LUTHER COLLEGE

Decorah, Iowa

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2015 and 2014

LUTHER COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Luther College
Decorah, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Luther College and subsidiary (the "College"), which comprise the consolidated statements of financial position as of May 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Luther College and subsidiary as of May 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 16, 2015

LUTHER COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of May 31, 2015 and 2014

ASSETS

	2015	2014
Cash and cash equivalents	$ 18,348,362	$ 20,433,784
Student accounts receivable, net of allowance for doubtful accounts of $140,200 in 2015 and $200,000 in 2014	220,930	192,977
Government grants receivable	326,085	60,636
Contributions receivable, net (Note 5)	6,077,000	5,932,000
Other receivables	757,962	767,887
Inventories	499,227	534,805
Prepaid expenses and other assets	489,020	197,393
Investments		
Short term investments	8,516,521	7,009,348
Marketable securities (Note 6)	10,681,381	11,613,100
Mortgages and contracts receivable	656,007	696,033
Real estate	1,544,035	455,035
Endowment (Note 7)	145,880,652	140,832,462
Beneficial interest in funds held in trust	2,147,977	2,187,459
Cash surrender value of life insurance	4,920,726	4,611,115
Student notes receivable, net (Note 8)	6,307,694	6,682,908
Cash restricted for plant acquisitions	2,741,318	1,317,541
Construction in progress (Note 9)	622,622	148,565
Property, plant and equipment, net (Note 10)	87,850,655	92,806,291
TOTAL ASSETS	$ 298,588,174	$ 296,479,339

LIABILITIES AND NET ASSETS

	2015	2014
LIABILITIES		
Accounts payable	$ 2,148,182	$ 1,609,221
Accrued liabilities (Note 11)	11,690,003	10,996,121
Deferred revenue	1,694,432	1,628,615
Asset retirement obligations	2,146,772	2,076,108
Capital lease obligation (Note 12)	747,295	800,070
Interest rate swap liability (Note 14)	2,322,078	2,375,304
Long term debt (Note 13)	31,524,012	33,537,056
Annuities payable	5,711,216	5,111,746
Deposits held in custody for others	448,358	695,621
Government grants refundable	5,266,542	5,345,112
Total Liabilities	63,698,890	64,174,974
NET ASSETS		
Unrestricted (Note 3)	95,851,618	96,835,188
Temporarily restricted (Note 3)	33,223,851	34,133,993
Permanently restricted (Note 3)	105,813,815	101,335,184
Total Net Assets	234,889,284	232,304,365
TOTAL LIABILITIES AND NET ASSETS	$ 298,588,174	$ 296,479,339

See accompanying notes to financial statements.

LUTHER COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2015
(With Comparative Totals for 2014)

	2015					2014
	Operating	Long-Term Investment	Plant	Subsidiary	Total	Total
UNRESTRICTED NET ASSETS						
Revenues, Gains and Other Support						
Tuition and fees	$ 88,962,515	$ -	$ -	$ -	$ 88,962,515	$ 90,060,130
Less: Scholarships and grants	(46,566,964)	-	-	-	(46,566,964)	(45,045,910)
Net tuition and fees	42,395,551	-	-	-	42,395,551	45,014,220
Government grants and contracts	1,320,143	-	-	-	1,320,143	1,336,754
Private gifts and grants	5,111,246	-	300,182	-	5,411,428	5,068,669
Investment income	63,983	-	1,650	1,735	67,368	60,818
Endowment income	-	364,819	-	-	364,819	389,003
Gain (loss) on investments	-	349,343	(40,290)	-	309,053	1,186,678
Spending allowance appropriation	5,912,759	(854,758)	-	-	5,058,001	4,974,252
Other sources	2,028,833	-	-	275,572	2,304,405	2,421,065
Sales and services of educational activities	1,474,194	-	-	-	1,474,194	761,375
Sales and services of auxiliary enterprises	19,477,499	-	-	-	19,477,499	18,873,659
Gain on swap agreement valuation	-	-	53,226	-	53,226	472,091
Actuarial adjustment	-	91,891	-	-	91,891	154,814
	77,784,208	(48,705)	314,768	277,307	78,327,578	80,713,398
Net assets released from restrictions	1,198,506	272,897	445,214	-	1,916,617	5,215,116
Total Revenues, Gains and Other Support	78,982,714	224,192	759,982	277,307	80,244,195	85,928,514
Expenses						
Program Expenses						
Instruction	30,252,502	-	3,280,000	-	33,532,502	32,125,378
Research	470,864	-	51,947	-	522,811	431,991
Public service	389,996	-	301	-	390,297	410,617
Academic support	3,604,112	-	865,999	-	4,470,111	4,156,406
Student services	12,570,242	-	553,051	-	13,123,293	12,452,108
Auxiliary enterprises	14,574,980	-	2,843,366	-	17,418,346	17,213,736
Support Expenses						
Institutional support	11,014,097	-	408,945	-	11,423,042	11,910,216
Subsidiary	-	-	-	347,363	347,363	348,108
Allocable Expenses						
Operation and maintenance of plant	9,183,653	-	-	-	9,183,653	8,632,655
Depreciation and amortization	-	-	6,439,934	322,060	6,761,994	6,788,986
Accretion	-	-	107,084	-	107,084	103,559
Interest	-	-	1,347,198	33,609	1,380,807	1,473,835
Less: Allocated expenses	(9,183,653)	-	(7,894,216)	(355,669)	(17,433,538)	(16,999,035)
Total Expenses	72,876,793	-	8,003,609	347,363	81,227,765	79,048,560
Change in Unrestricted Net Assets	6,105,921	224,192	(7,243,627)	(70,056)	(983,570)	6,879,954

LUTHER COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2015
(With Comparative Totals for 2014)

