard Funds:		
Fixed Income	\$ 14,763,340	\$ 13,804,345
Equity	15,355,228	15,300,151
LCEF Certificate	<u>25,000</u>	<u>25,000</u>
Total LCMS Foundation	<u>\$ 30,143,568</u>	<u>\$ 29,129,496</u>

Income on long-term investments of \$744,693 and \$874,287 for the years ended June 30, 2020 and 2019, respectively, is net of custodial fees of \$159,833 and \$158,218, respectively.

NOTE 9 FUNDS HELD BY THIRD-PARTY TRUSTEES

Funds held by third-party trustees consist of irrevocable trusts from which the University is to receive the income in perpetuity. The principal is held in trust by the LCMS Foundation and an unrelated trust company. The principal will never revert to the University. The perpetual stream of income is viewed by the University as promises to give by the individuals who established the trusts and has been recorded at the fair value of the trusts at June 30, 2020 and 2019, which closely approximates the net present value of the perpetual income stream.

Given the nature of the promises, the University recorded these contributions as net assets with donor restrictions held in perpetuity. Income received is recorded as without donor restrictions or with donor restrictions based on the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded on the statements of activities as changes in net assets with donor restrictions.

The Trust Held at Wells Fargo includes 1,006 acres of farmland in southeastern South Dakota. 640 acres were sold in December 2019 to increase the liquidity of the trust. As part of the sale, the remaining acres were appraised at an average rate of \$4,709 per acre. Appraisals occur every three years.

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NOTE 9 FUNDS HELD BY THIRD-PARTY TRUSTEES (CONTINUED)

The funds are held by the following third-party trustees at June 30:

	<u>2020</u>	<u>2019</u>
LCMS Foundation	\$ 1,155,374	\$ 1,196,232
Alive in Christ Endowment	290,922	300,033
Trust Held at Wells Fargo	<u>7,593,849</u>	<u>8,935,802</u>
Total	<u>\$ 9,040,145</u>	<u>\$ 10,432,067</u>

NOTE 10 OBLIGATIONS UNDER CAPITAL LEASE

As of June 30, 2014, the University entered into three capital leases for computer network upgrades, laptop computers, and desktop computers. Effective July 29, 2014, the leases were slightly amended. The lease terms range from three to seven years. Additionally, effective August 30 2019, the University entered into another capital lease for computer network upgrades, and laptop computers. The lease term on the new capital lease is five years. The University's equipment held under capital leases in the statements of financial position consists of the equipment cost of \$2,990,360 and \$2,059,255 as of June 30, 2020 and 2019, respectively. Amortization included in depreciation expense was \$333,474 and \$193,809 for the years ended June 30, 2020 and 2019, respectively. Accumulated amortization was \$2,005,111 and \$1,671,637 as of June 30, 2020 and 2019, respectively.

Future minimum payments required are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 238,317
2022	204,524
2023	193,260
2024	<u>193,260</u>
Total Capital Lease Obligation	829,361
Payments Representing Interest	<u>(38,183)</u>
Total Principal Payments	<u>\$ 791,178</u>

NOTE 11 LONG-TERM DEBT

Bonds Payable

The University issued bonds with the Minnesota Higher Education Facilities Authority (MHEFA) with the original value of \$11,480,000 in revenue bonds, Series Five-P1, and Taxable Series Five-P2. In October 2007, the University issued bonds with MHEFA with original value of \$18,155,000 in revenue bonds, Series Six-Q. At June 30, 2020 and 2019, the University's payable to MHEFA was \$14,579,930 and \$15,476,753, respectively, net of the unamortized discount of \$55,070 and \$58,247, respectively.

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NOTE 11 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Under the terms of the bond indenture, the interest rate varies and is payable on the first of the month. At June 30, 2020 and 2019, the bonds bore an interest rate of 1.12% and 1.76%, respectively. The principal portion is due annually on January 1 and is scheduled to mature on April 1, 2037.

Effective August 13, 2019, the University entered into an amended agreement on the Series Six-Q bond which resulted in updated payment maturities and an increase in interest rate from 1.55% to 1.73%.

