Luther College

Consolidated Financial Statements

May 31, 2020 and 2019

Independent Auditors' Report

To the Board of Regents
Luther College
Decorah, Iowa

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, 2020 and 2019, 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 financial position of Luther College and subsidiary as of May 31, 2020 and 2019, 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 US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
September 14, 2020

Luther College

Consolidated Statements of Financial Position
May 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 16,672,529	$ 13,917,714
Student accounts receivable, net of allowance for doubtful accounts of $170,000 in 2020 and 2019	406,289	319,612
Government grants receivable	177,996	196,901
Contributions receivable, net (Note 5)	6,324,000	6,234,000
Other receivables	552,730	500,863
Inventories, prepaid expenses and other assets	966,519	1,151,591
Investments:		
Short-term investments	5,518,108	8,545,016
Marketable securities	9,362,852	9,681,002
Mortgages and contracts receivable	1,916,000	1,916,000
Real estate	280,000	1,006,534
Endowment (Note 6)	163,834,637	161,986,406
Beneficial interest in funds held in trust	2,074,636	2,111,413
Cash surrender value of life insurance	5,323,434	5,326,803
Student notes receivable, net (Note 8)	5,222,765	5,782,024
Cash restricted for plant acquisitions	4,919,416	3,219,672
Construction in progress (Note 9)	988,862	856,232
Property, plant and equipment, net (Note 10)	67,470,188	72,675,659
Total assets	$ 292,010,961	$ 295,427,442
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,473,602	$ 1,620,474
Accrued liabilities (Note 11)	9,378,375	8,397,562
Deferred revenue	616,235	1,110,167
Asset retirement obligations (Note 1)	2,741,315	2,604,574
Capital lease obligation	-	516,156
Interest rate swap liability (Note 13)	1,709,426	516,628
Long-term debt (Note 12)	23,438,184	24,949,012
Annuities payable	4,275,642	4,835,646
Deposits held in custody for others	514,344	419,346
Government grants refundable (Note 8)	4,080,445	5,041,630
Total liabilities	48,227,568	50,011,195
Net Assets		
Without donor restrictions (Note 3)	87,527,773	91,102,651
With restrictions (Note 3)	156,255,620	154,313,596
Total net assets	243,783,393	245,416,247
Total liabilities and net assets	$ 292,010,961	$ 295,427,442