	2015					2014
	Operating	Long-Term Investment	Plant	Subsidiary	Total	Total
TEMPORARILY RESTRICTED NET ASSETS						
Gifts and grants	$ 803,327	$ -	$ 470,825	$ -	$ 1,274,152	$ 2,881,693
Endowment income	-	1,937,357	-	-	1,937,357	2,077,725
Gain on investments	-	2,108,238	-	-	2,108,238	7,558,654
Spending allowance appropriation	339,266	(4,461,348)	-	-	(4,122,082)	(4,103,847)
Actuarial adjustment	-	(186,130)	-	-	(186,130)	313,866
Other sources	(5,060)	-	-	-	(5,060)	579
Net assets released from restrictions	(1,198,506)	(272,897)	(445,214)	-	(1,916,617)	(5,215,116)
Change in Temporarily Restricted Net Assets	(60,973)	(874,780)	25,611	-	(910,142)	3,513,554
PERMANENTLY RESTRICTED NET ASSETS						
Private gifts	-	4,702,856	-	-	4,702,856	3,027,659
Endowment income	-	391,458	-	-	391,458	429,096
Gain on investments	-	425,986	-	-	425,986	1,561,027
Spending allowance appropriation	-	(935,919)	-	-	(935,919)	(870,405)
Gain on investments (FHIT)	-	(66,297)	-	-	(66,297)	238,429
Actuarial adjustment	-	(39,453)	-	-	(39,453)	1,534,986
Change in Permanently Restricted Net Assets	-	4,478,631	-	-	4,478,631	5,920,792
TRANSFERS						
Transfer for debt service	(2,755,370)	(414,760)	3,170,130	-	-	-
Nonmandatory transfers	(2,683,844)	793,716	1,890,128	-	-	-
Total Transfers	(5,439,214)	378,956	5,060,258	-	-	-
CHANGE IN NET ASSETS	605,734	4,206,999	(2,157,758)	(70,056)	2,584,919	16,314,300
NET ASSETS - Beginning of Year	14,640,319	159,651,846	57,214,712	797,488	232,304,365	215,990,065
NET ASSETS - END OF YEAR	$ 15,246,053	$ 163,858,845	$ 55,056,954	$ 727,432	$ 234,889,284	$ 232,304,365

LUTHER COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2014

	Operating	Long-Term Investment	Plant	Subsidiary	Total
UNRESTRICTED NET ASSETS					
Revenues, Gains and Other Support					
Tuition and fees	$ 90,060,130	$ -	$ -	$ -	$ 90,060,130
Less: Scholarships and grants	(45,045,910)	-	-	-	(45,045,910)
Net tuition and fees	45,014,220	-	-	-	45,014,220
Government grants and contracts	1,336,754	-	-	-	1,336,754
Private gifts and grants	4,889,447	-	179,222	-	5,068,669
Investment income	55,941	-	4,427	450	60,818
Endowment income	-	389,003	-	-	389,003
Gain (loss) on investments	-	1,258,501	(71,823)	-	1,186,678
Spending allowance appropriation	5,506,247	(531,995)	-	-	4,974,252
Other sources	2,130,278	-	6,210	284,577	2,421,065
Sales and services of educational activities	761,375	-	-	-	761,375
Sales and services of auxiliary enterprises	18,873,659	-	-	-	18,873,659
Gain on swap agreement valuation	-	-	472,091	-	472,091
Actuarial adjustment	-	154,814	-	-	154,814
	78,567,921	1,270,323	590,127	285,027	80,713,398
Net assets released from restrictions	729,608	407,681	4,077,827	-	5,215,116
Total Revenues, Gains and Other Support	79,297,529	1,678,004	4,667,954	285,027	85,928,514
Expenses					
Program Expenses					
Instruction	28,919,823	-	3,205,555	-	32,125,378
Research	389,681	-	42,310	-	431,991
Public service	409,941	-	676	-	410,617
Academic support	3,332,081	-	824,325	-	4,156,406
Student services	11,885,098	-	567,010	-	12,452,108
Auxiliary enterprises	14,218,221	-	2,995,515	-	17,213,736
Support Expenses					
Institutional support	10,571,663	-	1,338,553	-	11,910,216
Subsidiary	-	-	-	348,108	348,108
Allocable Expenses					
Operation and maintenance of plant	8,632,655	-	-	-	8,632,655
Depreciation and amortization	-	-	6,466,926	322,060	6,788,986
Accretion	-	-	103,559	-	103,559
Interest	-	-	1,433,426	40,409	1,473,835
Less: Allocated expenses	(8,632,655)	-	(8,003,911)	(362,469)	(16,999,035)
Total Expenses	69,726,508	-	8,973,944	348,108	79,048,560
Change in Unrestricted Net Assets	9,571,021	1,678,004	(4,305,990)	(63,081)	6,879,954

See accompanying notes to financial statements.

LUTHER COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2014

	Operating	Long-Term Investment	Plant	Subsidiary	Total
TEMPORARILY RESTRICTED NET ASSETS					
Gifts and grants	$ 2,202,614	$ -	$ 679,079	$ -	$ 2,881,693
Endowment income	-	2,077,725	-	-	2,077,725
Gain on investments	-	7,558,654	-	-	7,558,654
Spending allowance appropriation	319,836	(4,423,683)	-	-	(4,103,847)
Actuarial adjustment	-	313,866	-	-	313,866
Other sources	579	-	-	-	579
Net assets released from restrictions	(729,608)	(407,681)	(4,077,827)	-	(5,215,116)
Change in Temporarily Restricted Net Assets	1,793,421	5,118,881	(3,398,748)	-	3,513,554
PERMANENTLY RESTRICTED NET ASSETS					
Private gifts	-	3,027,659	-	-	3,027,659
Endowment income	-	429,096	-	-	429,096
Gain on investments	-	1,561,027	-	-	1,561,027
Spending allowance appropriation	-	(870,405)	-	-	(870,405)
Gain on investments (FHIT)	-	238,429	-	-	238,429
Actuarial adjustment	-	1,534,986	-	-	1,534,986
Change in Permanently Restricted Net Assets	-	5,920,792	-	-	5,920,792
TRANSFERS					
Transfer for debt service	(2,751,967)	-	2,751,967	-	-
Nonmandatory transfers	(6,365,031)	2,351,075	4,013,956	-	-
Total Transfers	(9,116,998)	2,351,075	6,765,923	-	-
CHANGE IN NET ASSETS	2,247,444	15,068,752	(938,815)	(63,081)	16,314,300
NET ASSETS - Beginning of Year	12,392,875	144,583,094	58,153,527	860,569	215,990,065
NET ASSETS - END OF YEAR	$ 14,640,319	$ 159,651,846	$ 57,214,712	$ 797,488	$ 232,304,365