Future minimum principal payments, based on the indenture agreement with the MHEFA, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 900,000
2022	900,000
2023	900,000
2024	900,000
2025	900,000
Thereafter	<u>10,135,000</u>
Total Principal Payments	<u>\$ 14,635,000</u>

For the years ended June 30, 2020 and 2019, interest totaled \$191,170 and \$237,081, respectively, on the MHEFA bonds.

The bond indenture contains covenants, including a debt service coverage ratio of at least 1.20 to 1.0 and a net asset growth ratio in relation to the change in the Consumer Price Index. Additionally, the University is required to maintain a minimum of \$85 million of net assets throughout the year.

Funds on deposit with the bond trustee totaling \$-0- at June 30, 2020 and 2019, respectively, represent amounts set aside for future principal and interest payments.

At June 30, 2020, the University has an outstanding letter of credit with Bremer Bank for \$14,792,596 in relation to the bond issue.

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

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NOTE 11 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

In conjunction with the bonds payable, the University entered into four interest rate swap agreements with U.S. Bank, N.A. (the Swap Provider) in August 2011 with the objective to minimize the risks associated with market rate fluctuations. Pursuant to the terms of the swap agreement, the University pays the Swap Provider interest at fixed rates of 1.68% to 2.76%. The Swap Provider pays the Organization interest at a variable rate equal to the one-month LIBOR Rate, reset monthly and effective the first day of the calculation period. This interest rate swap has the effect of converting the interest rate on the second note from a variable rate to net fixed rates of 1.68% to 2.76%. One swap agreement expired August 1, 2014, one expired August 1, 2016, one expired August 1, 2018, and one more will expire August 1, 2021. As of June 30, 2020 and 2019, the notional amount of the swap agreement was \$16,540,000. The fair value of the swap agreement liability at June 30, 2020 and 2019 was \$366,966 and \$435,692, respectively. The change in value in the interest rate swap agreement was \$68,726 and \$101,586 as of June 30, 2020 and 2019, respectively. Scheduled due date on the final swap agreement is as follows:

<u>Due Date</u>	<u>Rate</u>	<u>Amount</u>	<u>June 30 Value</u>
8/1/2021	2.76%	13,100,000	(366,966)

Deferred debt acquisition costs of \$486,306 are being amortized on a straight-line basis over the term of the bonds of 25 years. Accumulated amortization was \$439,100 and \$422,890 for the years ended June 30, 2020 and 2019, respectively. Amortization expense was \$16,210 and \$16,210 for the years ended June 30, 2020 and 2019, respectively.

NOTE 12 FOOD SERVICES MANAGEMENT AGREEMENT

On May 2, 2013, the University amended their food services management agreement with Sodexo America LLC (Sodexo). The agreement states that on or about July 1, 2013, Sodexo will provide an amount not to exceed \$1 million to be used at the University's discretion. If the agreement terminates or is amended resulting in an adverse economic impact on Sodexo then the University will have to reimburse Sodexo the unamortized portion of the amount. Sodexo shall amortize the \$1 million on a straight-line basis over 13 years, commencing July 1, 2013 and continuing through August 1, 2026. Additionally, the University will pay Sodexo \$38,500 per year to help pay for part of the amortization of the \$1 million. At June 30, 2020 and 2019, the outstanding balance was \$461,538 and \$538,462, respectively. The University entered into an additional agreement with Sodexo beginning on September 1, 2018 through August 31, 2023, for a total of \$2,299,631 to provide campus facilities management services.

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NOTE 13 ENVIRONMENTAL REMEDIATION

The University owns several buildings on campus that contain asbestos in various forms. In accordance with accounting standards, management estimated the cost of any potential obligation to remove asbestos to be approximately \$468,000. This amount is recorded as a liability on the statement of financial position. The University used a future value rate assumption of 3% and discounted the estimate to present value using a risk-free rate of return of 5%. The potential environmental remediation liability, included in Accounts Payable and Other Liabilities in the statement of financial position, is \$357,950 and \$339,290 at June 30, 2020 and 2019, respectively.