See notes to consolidated financial statements

Luther College

Consolidated Statements of Activities
Year Ended May 31, 2020 (With Comparative Totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Revenues				
Revenues, gains and other support:				
Tuition and fees	$ 83,997,748	$ -	$ 83,997,748	$ 82,907,605
Less scholarships and grants	(53,022,451)	-	(53,022,451)	(51,187,937)
Net tuition and fees	30,975,297	-	30,975,297	31,719,668
Government grants and contracts	2,625,801	89,605	2,715,406	1,431,810
Private gifts and grants	6,495,072	-	6,495,072	8,086,108
Investment income	370,613	-	370,613	345,981
Spending allowance appropriation	7,046,800	377,952	7,424,752	7,127,156
Other sources	1,972,650	1,511	1,974,161	1,815,120
Subsidiary	171,124	-	171,124	189,776
Sales and services of educational activities	615,195	-	615,195	1,509,269
Sales and services of auxiliary enterprises	17,069,511	-	17,069,511	19,394,356
Transfer from/(to) nonoperating	798,076	-	798,076	(121,843)
	68,140,139	469,068	68,609,207	71,497,401
Net assets released from restrictions	658,105	(658,105)	-	-
Total revenues, gains and other support	68,798,244	(189,037)	68,609,207	71,497,401
Operating Expenses				
Program expenses:				
Instruction	28,027,902	-	28,027,902	29,361,078
Research	400,539	-	400,539	385,790
Public service	390,956	-	390,956	389,270
Academic support	4,050,737	-	4,050,737	4,532,845
Student services	14,062,497	-	14,062,497	13,551,939
Auxiliary enterprises	13,438,514	-	13,438,514	14,370,487
Support expenses:				
Institutional support	11,457,223	-	11,457,223	11,561,374
Subsidiary	391,087	-	391,087	345,841
Allocable expenses:				
Operation and maintenance of plant	8,236,364	-	8,236,364	7,360,662
Depreciation and amortization	6,349,650	-	6,349,650	6,588,801
Accretion	136,741	-	136,741	129,919
Interest	770,682	-	770,682	803,677
Less allocated expenses	(15,493,437)	-	(15,493,437)	(14,883,059)
Total expenses	72,219,455	-	72,219,455	74,498,624
Change in net assets from operating activities	(3,421,211)	(189,037)	(3,610,248)	(3,001,223)
Nonoperating Activities				
Gifts and grants	880,202	2,819,238	3,699,440	6,183,590
Endowment income	419,412	2,619,204	3,038,616	3,217,907
Gain (loss) on investments	769,107	3,463,898	4,233,005	(807,921)
Spending allowance appropriation	(756,852)	(6,667,900)	(7,424,752)	(7,127,156)
Gain (loss) on investments (FHIT)	-	(36,777)	(36,777)	(100,044)
Actuarial adjustment	126,360	332,376	458,736	192,324
Gain (loss) on swap agreement	(1,192,798)	-	(1,192,798)	(855,626)
Transfer from/(to) nonoperating	(798,076)	-	(798,076)	121,843
Donor redesignation of net assets	299,034	(299,034)	-	-
Net assets released from restrictions	99,944	(99,944)	-	-
Change in net assets from nonoperating activities	(153,667)	2,131,061	1,977,394	824,917
Change in net assets	(3,574,878)	1,942,024	(1,632,854)	(2,176,306)
Net Assets, Beginning	91,102,651	154,313,596	245,416,247	247,592,553
Net Assets, Ending	$ 87,527,773	$ 156,255,620	$ 243,783,393	$ 245,416,247

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities
Year Ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Revenues, gains and other support:			
Tuition and fees	$ 82,907,605	$ -	$ 82,907,605
Less scholarships and grants	(51,187,937)	-	(51,187,937)
Net tuition and fees	31,719,668	-	31,719,668
Government grants and contracts	1,256,398	175,412	1,431,810
Private gifts and grants	6,390,939	1,695,169	8,086,108
Investment income	345,981	-	345,981
Spending allowance appropriation	6,764,132	363,024	7,127,156
Other sources	1,811,455	3,665	1,815,120
Subsidiary	189,776	-	189,776
Sales and services of educational activities	1,509,269	-	1,509,269
Sales and services of auxiliary enterprises	19,394,356	-	19,394,356
Transfer from/(to) nonoperating	(121,843)	-	(121,843)
	69,260,131	2,237,270	71,497,401
Net assets released from restrictions	780,873	(780,873)	-
Total revenues, gains and other support	70,041,004	1,456,397	71,497,401
Operating Expenses			
Program expenses:			
Instruction	29,361,078	-	29,361,078
Research	385,790	-	385,790
Public service	389,270	-	389,270
Academic support	4,532,845	-	4,532,845
Student services	13,551,939	-	13,551,939
Auxiliary enterprises	14,370,487	-	14,370,487
Support expenses:			
Institutional support	11,561,374	-	11,561,374
Subsidiary	345,841	-	345,841
Allocable expenses:			
Operation and maintenance of plant	7,360,662	-	7,360,662
Depreciation and amortization	6,588,801	-	6,588,801
Accretion	129,919	-	129,919
Interest	803,677	-	803,677
Less allocated expenses	(14,883,059)	-	(14,883,059)
Total expenses	74,498,624	-	74,498,624
Change in net assets from operating activities	(4,457,620)	1,456,397	(3,001,223)
Nonoperating Activities			
Gifts and grants	324,206	5,859,384	6,183,590
Endowment income	523,484	2,694,423	3,217,907
Gain (loss) on investments	(92,139)	(715,782)	(807,921)
Spending allowance appropriation	(823,550)	(6,303,606)	(7,127,156)
Gain (loss) on investments (FHIT)	-	(100,044)	(100,044)
Actuarial adjustment	196,883	(4,559)	192,324
Gain (loss) on swap agreement	(855,626)	-	(855,626)
Transfer from/(to) nonoperating	121,843	-	121,843
Donor redesignation of net assets	26,114	(26,114)	-
Net assets released from restrictions	77,746	(77,746)	-
Change in net assets from nonoperating activities	(501,039)	1,325,956	824,917
Change in net assets	(4,958,659)	2,782,353	(2,176,306)
Net Assets, Beginning	96,061,310	151,531,243	247,592,553
Net Assets, Ending	$ 91,102,651	$ 154,313,596	$ 245,416,247