LUTHER COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,584,919	$ 16,314,300
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization, and accretion	6,869,078	6,892,545
Loss on disposal of property	3,320	765,908
Gain on interest rate swap valuation	(53,226)	(472,091)
Gains on investments, net	(2,649,319)	(11,215,608)
Decrease (Increase) in beneficial interest in funds held in trust	39,482	(309,491)
Noncash contributions of investment assets	(1,089,000)	-
Actuarial adjustment of annuities payable	(316,430)	(804,163)
Loan cancellations, reinstatements and write-offs	94,522	123,896
Change in allowance on student notes receivable	17,900	45,000
Changes in assets and liabilities		
Receivables	(27,953)	(41,465)
Contributions receivable for operations	419,000	(1,429,725)
Accrued interest, grants and other receivables	(255,524)	167,103
Prepaid expenses, inventories, and other assets	(565,660)	38,657
Accounts payable and accrued liabilities	898,202	(586,341)
Deferred revenue and deposits held for others	(181,446)	1,451,449
Asset retirement obligation	(36,420)	(5,601)
Contributions restricted for loans, long-term investment and plant	(5,473,864)	(3,885,960)
Investment income restricted for reinvestment	(391,458)	(429,096)
Cash Flows from Operating Activities	(113,877)	6,619,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(47,275,410)	(37,543,629)
Sales of investments	44,301,085	38,097,879
Decrease in mortgages and contracts receivable, net of repayments	40,026	240,026
Purchases of property, plant and equipment	(1,926,455)	(4,913,925)
Disbursements of loans to students	(825,088)	(847,643)
Repayments of loans from students	1,087,880	1,007,446
Cash Flows from Investing Activities	(4,597,962)	(3,959,846)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(2,035,683)	(1,961,582)
Payments on capital lease obligations	(52,775)	(50,912)
Receipt of investment income restricted for reinvestment	391,458	429,096
Contributions and grants received restricted for loans, long-term investment and plant	4,909,864	4,262,960
Increase in cash held for plant acquisitions	(1,423,777)	300,699
Decrease in government grants refundable	(78,570)	(110,674)
Proceeds from issuance of split-interest agreements	1,123,000	30,000
Payments to annuitants	(207,100)	(218,707)
Cash Flows from Financing Activities	2,626,417	2,680,880
Change in Cash and Cash Equivalents	(2,085,422)	5,340,351
CASH AND CASH EQUIVALENTS - Beginning of year	20,433,784	15,093,433
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 18,348,362	$ 20,433,784

	2015	2014
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized amounts of $25,400 in 2015 and $67,600 in 2014	$ 1,402,315	$ 1,485,555
Payments on swap settlements	748,368	785,191
NONCASH INVESTMENT AND FINANCING ACTIVITIES		
Property, plant and equipment acquired through accounts payable	454,079	119,438
Noncash contribution of land	69,000	-
Proceeds received from bond issuances	8,704,181	-
Bond proceeds used to refinance Series 1998B Bonds	(1,836,650)	-
Bond proceeds used to refinance Series 2010 Bonds	(6,847,826)	-
Bond proceeds used to pay bond issuance costs	(19,705)	-

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Luther College is an institution of higher education affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Consolidation – The consolidated financial statements include the accounts of Luther College and Luther College Ventures, Inc. (collectively referred to as the "College"). Luther College owns 100% interest in Luther College Ventures, Inc. Luther College Ventures, Inc. was formed on November 3, 2010 and is the sole member of Luther College Wind Energy Project, LLC. Luther College Wind Energy Project, LLC was formed on July 13, 2005 to construct a wind turbine. The wind turbine was placed in service on October 31, 2011. All material transactions and balances between the entities have been eliminated in the consolidated financial statements.

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

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

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

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

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Investment income received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. In all other cases, income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose. Expenses are reported as decreases in unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassification between the applicable classes of net assets. However, contributions received with donor-imposed restrictions that are met in the same year as received are initially reported as revenues of the unrestricted net asset class. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The College had conditional promises to give of $2,175,000 and $2,700,000 at May 31, 2015 and 2014, respectively.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are included in changes in unrestricted net assets.

***Cash Equivalents* –** The College considers all highly liquid investments, except for those held for plant and long-term investments, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the College is restricted for the Perkins Loan Fund.

***Student Accounts Receivable and Other Receivables* –** Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts which is based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured. Other receivables include campus charges due from employees of $5,128 and $9,400 at May 31, 2015 and 2014, respectively.

***Inventories* –** All inventories are valued at cost.

***Deferred Debt Acquisition Costs* –** Costs of debt issuance are deferred and amortized over the term of the related indebtedness. The unamortized balance is included as a reduction to long-term debt on the statement of financial position.

***Physical Plant and Equipment* –** Physical plant assets are stated at cost at the date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings – 30 years; improvements – 15 years; equipment and library books – 10 years; computer and vehicles – 4 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions in excess of $5,000.

Deferred Revenue – Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset Retirement Obligations – The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the College's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations during the years ended May 31, 2015 and 2014 are as follows:

	2015	2014
Balance, Beginning of the year	$ 2,076,108	$ 1,978,150
Abatements	(36,420)	(5,601)
Accretion expense	107,084	103,559
Balance, End of the year	$ 2,146,772	$ 2,076,108

Grants to Specified Students **–** Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College.

Government Grants Refundable **–** Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Tuition and Fees and Auxiliary Revenues **–** Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Fund-Raising and Advertising Expenses **–** Fund-raising expenses totaled approximately $2,503,000 and $2,367,000 for the years ended May 31, 2015 and 2014, respectively. Advertising expenses totaled approximately $622,000 and $541,000 for the years ended May 31, 2015 and 2014, respectively. Advertising costs are expensed when incurred.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Income Tax Status – The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The College is also exempt from state income tax. However, any unrelated business income may be subject to taxation. Luther College Ventures, Inc. is organized as a C corporation pursuant to the provisions of the Internal Revenue code. As of May 31, 2015, Luther College Ventures, Inc. had recorded tax deductions, principally depreciation, in excess of financial statement expenses. Income tax benefits of $70,000 in 2015 and $70,000 in 2014 are included in the subsidiaries institutional support expenses. No tax expense was required for other College operations.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2015 and 2014. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2012 and thereafter are open to examination by federal and state authorities.