NOTE 14 RELATED PARTY TRANSACTION

Effective March 20, 2019, the University entered into an agreement with a management company for which the owner is the spouse of a board member. The management company will be responsible for managing the operations of one of the University's properties. The University is required to pay a monthly amount of \$8,500 to the management company. The University has a bank account for which the management company uses to help in managing the operations of the University's property. As of June 30, 2020 and 2019, the balance in this bank account was \$423,447 and \$123,122, respectively. This agreement will terminate on March 31, 2021, with the option to renew annually.

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NOTE 15 RESTRICTIONS ON NET ASSETS

Donor-restricted net assets consist of the following at June 30:

	2020	2019
Donor-Restricted Net Assets not Invested in Perpetuity:		
Academic Programs:		
Instruction-Divisional	\$ 722,691	\$ 690,144
Other Instructional Programs	199,754	193,143
Support Programs:		
Academic Support	166,160	163,908
Student Services	206,672	163,602
Instructional Support	1,088,688	1,256,465
Scholarship Allowances (Student Aid)	2,373,829	2,917,993
Land, Building, and Equipment Acquisitions	2,000	47,660
Subtotal	4,759,794	5,432,915
Time Restrictions	587,852	530,802
Total Donor-Restricted Net Assets Not Invested in Perpetuity	5,347,646	5,963,717
Donor-Restricted Net Assets Invested in Perpetuity:		
Academic Programs:		
Instruction-Divisional	544,847	535,522
Support Programs:		
Academic Support	2,900,933	2,858,642
Scholarship Allowances (Student Aid)	21,767,077	20,073,248
Support for General Operations	14,182,131	15,322,738
Total Donor-Restricted Net Assets Invested in Perpetuity	39,394,988	38,790,150
Total Net Assets with Donor Restrictions	\$ 44,742,634	\$ 44,753,867

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NOTE 16 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by the passage of time or the occurrence of other events specified by donors as follows for the years ended June 30:

	2020	2019
Release of Restrictions:		
Academic Programs:		
Instruction-Divisional	\$ 59,203	\$ 54,643
Other Instructional Programs	18,848	43,445
Support Programs:		
Academic Support	22,004	4,158
Student Services	84,572	105,796
Institutional Support	378,600	389,817
Auxiliary Enterprises:		
Scholarship Allowances (Student Aid)	1,254,353	1,022,436
Fixed Assets Acquired and Placed in Service	151,416	842,470
Subtotal	1,968,996	2,462,765
Expiration of Time Restrictions	45,922	47,258
Total Net Assets Released from Restriction	\$ 2,014,918	\$ 2,510,023

NOTE 17 ENDOWMENT

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

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NOTE 17 ENDOWMENT (CONTINUED)

In accordance with the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

	Without Donor Restrictions	With Donor Restrictions		Total With Donor Restrictions	Total
		Purpose	Perpetual		
<u>June 30, 2020</u>					
Donor Restricted Endowment Funds	\$ 718,667	\$ 3,792,576	\$ 28,972,803	\$ 32,765,379	\$ 33,484,046
Board Designated Endowment Funds	2,139,583	-	-	-	2,139,583
Total Endowment Funds	<u>\$ 2,858,250</u>	<u>\$ 3,792,576</u>	<u>\$ 28,972,803</u>	<u>\$ 32,765,379</u>	<u>\$ 35,623,629</u>
<u>June 30, 2019</u>					
Donor Restricted Endowment Funds	\$ 709,042	\$ 4,492,188	\$ 27,557,359	\$ 32,049,547	\$ 32,758,589
Board Designated Endowment Funds	2,157,516	-	-	-	2,157,516
Total Endowment Funds	<u>\$ 2,866,558</u>	<u>\$ 4,492,188</u>	<u>\$ 27,557,359</u>	<u>\$ 32,049,547</u>	<u>\$ 34,916,105</u>