See notes to consolidated financial statements

Luther College

Consolidated Statements of Cash Flows
Years Ended May 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ (1,632,854)	$ (2,176,306)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	6,486,391	6,718,720
Loss on disposal of property	10,768	50,989
Loss on interest rate swap valuation	1,192,798	855,626
(Gain) loss on investments, net	(3,982,074)	1,275,897
Change in beneficial interest in funds held in trust	36,777	100,044
Change in allowance on student notes receivable	-	29,200
Noncash contributions of investment assets	-	(707,500)
Actuarial adjustment of annuities payable	(414,520)	(120,438)
Loan cancellations, reinstatements and write-offs	40,822	81,196
Changes in assets and liabilities:		
Receivables	(86,677)	(60,966)
Contributions receivable for operations	(270,000)	(1,051,422)
Accrued interest, grants and other receivables	(32,962)	(26,162)
Prepaid expenses, inventories and other assets	188,441	(56,006)
Accounts payable and accrued liabilities	826,694	(504,593)
Deferred revenue and deposits held for others	(398,934)	(224,985)
Contributions restricted for loans, long-term investment and plant	(3,699,440)	(6,183,466)
Investment income restricted for reinvestment	(399,407)	(417,281)
Cash flows from operating activities	(2,134,177)	(2,417,453)
Cash Flows From Investing Activities		
Purchases of investments	(25,478,589)	(29,195,938)
Sales of investments	30,235,866	29,640,233
Purchases of property, plant and equipment	(1,525,964)	(2,212,134)
Disbursements of loans to students	(551,101)	(574,326)
Repayments of loans from students	1,069,538	900,753
Cash flows from investing activities	3,749,750	(1,441,412)
Cash Flows From Financing Activities		
Payments of principal on indebtedness	(1,524,504)	(1,798,611)
Change in capital lease obligations, net	(256,846)	(60,936)
Receipt of investment income restricted for reinvestment	399,407	417,281
Contributions and grants received restricted for loans, long-term investment and plant	3,879,440	4,064,888
Change in government grants refundable	(961,185)	18,337
Proceeds from issuance of split-interest agreements	30,000	210,000
Payments to annuitants	(175,484)	(176,222)
Cash flows from financing activities	1,390,828	2,674,737
Change in cash and cash equivalents	3,006,401	(1,184,128)
Cash, Cash Equivalents, and Restricted Cash, Beginning	21,709,725	22,893,853
Cash, Cash Equivalents, and Restricted Cash, Ending	$ 24,716,126	$ 21,709,725
Reconciliation of Cash, Cash Equivalents, and Restricted Cash to the Consolidated Statements of Financial Position		
Cash and cash equivalents	$ 16,672,529	$ 13,917,714
Cash restricted for plant acquisitions	4,919,416	3,219,672
Cash and cash equivalents without donor restrictions included in long-term investments	3,124,181	4,572,339
Cash, Cash Equivalents, and Restricted Cash, Ending	$ 24,716,126	$ 21,709,725
Supplemental Disclosures of Cash Flow Information		
Interest paid, net of capitalized amounts of $2,300 in 2020 and $27,900 in 2019	$ 775,517	$ 810,426
Payments on swap settlements	$ 76,514	$ 19,025
Noncash Investment and Financing Activities		
Property, plant and equipment acquired through accounts payable	$ 14,324	$ 7,077

See notes to consolidated financial statements

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 percent 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 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 two 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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. The governing board has established policies to designate net assets without donor restrictions for endowment, investment in property, plant, and equipment and other purposes.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Investment income received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions. In all other cases, income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without door restrictions when expenses are incurred for their intended purpose. Expenses are reported as decreases in net assets without donor restrictions.