Impairment of Long-Lived Assets – The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement Not Yet Effective – In May 2014, new accounting guidance was issued that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the College's fiscal year ending May 31, 2019. The College is assessing the impact this guidance will have on its financial statements.

Reclassifications – Due to adoption of ASU 2015-03*, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, prior year deferred debt acquisition costs of $58,568 have been reclassified to conform to the May 31, 2015 financial statement presentation. This reclassification, however, had no effect on total net assets or change in net assets or total cash flows.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable and deposits held in custody for others approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the College.

The fair value of variable rate long-term debt is assumed to approximate cost based on the nature of those obligations. The approximate fair value of fixed rated debt was $8,400,000 (First Citizens National Bank loan and Series 2015) and $9,200,000 (Series 1998B and 2010) as of May 31, 2015 and 2014, respectively. The estimated fair value for the fixed rate debt was estimated using the rates currently offered for comparable debt instruments with similar remaining maturities. Based on these inputs, the fair value of the fixed rate long-term debt would be classified as a Level 2 liability.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Investments in real estate are carried at cost.

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

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories. There have been no changes in the techniques and inputs used at May 31, 2015 and 2014.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

(a) Assets

Level 1 - Level 1 assets include investments in domestic and international mutual funds.

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

Level 3 - Level 3 assets include investments in privately held securities, private equity funds, real estate partnerships, real estate funds, funds of funds, and partnerships. Since quoted prices are not readily available and several inputs are needed, fair value is estimated by using the net asset value ("NAV") provided by the investee as of September 30, December 31 or March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

Level 3 assets also include beneficial interest in funds held in trust by others as the fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

(b) Liabilities

Level 2 - Level 2 liabilities include interest rate exchange agreements as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2015:

	Total	Level 1	Level 2	Level 3
ASSETS				
Fixed income securities	$ 15,514,145	$ –	$ 15,514,145	$ –
Mutual funds				
U.S. equity funds	42,864,445	42,864,445	–	–
Non-U.S. equity funds	39,865,616	39,865,616	–	–
U.S. fixed income funds	17,809,450	17,809,450	–	–
Non-U.S. fixed income funds	2,245,689	2,245,689	–	–
Alternative investments				
Hedge funds	2,854,801	–	2,854,801	–
Private equity funds	5,949,524	–	–	5,949,524
Real estate partnerships	576,541	–	–	576,541
Real estate funds (REIT)	745,867	–	–	745,867
Funds of funds	13,339,517	–	–	13,339,517
Partnerships, real assets	3,517,277	–	–	3,517,277
Beneficial interest in funds held in trust	2,147,977	–	–	2,147,977
Total	$ 147,430,849	$ 102,785,200	$ 18,368,946	$ 26,276,703
LIABILITIES				
Interest rate exchange agreements	$ 2,322,078	$ –	$ 2,322,078	$ –

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2014:

	Total	Level 1	Level 2	Level 3
ASSETS				
Privately held securities	$ 435,575	$ –	$ –	$ 435,575
Fixed income securities	4,911,362	–	4,911,362	–
Mutual funds				
U.S. equity funds	39,413,022	39,413,022	–	–
Non-U.S. equity funds	40,577,029	40,577,029	–	–
U.S. fixed income funds	27,772,886	27,772,886	–	–
Non-U.S. fixed income funds	2,556,997	2,556,997	–	–
Alternative investments				
Hedge funds	2,569,516	–	2,569,516	–
Private equity funds	5,472,343	–	–	5,472,343
Real estate partnerships	1,631,858	–	–	1,631,858
Real estate funds (REIT)	1,142,064	–	–	1,142,064
Funds of funds	12,984,382	–	–	12,984,382
Partnerships, real assets	3,554,822	–	–	3,554,822
Beneficial interest in funds held in trust	2,187,460	–	–	2,187,460
Total	$ 145,209,316	$ 110,319,934	$ 7,480,878	$ 27,408,504
LIABILITIES				
Interest rate exchange agreements	$ 2,375,304	$ –	$ 2,375,304	$ –

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2015.

	Balances May 31, 2014	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2015
Privately held and equity securities	$ 435,575	$ (52,115)	$ –	$ (383,460)	$ –	$ –
Private equity funds	5,472,343	(23,320)	1,320,441	(819,940)	–	5,949,524
Real estate partnerships	1,631,858	444,859	4,931	(1,505,107)	–	576,541
Real estate funds (REIT)	1,142,064	(396,197)	–	–	–	745,867
Funds of funds	12,984,382	553,913	2,000,000	(2,198,778)	–	13,339,517
Partnerships, real assets	3,554,822	(112,471)	335,000	(260,074)	–	3,517,277
Beneficial interest in funds held in trust	2,187,460	(64,190)	27,007	(2,300)	–	2,147,977
Total	$27,408,504	$ 350,479	$ 3,687,379	$ (5,169,659)	$ –	$26,276,703

The amount of total gains/(loss) for the periods included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at May 31, 2015. $ (1,117,143)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2014.

	Balances May 31, 2013	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2014
Privately held and equity securities	$ 455,969	$ (20,394)	$ –	$ –	$ –	$ 435,575
Private equity funds	4,732,221	1,261,933	937,232	(944,043)	(515,000)	5,472,343
Real estate partnerships	1,809,026	(58,844)	21,612	(139,936)	–	1,631,858
Real estate funds (REIT)	1,197,944	(55,755)	–	(125)	–	1,142,064
Funds of funds	11,362,635	1,109,446	4,000,000	(3,487,699)	–	12,984,382
Partnerships, real assets	3,332,080	(596,792)	576,875	(272,341)	515,000	3,554,822
Beneficial interest in funds held in trust	1,877,968	279,442	30,050	–	–	2,187,460
Total	$24,767,843	$ 1,919,036	$ 5,565,769	$ (4,844,144)	$ –	$27,408,504

The amount of total gains/(loss) for the periods included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at May 31, 2014. $ 1,759,522