The endowment net assets and activity for 2020 and 2019 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions		Total With Donor Restrictions	Total
		Purpose	Perpetual		
Endowment Fund Balance - June 30, 2018	\$ 1,698,319	\$ 4,131,252	\$ 26,904,281	\$ 31,035,533	\$ 32,733,852
Contributions	3,721	13,000	365,919	378,919	382,640
Earnings:					
Interest and Dividends	57,842	565,645	19,317	584,962	642,804
Realized and Unrealized Gains	115,650	714,872	267,842	982,714	1,098,364
Total Earnings	173,492	1,280,517	287,159	1,567,676	1,741,168
Appropriations	(23,883)	(932,581)	-	(932,581)	(956,464)
Reclassification of Net Assets	1,014,909	-	-	-	1,014,909
Endowment Fund Balance - June 30, 2019	2,866,558	4,492,188	27,557,359	32,049,547	34,916,105
Contributions	1,750	4,200	926,043	930,243	931,993
Earnings:					
Interest and Dividends	65,672	545,341	17,854	563,195	628,867
Realized and Unrealized Gains (Losses)	(12,705)	(180,971)	471,547	290,576	277,871
Total Earnings	52,967	364,370	489,401	853,771	906,738
Appropriations	(63,025)	(1,068,182)	-	(1,068,182)	(1,131,207)
Endowment Fund Balance - June 30, 2020	<u>\$ 2,858,250</u>	<u>\$ 3,792,576</u>	<u>\$ 28,972,803</u>	<u>\$ 32,765,379</u>	<u>\$ 35,623,629</u>

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NOTE 17 ENDOWMENT (CONTINUED)

Endowment Fund Deficiency

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. As of June 30, 2020 and 2019, no deficiencies of this nature existed.

Investment Strategy, Return Objectives, and Risk Parameters

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

Spending Policy and How Investment Objectives Relate to Spending

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

NOTE 18 CONTINGENCY

In the normal course of business, the University has claims made against them. As of June 30, 2020, the amount and likelihood of loss is not determined. The University believes these claims are without merit and intends to vigorously defend the matters.

NOTE 19 DEFINED BENEFIT PLANS

The University participates in the Concordia Plan Services. 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, 2020 and 2019 totaled \$1,553,687 and \$1,526,080, respectively.

NOTE 20 FAIR VALUE MEASUREMENTS

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

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NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds - Equities	\$ 3,689,944	\$ -	\$ -	\$ 3,689,944
Mutual Funds - Fixed Income	2,113,919	-	-	2,113,919
Securities - Equity	3,067,354	-	-	3,067,354
Real Estate	121,376	-	4,836,997	4,958,373
LCMS Endowment Funds	-	-	1,446,296	1,446,296
LCEF Funds	-	-	27,600	27,600
Trusts and Annuities Receivables	-	-	1,562,399	1,562,399
Liabilities:				
Interest Rate Swap Agreement	-	(366,966)	-	(366,966)
Total	<u>\$ 8,992,593</u>	<u>\$ (366,966)</u>	<u>\$ 7,873,292</u>	<u>\$ 16,498,919</u>
2019				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds - Equities	\$ 2,784,218	\$ -	\$ -	\$ 2,784,218
Mutual Funds - Fixed Income	722,075	-	-	722,075
Securities - Equity	3,157,286	-	-	3,157,286
Real Estate	276,826	-	8,844,801	9,121,627
Commodities	68,701	-	-	68,701
LCMS Endowment Funds	-	-	1,496,265	1,496,265
Funds with CUS	-	-	5,124,304	5,124,304
LCEF Funds	-	-	3,298,119	3,298,119
Trusts and Annuities Receivables	-	-	985,953	985,953
Liabilities:				
Interest Rate Swap Agreement	-	(435,692)	-	(435,692)
Total	<u>\$ 7,009,106</u>	<u>\$ (435,692)</u>	<u>\$ 19,749,442</u>	<u>\$ 26,322,856</u>

The totals do not include certain amounts as they are not measured on a recurring basis at fair value. The table below reconciles total University investments:

	2020	2019
Total Investments, Net of Interest Rate Swap	\$ 48,413,318	\$ 56,350,700
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(1,021,346)	(162,988)
Assets Measured at Net Asset Value	(30,118,568)	(29,104,496)
Cash Surrender Value of Life Insurance Policies	(774,485)	(760,360)
Total Investments Measured at Fair Value on a Recurring Basis	<u>\$ 16,498,919</u>	<u>\$ 26,322,856</u>

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NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