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 without donor restrictions. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until they become unconditional, that is, when the conditions on which they depend are met. The College has conditional promises to give of $600,000 and $750,000 at May 31, 2020 and 2019, respectively.

A portion of the College's revenue is derived from cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the College has incurred expenditures in compliance with specific grant or contract provisions and has received payment. Amounts received prior to incurring qualifying expenditures, if any, are reported as refundable advances in the statement of financial position. The College received cost-reimbursable grants of approximately $250,000 that have not been recognized at May 31, 2020 because qualifying expenditures have not yet been incurred.

The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the grant was to be used for direct emergency aid to students. The remaining portion of the grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. The College received and recognized $1,380,684 of HEERF funds as government grants and contracts revenue as of May 31, 2020. The $690,342 student relief portion of the grant was expended and reported as student services expenses and the $690,342 institutional portion of the grant was expended on room and board refunds, reducing sales and services of auxiliary enterprise revenue. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions.

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

In the absence of donor stipulations or law to the contrary, gains and losses on the investments of a donor-restricted endowment fund are included in net assets with donor restrictions.

Gains and losses on investments of endowment funds created by a Board designation of funds without donor restrictions are included in changes in net assets without donor restrictions.

Cash Equivalents

The College considers all highly liquid investments, except for those restricted by donors for long-term investment, 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.

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 $10,000.

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.

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, 2020 and 2019 are as follows:

	2020	2019
Balance, beginning	$ 2,604,574	$ 2,474,655
Accretion expense	136,741	129,919
Balance, ending	$ 2,741,315	$ 2,604,574

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 were loaned to qualified students prior to June 30, 2018, the date at which the federal program ended. 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.

Measure of Operations

The College's operating revenues in excess of (less than) expenses and transfers includes all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other nonoperating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment (the donor-restricted and quasi-endowment) according to the College's spending policy, which is detailed in Note 14. The measure of operations excludes endowment and plant support for nonoperating activities, investment return in excess of (less than) amounts made available for current support, gains and losses on extinguishment of debt, and changes in fair value of the interest rate swap. The net transfer line item includes $1,912,881 and $2,521,440 transferred from quasi-endowment to operations; $92,867 and $335,363 transferred to operations from matured deferred gifts; $507,749 and $692,210 of contributions Board designated to the plant fund for special projects; and $699,923 and $2,286,436 transferred to the plant fund for capital projects, for the years ended May 31, 2020 and 2019, respectively.

Fund-Raising and Advertising Expenses

Fund-raising expenses totaled approximately $2,291,000 and $2,434,000 for the years ended May 31, 2020 and 2019, respectively. Advertising expenses totaled approximately $639,000 and $760,000 for the years ended May 31, 2020 and 2019, 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.

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, 2020 and 2019, Luther College Ventures, Inc. had carryforward losses in excess of tax deductions in excess of financial statement expenses. Income tax benefits of $100,000 and $80,000 in 2020 and 2019, respectively and are included in the subsidiary's institutional support expenses. The College had no material unrelated business income during the year.

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, 2020 and 2019. The College's tax returns are subject to review and 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 Pronouncements Adopted in Current Year

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provided clarity and improved accounting guidance for contributions received and contributions made. The College adopted this guidance beginning June 1, 2019, utilizing the modified retrospective method of application. The adoption of this standard did not have a material impact on the College's business practices, financial condition, or results of operations. The College has provided expanded disclosures pertaining to revenue recognition within Note 1.

During November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The College adopted this guidance beginning June 1, 2019, which was applied retrospectively, with transition provisions, to all periods presented in these financial statements. The adoption of this standard did not have a material impact on the College's business practices, financial condition, or results of operations.

New Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. For nonpublic companies, ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). The College is assessing the impact this standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For nonpublic companies, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021 (fiscal year 2023). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

Reclassifications

Certain amounts appearing in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications have no effect on the reported amounts of total net assets or the change in total net assets.

2. Fair Value of Financial Instruments

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.