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College's interest in the fund. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The College generally considers a redemption period of 90 days or less to be considered near term.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category:

	Private Equity Funds	Real Assets	Hedge Funds and Funds of Funds
Fair value, May 31, 2015	$5,949,524	$4,839,685	$16,194,318
Significant Investment Strategy	Venture and buyout, secondaries and in special situations the U.S. and international	Real estate and natural resources, primarily in the U.S.	Absolute return including multi-strategy, long/short equity, long/short credit, global macro, special situations and short credit
Remaining Life	0 to 14 years	0 to 14 years	N.A.
Dollar Amount of Unfunded Commitments	$3,984,389	$3,131,616	None
Timing to Draw Down Commitments	0 to 14 years	0 to 14 years	N.A.
Redemption Terms	N.A.	Quarterly for two Funds, N.A. for others	Monthly, quarterly, and yearly
Redemption Restrictions	N.A.	Quarterly for two funds with suspended redemptions, N.A. for others	Ranges between quarterly with 35 days notice, calendar year end with 100 days notice and monthly with 45 days notice
Redemption Restrictions in Place at Year End	N.A.	Redemptions currently suspended in 2 of 10 funds	One fund is currently being redeemed with audit holdback remaining

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

At May 31, 2015 and 2014, the College's unrestricted net assets were allocated as follows:

	2015	2014
Operations	$ 7,068,337	$ 6,392,146
Long-term investment (board designated endowment funds less underwater donor restricted endowment funds)	27,468,974	26,957,718
Annuity, life income and similar funds	1,646,882	1,554,990
Loans to students	2,313,141	2,322,624
Replacement of plant facilities	3,410,836	394,115
Net investment in plant	53,943,448	59,213,595
Totals	$ 95,851,618	$ 96,835,188

Temporarily restricted net assets consist of the following at May 31, 2015 and 2014:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support – Operating	$ 1,586,238	$ 1,406,151
Scholarships, instruction and other support – Endowment	27,840,617	28,256,370
Acquisition of buildings and equipment	730,100	511,489
	30,156,955	30,174,010
Annuity, life income and similar funds	1,046,141	1,504,977
Beneficial interest in funds held in trust	42,417	42,608
Loans to students	441,338	446,398
Contributions receivable	1,537,000	1,966,000
Totals	$ 33,223,851	$ 34,133,993

Permanently restricted net assets consist of the following at May 31, 2015 and 2014:

Endowment funds	$ 92,178,921	$ 88,685,829
Beneficial interest in funds held in trust - Endowment	1,543,537	1,553,747
Contributions receivable	3,109,000	2,552,000
	96,831,458	92,791,576
Beneficial interest in funds held in trust - Deferred Gifts	562,023	591,104
Annuity, life income and similar funds	8,420,334	7,952,504
Totals	$ 105,813,815	$ 101,335,184

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended May 31, 2015 and 2014 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2015	2014
Scholarships, instruction and other departmental support	$ 1,198,506	$ 729,608
Matured deferred gifts	272,897	407,681
Acquisition of land, building, and equipment	445,214	4,077,827
Totals	$ 1,916,617	$ 5,215,116

These assets were reclassified to unrestricted net assets.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2015 and 2014:

	2015	2014
Unrestricted – completed plant projects	$ 1,858,000	$ 2,088,000
Temporarily restricted – operations	1,669,000	1,922,000
Temporarily restricted – plant projects	217,000	210,000
Permanently restricted – endowment	3,388,000	2,803,000
Gross unconditional promises to give	7,132,000	7,023,000
Less: Unamortized discount	(296,000)	(340,000)
Less: Allowance for uncollectible accounts	(759,000)	(751,000)
Net unconditional promises to give	$ 6,077,000	$ 5,932,000
Amounts due in:		
Less than one year	$ 2,922,000	
One to five years	3,155,000	
Totals	$ 6,077,000	

At May 31, 2015 and 2014, respectively, promises due in one to five years were discounted using historical interest rates ranging between 1.67% and 6.0%. Promises due in less than one year were not discounted.

Net unconditional promises to give at May 31, 2015 and 2014 include $959,000 and $1,084,000, respectively, due from Cabinet members and Board members. The College received total contributions from board members and officers of $809,000 and $588,400, respectively, for the years ended May 31, 2015 and 2014.

NOTE 6 - MARKETABLE SECURITIES

The following summarizes the College's marketable securities in funds other than endowment at May 31, 2015 and 2014:

	2015	2014
Equity securities	$ –	$ 351,936
Mutual funds	10,681,381	11,261,164
Totals	$ 10,681,381	$ 11,613,100

NOTE 7 - ENDOWMENT INVESTMENTS

The following summarizes the College's endowment investments at May 31, 2015 and 2014:

	2015	2014
Cash and short-term investments	$ 11,204,368	$ 9,314,512
Equity securities	–	103,328
Fixed income securities	15,509,068	4,911,362
Mutual / Commingled funds	92,108,897	99,058,768
Real estate, at cost	74,792	89,507
Alternative investments	26,983,527	27,354,985
Totals	$ 145,880,652	$ 140,832,462

Through the College's alternative investments, the College is indirectly involved in investment activities such as securities lending, trading in futures, forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these instruments may contain varying degrees of risk, the College’s risk with respect to such transactions is limited to its respective share in each investment pool.

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

NOTE 8 - CREDIT QUALITY OF STUDENT LOAN RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2015 and 2014, student loans represented 2.11% and 2.25% of total assets, respectively.

At May 31, 2015 and 2014, student loans consisted of the following:

	2015	2014
Federal government programs	$ 6,011,792	$ 6,256,319
Institutional programs	766,902	879,689
	6,778,694	7,136,008
Less allowance for doubtful accounts		
Beginning of year	(453,100)	(408,100)
Increases	(19,919)	(62,261)
Write-offs	2,019	17,261
End of year	(471,000)	(453,100)
Student loans receivable, net	$ 6,307,694	$ 6,682,908

Funds advanced by the federal government of $5,266,542 and $5,345,112 at May 31, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2015 and 2014, the following amounts were past due under student loan programs:

	Amounts Past Due			
May 31	1-59 days	60-89 days	90+ days	Total
2015	$ 96,673	$ 119,508	$ 677,108	$ 893,289
2014	100,725	141,643	709,954	952,322

Unless Congress takes action to extend the Federal Perkins Loan Program, the Program is set to expire in September 2015. The Department of Education (ED) issued guidance in January 2015 (Dear Colleague Letter GEN-15-03) which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to "continue or complete their courses of study". However, Perkins loans may not be made to "new borrowers" for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. The College is monitoring this issue and is currently assessing the impact on its financial statements.