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

	Real Estate	LCMS Endowment Funds	Funds With CUS	LCEF Funds	Trusts and Annuities Receivables	Total
Balances - July 1, 2019	\$ 8,844,801	\$ 1,496,264	\$ 5,124,305	\$ 3,298,119	\$ 985,953	\$ 19,749,442
Net Realized and Unrealized						
Gains (Losses) on Investments	(958,000)	(49,970)	45,634	34,042	576,446	(351,848)
Purchases of Investments	94,198	-	21,187	-	-	115,385
Proceeds from Sales of Investments	(3,144,000)	-	(5,191,126)	(3,304,561)	-	(11,639,687)
Balances - June 30, 2020	<u>\$ 4,836,999</u>	<u>\$ 1,446,294</u>	<u>\$ -</u>	<u>\$ 27,600</u>	<u>\$ 1,562,399</u>	<u>\$ 7,873,292</u>
Balances - July 30, 2018	\$ 8,874,217	\$ 1,504,388	\$ 5,446,915	\$ 8,608,694	\$ 1,052,350	\$ 25,486,564
Net Realized and Unrealized						
Gains (Losses) on Investments	(29,416)	(8,124)	55,626	2,600	(66,397)	(45,711)
Purchases of Investments	-	-	31,270	-	-	31,270
Proceeds from Sales of Investments	-	-	(409,506)	(5,313,175)	-	(5,722,681)
Balances - June 30, 2019	<u>\$ 8,844,801</u>	<u>\$ 1,496,264</u>	<u>\$ 5,124,305</u>	<u>\$ 3,298,119</u>	<u>\$ 985,953</u>	<u>\$ 19,749,442</u>

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

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

	Net Asset Value	2020		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual Funds - Equities	\$ 15,355,228	\$ -	Monthly	Monthly
Mutual Funds - Fixed Income	14,763,340	-	Monthly	Monthly
Total	<u>\$ 30,118,568</u>	<u>\$ -</u>		
	Net Asset Value	2019		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual Funds - Equities	\$ 15,300,151	\$ -	Monthly	Monthly
Mutual Funds - Fixed Income	13,804,345	-	Monthly	Monthly
Total	<u>\$ 29,104,496</u>	<u>\$ -</u>		

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

Mutual Funds – Fixed Income – invests primarily in investment grade, aggregate U.S. bond market, and the BB/B noninvestment grade U.S. bond market.

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NOTE 21 COMPOSITE SCORE

The Organization participates in various federally funded student financial aid programs. Under regulatory provisions of these programs, the Organization is required to demonstrate financial responsibility by meeting a certain composite score based on a formula developed by the Department of Education. This score uses financial ratios based on the Organization's audited financial statements. The composite score calculation reflects the overall relative financial health of institutions along a scale of negative 1.0 to positive 3.0.

The composite score for the year ended June 30, 2020 is as follows:

Primary Reserve Ratio:			
Expendable Net Assets	\$ 44,121,343		
Total Expenses/Losses	\$ 65,212,196	67.66%	
<hr/>			
Equity Ratio:			
Modified Net Assets	\$ 119,710,210		
Modified Assets	\$ 151,249,520	79.15%	
<hr/>			
Net Income Ratio:			
Change in Net Assets Without Donor Restrictions	\$ 6,278,389		
Total Revenues/Gains	\$ 71,490,585	8.78%	
<hr/>			

RATIO	Ratio	Strength Factor	Weight	Composite Scores
Primary Reserve Ratio	0.6766	3.0000	40%	1.2
Equity Ratio	0.7915	3.0000	40%	1.2
Net Income Ratio	0.0878	3.0000	20%	0.6
				3.0

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FINANCIAL RESPONSIBILITY RATIO SUPPLEMENTAL SCHEDULE
YEAR ENDED JUNE 30, 2020**

Primary Reserve Ratio:

		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 74,967,576
2	SFP	Net assets with donor restrictions	44,742,634
3	SFP or Supplemental Disclosure (SD) Line 1	Net assets restricted in perpetuity	39,394,988
4	SD Line 20	Unsecured related-party receivable	-
5	SD Line 2d	Donor restricted annuities, term endowments, life income funds	340,975
6	SD Line 3d	Property, plant, and equipment pre-implementation	50,011,931
7	SD Line 4d	Property, plant, and equipment post-implementation with outstanding debt for original purchase	931,105
8	SD Line 5	Construction in progress purchased with long-term debt	-
9		Post-implementation property, plant, and equipment, net, acquired without debt	-
10	SD Line 14	Lease right-of-use asset, pre-implementation (grandfather of leases option not chosen)	-
11	SD Line 15	Lease right-of-use asset, post-implementation	-
12	SFP	Intangible assets	-
13	SFP	Post-employment and pension liabilities	-
14	SD Line 8d	Long-term debt - for long-term purposes pre-implementation	14,159,027
15	SD Line 9d	Long-term debt - for long-term purposes post-implementation	931,105
16	SD Line 10	Line of credit for construction in progress	-
17	SD Line 17	Pre-implementation right-of-use asset liability	-
18	SD Line 18	Post-implementation right-of-use asset liability	-
		Total Expenses and Losses:	
19	Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	65,212,196
20	SOA	Nonservice component of pension/postemployment (nonoperating) cost, (if loss)	-
21	SD Line 22	Sale of fixed assets (if loss)	-
22	SOA	Change in value of interest-rate swap agreements (if loss)	-

Equity Ratio:

		Modified Net Assets:	
23	SFP	Net assets without donor restrictions	\$ 74,967,576
24	SFP	Net assets with donor restrictions	44,742,634
25	SFP	Intangible assets	-
26	SD Line 20	Unsecured related-party receivables	-
		Modified Assets:	
27	SFP	Total assets	151,249,520
28	SD Line 14	Lease right-of-use asset pre-implementation	-
29	SFP	Intangible assets	-
30	SD Line 20	Unsecured related-party receivables	-

Net Income Ratio:

31	SOA	Change in Net Assets Without Donor Restrictions	\$ 6,278,389
		Total Revenues and Gains:	
32	SOA	Total operating revenue (including net assets released from restrictions)	71,401,935
33	SOA	Investments gain, net (aggregate operating and nonoperating interest, dividends, realized and unrealized gains)	19,924
34	SOA	Nonservice component of pension/postemployment (nonoperating) cost (if gain)	-
35	SOA	Pension-related changes other than net periodic pension costs (if gain)	-
36	SOA	Change in value of annuity agreement (typically in nonoperating)	-
37	SOA	Change in value of interest-rate swap agreements (if gain)	68,726
38	SD Line 25	Sale of fixed assets (if gain)	-
39	SOA	Other gains	-

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FINANCIAL RESPONSIBILITY RATIO SUPPLEMENTAL DISCLOSURE
YEAR ENDED JUNE 30, 2020**

Net Assets

1	Net assets with donor restrictions: restricted in perpetuity	\$	39,394,988
2	Other net assets with donor restrictions (not restricted in perpetuity):		
	a. Annuities with donor restrictions	\$	-
	b. Term endowments		340,975
	c. Life income funds (trusts)		-
	d. Total annuities, term endowments, and life income funds with donor restrictions	<u>\$</u>	<u>340,975</u>

Property, Plant, and Equipment, net

3	Pre-implementation property, plant, and equipment, net		
	a. Ending balance of last financial statements submitted to and accepted by the Department of Education (June 30, 2019, financial statement)	\$	53,572,770
	b. Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard		-
	c. Less subsequent depreciation and disposals (net of accumulated depreciation)		<u>(3,560,839)</u>
	d. Balance pre-implementation property, plant, and equipment, net		50,011,931
4	Debt financed post-implementation property, plant, and equipment, net		
	Long-lived assets acquired with debt subsequent to June 30, 2019:		
	a. Equipment		931,105
	b. Land improvements		-
	c. Building		-
	d. Total property, plant, and equipment, net acquired with debt exceeding 12 months		<u>931,105</u>
5	Construction in progress - acquired subsequent to June 30, 2019		-
6	Post-implementation property, plant, and equipment, net, acquired without debt:		
	a. Long-lived assets acquired without use of debt subsequent to June 30, 2019		1,750,633
7	Total Property, Plant, and Equipment, net - June 30, 2020	<u>\$</u>	<u>52,693,669</u>