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.

Assets and Liabilities

Level 1 - Level 1 assets include investments in publicly traded domestic and international mutual funds for which quoted prices are readily available or that trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

Level 2 - Level 2 assets and 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.

Level 3 - Level 3 assets include private debt holdings and 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.

Certain fixed income securities and alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value. The College has estimated the fair value of these funds by using the net asset value provided by the investee. Under accounting guidance, investments measured using the net asset value per share (or its equivalent) practical expedient are not classified in the fair value hierarchy.

There have been no changes in the techniques and inputs used as of May 31, 2020 and 2019.

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.

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2020:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
U.S. equity funds	$ 45,595,657	$ 45,595,657	$ -	$ -
Non-U.S. equity funds	42,907,402	42,907,402	-	-
U.S. fixed income funds	30,221,030	30,221,030	-	-
Non-U.S. fixed income funds	226,111	226,111	-	-
Private debt	4,097,600	-	-	4,097,600
Beneficial interest in funds held in trust	2,074,636	-	-	2,074,636
Total assets by valuation hierarchy	125,122,436	$ 118,950,200	$ -	$ 6,172,236
Investments measured using NAV:				
Alternative investments:				
Hedge funds	2,916,171			
Private equity funds	8,030,440			
Funds of funds	21,834,777			
Real assets	4,733,307			
Total assets by NAV	37,514,695			
Total assets at fair value	162,637,131			
Investments at cost:				
Short-term investments	5,518,108			
Short-term endowment investments	12,634,988			
Real estate investments	280,000			
Real estate endowment investments	6			
Mortgage and contract receivable	1,916,000			
	20,349,102			
Total investments	$ 182,986,233			
Liabilities:				
Interest rate exchange agreements	$ 1,709,426	$ -	$ 1,709,426	$ -

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2019:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
U.S. equity funds	$ 42,438,534	$ 42,438,534	$ -	$ -
Non-U.S. equity funds	41,728,721	41,728,721	-	-
U.S. fixed income funds	36,243,119	36,243,119	-	-
Non-U.S. fixed income funds	303,636	303,636	-	-
Beneficial interest in funds held in trust	2,111,413	-	-	2,111,413
Total assets by valuation hierarchy	122,825,423	$ 120,714,010	$ -	$ 2,111,413
Investments measured using NAV:				
Alternative investments:				
Hedge funds	4,012,769			
Private equity funds	7,748,985			
Funds of funds	21,718,401			
Real assets	4,684,406			
Total assets by NAV	38,164,561			
Total assets at fair value	160,989,984			
Investments at cost:				
Short-term investments	8,545,016			
Short-term endowment investments	12,778,426			
Real estate investments	1,006,534			
Real estate endowment investments	6			
Equity endowment investments	10,405			
Mortgage and contract receivable	1,916,000			
	24,256,387			
Total investments	$ 185,246,371			
Liabilities:				
Interest rate exchange agreements	$ 516,628	$ -	$ 516,628	$ -

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, 2020.

	Balances May 31, 2019	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Net Transfers In (Out) of Level 3	Balances May 31, 2020
Beneficial interest in funds held in trust	$ 2,111,413	$ (35,457)	$ -	$ -	$ (1,320)	$ 2,074,636
Private debt	-	97,600	4,000,000	-	-	4,097,600
Total	$ 2,111,413	$ 62,143	$ 4,000,000	$ -	$ (1,320)	$ 6,172,246

The amount of total loss for the period included in change in net assets attributable to the change in unrealized gains relating to the financial instruments still held at May 31, 2020	$ 60,823

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, 2019.

	Balances May 31, 2018	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Net Transfers In (Out) of Level 3	Balances May 31, 2019
Beneficial interest in funds held in trust	$ 2,211,457	$ (100,044)	$ -	$ -	$ -	$ 2,111,413

The amount of total loss for the period included in change in net assets attributable to the change in unrealized losses relating to the financial instruments still held at May 31, 2019	$ (100,044)

The College's interests in many of its partnership investments represent commitments that are not subject to redemption; instead, the College is a limited partner in funds that invest in private companies or properties, or pursue specific investment strategies. The nature of these investments is that distributions are received through the liquidation of the underlying assets of the partnership. The NAV reported by each fund is used as a "practical expedient" to estimate the fair value of the College's interest therein, unless management has deemed the NAV to be an inappropriate representation of the fair value under the College's valuation policy.