NOTE 9 - CONSTRUCTION IN PROGRESS

At May 31, 2015, the following construction projects were in progress:

	Estimated Total Cost	Cost To Date	Funding Source
Band rooms	$ 50,000	$ 4,492	Operations
Facility planning	undetermined	88,499	Operations and gifts
IT server upgrade	200,000	149,533	Operations
Farwell hall HVAC	1,325,000	39,375	Operations
Main renovation	12,000,000	41,267	Operations
Softball stadium	325,000	12,631	Operations and gifts
Baseball stadium	380,000	12,631	Operations and gifts
Library roof	700,000	274,194	Operations
Totals	$ 15,275,000	$ 622,622	

There were no outstanding commitments on construction contracts at May 31, 2015.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of May 31, 2015 and 2014:

	2015	2014
Land	$ 663,581	$ 594,581
Buildings	138,635,053	138,500,762
Improvements other than buildings	11,756,748	11,732,038
Wind turbine	3,237,495	3,237,495
Equipment and library books	33,812,920	32,786,811
Equipment under capital lease	888,866	888,866
	188,994,663	187,740,553
Less: Accumulated depreciation	(101,144,008)	(94,934,262)
Totals	$ 87,850,655	$ 92,806,291

NOTE 11 - ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of May 31, 2015 and 2014:

	2015	2014
Payroll	$ 6,223,131	$ 5,981,578
Post-retirement benefit obligation	3,876,834	3,359,894
Subsidiary tax liability	160,000	230,000
Interest	123,254	144,761
Other	1,306,784	1,279,888
Totals	$ 11,690,003	$ 10,996,121

NOTE 12 - CAPITAL LEASE OBLIGATIONS

The College entered into one capital lease for a solar panel array during the year ended May 31, 2013.

Capitalized cost and accumulated amortization for the equipment is as follows at May 31, 2015:

Leased equipment	$ 888,866
Less: Accumulated amortization	(266,660)
Net	$ 622,206

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of May 31, 2015:

Year Ending May 31:	
2016	$ 80,715
2017	80,715
2018	80,715
2019	80,715
2020	46,722
2021 – 2039	665,439
Total minimum lease payments	1,035,021
Less: Amount representing interest	(287,726)
Present value of minimum lease payments	$ 747,295

Amortization expense is included with depreciation expense in the financial statements.

NOTE 13 - LONG TERM DEBT

Long term debt outstanding at May 31, 2015 and 2014 are as follows:

	2015	2014
City of Decorah, Iowa Private College Facility Revenue Bonds, Series 1998B	$ –	$ 2,068,547
City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2004	–	514,286
City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2010	–	7,173,913
City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2011	22,205,000	22,860,000
Decorah Bank & Trust Company loan payable	200,918	239,810
Decorah Bank & Trust Company loan payable	654,355	739,068
First Citizens National Bank loan payable	1,651,842	–
City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2015	6,867,531	–
Principal outstanding on bonds	31,579,646	33,595,624
Deferred debt acquisition costs, net	(55,634)	(58,568)
Total Long Term Debt	$ 31,524,012	$ 33,537,056

NOTE 13 - LONG TERM DEBT (cont.)

In December 1998, the City of Decorah, Iowa sold its Private College Facility Revenue Bonds (Luther College Project), Series 1998B, totaling $4,000,000. The proceeds from the sale of the bonds were loaned to the College and used to finance the Baker Village student residence project. The bonds in the remaining amount of $1,833,250 were the subject of an advance refunding as part of the taxable loan with First Citizens National Bank. The First Citizens loan was settled on January 12, 2015.

In December 2004 the City of Decorah, Iowa sold its Private College Facility Revenue Bonds, Series 2004, totaling $3,600,000. The proceeds from the sale of the bonds were loaned to the College and used to finance the acquisition, construction, improving and equipping of a renovation and expansion of the Dahl Centennial Union. The Series 2004 Bonds matured semi-annually with the final payment of $257,143 on the bonds made in December 2014.

In December 2010, the City of Decorah, Iowa sold its Private College Facility Revenue Bonds, Series 2010, in the amount of $7,500,000. The proceeds were used to renovate Miller and Dieseth residence halls during the summers of 2011 and 2012. The bonds in the remaining amount of $6,847,826 were the subject of an advance refunding as part of the Series 2015 Bonds. The Series 2015 Bonds were settled on January 12, 2015.

In December 2011, the Iowa Higher Education Loan Authority Revenue Bonds, Series 2011, in the amount of $24,065,000 were issued on behalf of the College. The proceeds were used to pay off Iowa Higher Education Loan Authority Private College Facility Revenue Bonds, Series 2002 in the amount of $13,065,000 and Iowa Higher Education Loan Authority Private College Facility Revenue Bonds, Series 2008 in the amount of $11,000,000. The bonds are unsecured. The interest rate is variable and at May 31, 2015 was 1.132385%. The Series 2011 Bonds mature annually in amounts from $675,000 to $1,205,000 from 2016 through 2039. The loan agreement requires that certain covenants be maintained. As of May 31, 2015, the College is in compliance with these covenants.

In July 2011, Luther College Wind Energy Project, LLC entered into an agreement with Decorah Bank & Trust Company through the Iowa Alternate Energy Revolving Loan Program. The proceeds in the amount of $350,000 were used to finance the construction of a wind turbine. The loan is interest free and monthly payments of $3,241 are due until final maturity on July 27, 2020. The loan is unsecured.

In November 2011, Luther College Wind Energy Project, LLC entered into an agreement with Decorah Bank & Trust Company in the amount of $928,200. The proceeds were used to finance the construction of a wind turbine. In February 2015 the interest rate was reduced from 5.125% to 3.875% and is fixed until maturity. Monthly payments of $9,936, including principal and interest, are due until August 2021. The loan agreement requires that certain covenants be maintained. As of May 31, 2015, the College is in compliance with these covenants.