Debt to be excluded from expendable net assets

8	Pre-implementation debt:		
	a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019):	\$	15,331,973
	b. Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standard.		-
	c. Less subsequent debt repayments		<u>(1,172,946)</u>
	d. Balance Pre-implementation Debt		14,159,027
9	Allowable post-implementation debt used for capitalized long-lived assets:		
	a. Equipment - all capitalized		931,105
	b. Land improvements		-
	c. Buildings		-
	d. Balance Post-implementation Debt		<u>931,105</u>
10	Construction in progress (CIP) financed with debt or line of credit		-
11	Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value		-
		<u>\$</u>	<u>15,090,132</u>

Unsecured related-party receivables

19	Secured related-party receivables	\$	-
20	Unsecured related party receivables		-
21	Total secured and unsecured related-party receivables	<u>\$</u>	<u>-</u>

Sale of fixed assets (if loss)

22	Loss on sale of fixed assets	\$	-
23	Remaining balances in expense category in which loss on sale of assets is included on SOA		-
24	Expense category in which loss on sale of assets is included on SOA	<u>\$</u>	<u>-</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Board of Regents
Concordia University, St. Paul
St. Paul, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Concordia University, St. Paul, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2020, with the exception of Note 21 and the financial responsibility ratio supplemental schedule and financial responsibility ratio supplemental disclosure as to which the date is April 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Concordia University, St. Paul's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Concordia University, St. Paul's internal control. Accordingly, we do not express an opinion on the effectiveness of Concordia University, St. Paul's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Concordia University, St. Paul's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Concordia University, St. Paul's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota

October 5, 2020, with the exception of Note 21 and the financial responsibility ratio supplemental schedule and financial responsibility ratio supplemental disclosure as to which the date is April 30, 2021



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Regents
Concordia University, St. Paul
St. Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Concordia University, St. Paul's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Concordia University, St. Paul's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Concordia University, St. Paul's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Concordia University, St. Paul as of and for the year ended June 30, 2020, and have issued our report thereon dated October 5, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 30, 2021

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Student Financial Assistance Cluster:			
Federal Work Study Program	84.033		\$ 34,820
Federal Supplemental Educational Opportunity Grants	84.007		329,647
Federal Pell Grant Program	84.063		5,219,476
Federal Perkins Loans Outstanding, Beginning of Year	84.038		1,519,527
Federal Direct Loan Program	84.268		35,571,484
Teacher Education Assistance for College and Higher Education Grant Program	84.379		34,428
Total Student Financial Aid Cluster			<u>42,709,382</u>
Coronavirus Aid, relief, and Economic Security Act Section 2			
Higher Education Emergency Relief Fund (HEERF)			
HEERF Student Aid Portion (COVID-19)	84.425E		697,475
HEERF Institutional Aid Portion (COVID-19)	84.425F		672,802
HEERF Strengthening Institutions Program (COVID-19)	84.425M		23,122
Total Higher Education Emergency Relief Fund (HEERF)			<u>1,393,399</u>
Total U.S. Department of Education			44,102,781
U.S. Department of Health & Human Services			
Passed Through State of Minnesota:			
MN Child Care Professional Development System	93.575	GRK 126132	401,979
DHS Health Safety Coaching Model	93.575	GRK 120217	423,466
Infant and Toddler Specialist Network	93.575	GRK 122417	697,254
Total Passed Through State of Minnesota			<u>1,522,699</u>
Total U.S. Department of Health & Human Services			<u>45,625,480</u>
Total Expenditures of Federal Awards			<u>\$ 45,625,480</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

NOTE 1 BASIS OF PRESENTATION

The purpose of the schedule of expenditures of federal awards (the Schedule) is to present a summary of those activities of the Organization that have been financed by the U.S. government (federal awards). Federal awards received directly from federal agencies are included in the Schedule, as are federal guaranteed loans disbursed by other sources. Additionally, all federal awards passed through from other entities have been included in the Schedule. The Organization is required to match certain grant agreements, as defined in the grants, and these matching amounts are not included in the Schedule.