In January 2015, the City of Decorah, Iowa sold its Private College Facility Revenue Refunding Bonds, Series 2015, in the amount of $6,868,000. The proceeds from the sale of the bonds were loaned to the College and were used to pay off the City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2010 in the amount of $6,847,826 and pay the costs of issuance of the bonds. The bonds are unsecured. The interest rate on the proceeds is 3.29% and is fixed until June 30, 2030. Annual principal payments will be $327,025. The bonds have a maturity date of June 30, 2035 with an optional put date of June 30, 2030. The loan agreement requires that certain covenants be maintained. As of May 31, 2015, the College is in compliance with these covenants. The purchaser of the Series 2015 Bonds is First Citizens National Bank, whose Chief Executive Officer is a Luther College board member.

NOTE 13 - LONG TERM DEBT (cont.)

In January 2015, Luther College entered into an agreement with First Citizens National Bank in the amount of $1,836,650. The proceeds were used to pay off the City of Decorah, Iowa Private Facility Revenue Bonds, Series 1998B. The interest rate is 2.3% and is fixed until final maturity on December 31, 2018. Monthly payments of $40,082, including principal and interest, are due until final maturity. The loan is unsecured. The loan agreement requires that certain covenants be maintained. As of May 31, 2015, the College is in compliance with these covenants. The Chief Executive Officer of First Citizens National Bank is a Luther College board member.

In order to minimize the effect of changes in the interest rate, the College has entered into interest rate swap contracts. The interest rate swap contracts are disclosed in Note 14.

Total interest expense amounted to $1,380,807 and $1,473,835 for the years ended May 31, 2015 and 2014, respectively. Interest totaling $25,400 and $67,600 was capitalized for the years ended May 31, 2015 and 2014, respectively.

Anticipated principal payments on long-term debt are as follows:

Year Ending May 31:	
2016	$ 1,583,338
2017	1,622,694
2018	1,662,444
2019	1,521,431
2020	1,272,286
Thereafter	23,917,453
Total	$ 31,579,646

NOTE 14 - DERIVATIVES

The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

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

NOTE 14 - DERIVATIVES (cont.)

In fiscal years 2015 and 2014, the College paid $748,368 and $785,191, respectively, more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of May 31, 2015 and 2014:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Variable to fixed rate swap	November 1, 2011	$ 11,000,000	November 1, 2026	3.22%	74.0% of USD-LIBOR-BBA
Variable to fixed rate swap	June 15, 2009	$ 11,205,000	September 1, 2027	3.624%	67.0% of USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of May 31, 2015 and 2014 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative: Statement of Financial Position Location	Liabilities Derivative: Fair Value 2015	Liabilities Derivative: Fair Value 2014
Interest rate swap	Interest rate swap liability	$ 2,322,078	$ 2,375,304

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

Derivatives Not Designated as Hedging Instruments	Location of Gain on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Gain on Derivatives Recognized in the Statement of Changes in Net Assets 2015	Amount of Gain on Derivatives Recognized in the Statement of Changes in Net Assets 2014
Interest rate swap	Gain on swap agreement valuation	$ 53,226	$ 472,091

NOTE 15 - ENDOWMENT

The College's endowment consists of approximately 830 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College 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 College 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 College
7. The investment policies of the College

Endowment net asset composition by type of fund consists of the following as of May 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (127,661)	$ 27,840,617	$ 92,178,921	$ 119,891,877
Donor-restricted funds held in trust	–	–	1,543,537	1,543,537
Board-designated endowment funds	27,596,635	–	–	27,596,635
Contributions receivable	–	–	3,109,000	3,109,000
Total endowment net assets	$ 27,468,974	$ 27,840,617	$ 96,831,458	$ 152,141,049

Endowment net asset composition by type of fund consists of the following as of May 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (263,281)	$ 28,256,370	$ 88,685,829	$ 116,678,918
Donor-restricted funds held in trust	–	–	1,553,747	1,553,747
Board-designated endowment funds	27,220,999	–	–	27,220,999
Contributions receivable	–	–	2,552,000	2,552,000
Total endowment net assets	$ 26,957,718	$ 28,256,370	$ 92,791,576	$ 148,005,664

NOTE 15 - ENDOWMENT (cont.)

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2014	$ 26,957,718	$ 28,256,370	$ 92,791,576	$ 148,005,664
Investment return:				
Investment income, net of investment fees of $102,158	364,819	1,937,357	391,458	2,693,634
Net appreciation/depreciation – realized and unrealized	349,343	2,108,238	425,986	2,883,567
Net depreciation – realized and unrealized funds held in trust	–	–	(10,210)	(10,210)
Total investment return	714,162	4,045,595	807,234	5,566,991
Contributions	–	–	3,489,267	3,489,267
Matured deferred gifts	–	–	122,300	122,300
Change in contributions receivable	–	–	557,000	557,000
Appropriation of endowment assets for expenditure	(854,758)	(4,461,348)	(935,919)	(6,252,025)
Other changes:				
Transfers to board / college designated endowment funds	651,852	–	–	651,852
Endowment net assets, May 31, 2015	$ 27,468,974	$ 27,840,617	$ 96,831,458	$ 152,141,049

NOTE 15 - ENDOWMENT (cont.)

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	$ 23,231,475	$ 23,043,674	$ 87,137,119	$ 133,412,268
Investment return:				
Investment income, net of investment fees of $97,788	389,003	2,077,725	429,096	2,895,824
Net appreciation/depreciation – realized and unrealized	1,258,501	7,558,654	1,561,027	10,378,182
Net depreciation – realized and unrealized funds held in trust	–	–	240,274	240,274
Total investment return	1,647,504	9,636,379	2,230,397	13,514,280
Contributions	–	–	2,555,815	2,555,815
Matured deferred gifts	–	–	1,352,650	1,352,650
Change in contributions receivable	–	–	386,000	386,000
Appropriation of endowment assets for expenditure	(531,995)	(4,423,683)	(870,405)	(5,826,083)
Other changes:				
Transfers to board / college designated endowment funds	2,610,734	–	–	2,610,734
Endowment net assets, May 31, 2014	$ 26,957,718	$ 28,256,370	$ 92,791,576	$ 148,005,664

***Funds with Deficiencies* –** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $127,661 and $263,281 as of May 31, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

***Return Objectives and Risk Parameters* –** The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce returns to meet needs of the spending rate, inflation, and portfolio fees while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual rate of approximately 8.75%. Actual returns in any year may vary from this amount.

NOTE 15 - ENDOWMENT (cont.)

***Strategies Employed for Achieving Objectives* –** To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that is weighted in equity based investments and balanced with fixed income and alternative investments to achieve its long-term return objectives within prudent risk constraints. The alternative investments were entered into to diversify the College's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The College monitors its portfolio mix to ensure that it is in accordance with Board policy. For the majority of alternative investments, the College utilizes fund of funds to diversify the risk inherent in alternative investments.

***Spending Policy and How the Investment Objectives Relate to Spending Policy* –** The Board has a policy of appropriating for distribution each year 5% of its endowment fund’s average of the fair value of endowment investments for the preceding 12 calendar quarters. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the College’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 16 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College and its administrator invest and manage the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. The College used historic interest rates for each agreement ranging from 2.6% to 10.2% in making the calculation at May 31, 2015 and 2014.

During the years ended May 31, 2015 and 2014, the College received gift income relating to deferred gift agreements of approximately $620,391 and $15,465, respectively. Total assets (marketable securities, real estate, and cash value of life insurance) held by the College under deferred gift agreements approximated $17,248,900 and $16,614,000 at May 31, 2015 and 2014, respectively.

NOTE 17 - EMPLOYEE BENEFIT PLANS

The College has a 403(b) defined contribution retirement plan. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plan is paid currently and amounted to approximately $2,782,000 and $2,616,000 for the years ended May 31, 2015 and 2014, respectively.

An early retirement plan is available to faculty members. In addition, in fiscal year 2015, a one-time early retirement package was offered to faculty. Fourteen faculty members accepted the package. The estimated accrued liability for the early retirement benefits is calculated using historical participation rates, current faculty membership and projected salary increases, discounted at a rate of 3.7% and 3.9% for May 31, 2015 and 2014, respectively. The plan is unfunded. The total accrued liability for the early retirement benefits is $1,010,334 and $429,894 for May 31, 2015 and 2014, respectively.

The College provides medical benefits through a self-insurance plan which is available to all employees of the College for certain medical expenses. Estimates for claims incurred but not reported have been accrued by the College.

Faculty members who retired by May 31, 2005 with emeriti status, and their spouses, and faculty members who completed 25 years of service by May 31, 2005 and who may be granted emeriti status upon retirement, and their spouses, are eligible to receive health insurance coverage that supplements Medicare coverage. The plan is unfunded. The following tables set forth the postretirement healthcare benefit plan's status with amounts reported in the College's financial statements at May 31, 2015 and 2014:

	2015	2014
Total expected benefit obligation earned to date, based on service		
Current retirees and dependents		
Pre-65 payments	$ 308,700	$ 347,000
Post-65 payments	867,300	1,004,000
Active employees		
Pre-65 payments	1,502,550	1,371,000
Post-65 payments	187,950	208,000
Benefit obligation at end of year	$ 2,866,500	$ 2,930,000
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 3,076,500	$ 2,621,000
Net benefits earned	218,400	162,000
Total (gain) loss	(277,200)	300,000
Expected benefit payments	(151,200)	(153,000)
Benefit obligation at end of year	$ 2,866,500	$ 2,930,000
Change in plan assets		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contribution	151,200	153,000
Participant contribution	–	–
Benefits paid	(151,200)	(153,000)
Fair value of plan assets at end of year	$ –	$ –
Funded status		
Underfunded status at year end	$ (2,866,500)	$ (2,930,000)

NOTE 17 - EMPLOYEE BENEFIT PLANS (cont.)

	2015	2014
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ –	$ –
Current liabilities	(130,000)	(144,000)
Noncurrent liabilities	(2,736,500)	(2,786,000)
Net amount recognized in accrued liabilities	$ (2,866,500)	$ (2,930,000)
Weighted average assumptions used to calculate the benefit obligation at May 31		
Discount rate	3.7%	3.9%
Expected return on plan assets	–	–
Rate of compensation increase	–	–
Assumed health care cost trend rates at May 31		
Health care cost trend rate assumed for next year	5.7%	6.1%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.3%	4.3%
Year that the rate reaches the ultimate trend rate	2083	2083

Assumed medical cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed medical trend rates would have the following effects:

	One-Percentage Point	
	Increase	Decrease
Effect on postretirement benefit obligation at May 31, 2015	$ 287,700	$ (333,900)

Annual premium payments were approximately $45,000 and $68,000 for the years ended May 31, 2015 and 2014, respectively. During the fiscal year ending May 31, 2016, the College expects to contribute $130,000 in benefit payments for the postretirement medical plan.

Estimated future postretirement medical payments (which reflect expected future service, as appropriate) as of May 31, 2015 are as follows:

Years Ending May 31	
2016	$ 130,000
2017	150,000
2018	132,000
2019	135,000
2020	135,000
2021-2035	3,815,000

The estimate of the accumulated postretirement benefit obligation is based on actuarial assumptions and methods provided by a third party actuary and the selection of discount rates that appropriately reflect the time value of money as of the measurement date. The discount rate used was based on the rates of return for high quality fixed income investments whose cash flows match the timing and amount of expected benefit payments. It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material effect on the financial statements.

NOTE 18 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, accounts receivable and notes, mortgages and contracts for deed. Cash and cash equivalents in excess of FDIC and similar coverages is subject to the usual risks of balances in excess of those limits. The College currently has 85% of its cash and cash equivalents in a well-capitalized bank with a tier 1 risk-based capital ratio of 13.57 and a total risk-based capital ratio of 14.68. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the mortgages and contracts for deed are limited due to the College holding a secured position in agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

NOTE 19 - SUBSEQUENT EVENTS

Luther College has evaluated subsequent events through September 16, 2015 which is the date that the financial statements were issued.