The information in the Schedule is presented in accordance with requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Concordia University, St. Paul.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 FEDERAL LOAN PROGRAMS

The Organization administers the following federal loan programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 1,363,016

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial Statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
2. Type of auditors' report issued on: compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.379, 84.007, 84.033, 84.268, 84.038 84.425E, 84.425F, 84.425M	Student Financial Assistance Cluster Higher Education Emergency Relief Fund
Dollar threshold used to distinguish between Type A and Type B programs:	Type A - \$750,000; Type B - \$187,500
Auditee qualified as low-risk auditee?	<u> x </u> yes _____ no

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2020 – 001

Federal Agency: Department of Education

Federal program title: Student Financial Assistance Cluster

CFDA Number: 84.038 – Federal Perkins Loans

Award Period: July 1, 2019 – June 30, 2020

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: The Code of Federal Regulation, 34 CFR 674.43 requires first overdue notice to a borrower within 15 days after the due date of the payment if the servicer has not received a payment, a request for deferment or a request for postponement or for cancellation. Further, a borrower shall receive a second overdue notice within 30 days after the first overdue notice is sent and a final demand letter within days after the second overdue notice. The Organization at this time must inform the borrower that unless the institution receives a payment or a request for deferment, postponement, or cancellation within 30 days of the later, it will refer the account for collection or litigation and will report the default to a credit bureau.

Condition: The Organization utilizes University Accounting Service, LLC (UAS) for its third-party Perkins Loan servicing. This is a very common practice for colleges and universities in order to provide the most efficient and effective means to not only collect loans but meet the federal regulations for servicing student Perkins Loans. In auditing the compliance features for the loan servicing, CLA utilizes the external compliance report performed for UAS by other auditors. We noted within the UAS compliance audit report for the year ended June 30, 2020, there was a finding for not contacting the student within the required timeframes. The audit did not specify the students that were not contacted within the required guidelines and UAS is one of the largest third-party servicers for federal student loans. Therefore, we do not know if there were any Concordia University, St. Paul's students that were impacted by the noncompliance noted at UAS.

Questioned costs: None

Context: We noted the Organization's third-party servicer, UAS, failed to comply with notifying students of their grace period as required noting two of 50 students were noncompliant and one student was not sent the proper past due notices.

**CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

Cause: UAS, the third-party servicer, did not have controls in place to ensure they complied with Department of Education Rules and Regulations in regard to timely engagement with students with federal loans. Given Concordia University, St. Paul relies on UAS to meet their compliance responsibilities and there was not testing completed specifically for Concordia University, St. Paul to determine if the noncompliance is specific to them, this is a finding for Concordia University, St. Paul.

Effect: UAS is not in compliance with all statutory or regulatory provisions as it pertains to the notification of students exiting its grace period. Any finding UAS receives that is not mitigated with additional testing (with results of no errors specific to the college or university), that finding becomes a finding of the institutions they service.

Repeat Finding: No.

Auditors' Recommendation: We recommend the Organization implement a thorough review process of all third-party servicer contracts to make sure they comply with all Department of Education Rules and Regulations.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding.

2020 – 002

Federal Agency: Department of Education

Federal program title: Student Financial Assistance Cluster

CFDA Number: 84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
84.038 – Federal Perkins Loans
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans
84.379 – Teacher Education Assistance for College and Higher Education Grants

Award Period: July 1, 2019 – June 30, 2020

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: The Code of Federal Regulations, 34 CFR 685.309 requires that enrollment status changes for students be reported to NSLDS within 30 days or within 60 days if the student with the status change will be reported on a scheduled transmission within 60 days of the change in status. Regulations require the status include an accurate effective date. In addition, regulations require that an institution make necessary corrections and return the records within 10 days for any roster files that don't pass the NSLDS enrollment reporting edits.

CONCORDIA UNIVERSITY, ST. PAUL
AN EDUCATIONAL INSTITUTION OF
THE LUTHERAN CHURCH – MISSOURI SYNOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

Condition: During our testing of 40 students, we noted two instances of improper student statuses being reported to NSLDS.

Questioned costs: None

Context: We noted discrepancies in enrollment statuses reported to NSLDS for 2 of 40 students tested.

Cause: The Organization's processes and controls did not ensure that student status changes were properly reported to NSLDS in a timely manner.

Effect: The NSLDS system is not updated with the student information which can cause a student to not properly enter the repayment period.

Repeat Finding: No.

Auditor's Recommendation: We recommend the Organization review its reporting procedures to ensure the students' statuses are accurately and timely reported to NSLDS as required by regulations.

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with the audit finding.