A summary of the significant categories of such investments and their attributes is as follows:

	Private Equity Funds	**Real Assets**	**Hedge Funds and Funds of Funds**	**Funds of Funds, Balanced Fund With Options Strategy**
Fair value, May 31, 2020	$ 8,030,440	$ 4,733,307	$ 15,499,882	$ 9,251,066
Fair value, May 31, 2019	$ 7,748,985	$ 4,684,406	$ 16,541,093	$ 9,190,077
Significant investment strategy	Venture and buyout, secondaries, and in special situations the U.S. and internationally	Real estate and nature resources, primarily in the U.S.	Absolute return including multi-strategy, long/short equity, long/short credit, global macro, special situations and short credit	Balanced with 50% equity and 50% cash combined with writing covered call and covered put options
Remaining life	0 to 11 years	0 to 11 years	N.A.	N.A.
Dollar amount of unfunded commitments	$ 13,070,142	$ 5,251,641	None	None
Timing to draw down commitments	0 to 11 years	0 to 11 years	N.A.	N.A.
Redemption terms	N.A.	Quarterly for two funds, N.A. for others	Monthly, quarterly and yearly	Monthly
Redemption restrictions	N.A.	None	Ranges between quarterly with 100 days' notice, calendar year-end with 100 days' notice and monthly with 60 days' notice	Monthly with 5 days' notice
Redemption restrictions in place at year-end	N.A.	None	None	None

3. Restrictions and Limitations on Net Asset Balances

At May 31, 2020 and 2019, the College's net assets without donor restrictions were allocated as follows:

	2020	2019
Operations	$ 11,749,275	$ 11,110,415
Long-term investment (board designated endowment funds)	21,029,165	21,399,349
Long-term investment (management designated endowment funds)	3,771,012	4,624,168
Annuity, life income and similar funds	1,582,116	1,730,846
Loans to students	2,635,732	2,301,520
Replacement of plant facilities	795,654	1,501,966
Contributions receivable	1,077,000	621,000
Board designated for special projects	1,630,847	1,128,660
Net investment in plant	43,256,972	46,684,727
Total	$ 87,527,773	$ 91,102,651

Net assets with donor restrictions consist of the following at May 31, 2020 and 2019:

	2020	2019
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support - operating	$ 1,037,019	$ 1,041,568
Scholarships, instruction and other support - endowment	138,318,687	135,712,330
Acquisition of buildings and equipment	519,199	230,407
	139,874,905	136,984,305
Annuity, life income and similar funds	8,635,088	9,182,398
Beneficial interest in funds held in trust - endowment	1,482,571	1,508,515
Beneficial interest in funds held in trust - deferred gifts	592,065	602,898
Loans to students	423,991	422,480
Contributions receivable	5,247,000	5,613,000
Total	$ 156,255,620	$ 154,313,596

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended May 31, 2020 and 2019 by incurring expenses, satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2020	2019
Operating:		
Scholarships, instruction and other departmental support	$ 658,105	$ 780,873
Nonoperating:		
Matured deferred gifts	76,493	167
Acquisition of land, building and equipment	23,451	77,579
Total	$ 758,049	$ 858,619

These assets were reclassified to net assets without donor restrictions.

5. Contributions Receivable

Contributions receivable include the following unconditional promises to give at May 31, 2020 and 2019:

	2020	2019
Without donor restrictions, completed plant projects	$ 1,184,000	$ 1,281,000
With donor restrictions:		
Operations	2,367,000	2,595,000
Plant projects	358,000	528,000
Endowment	3,006,000	3,108,000
Gross unconditional promises to give	6,915,000	7,512,000
Less unamortized discount	(258,000)	(394,000)
Less allowance for uncollectible accounts	(333,000)	(884,000)
Net unconditional promises to give	$ 6,324,000	$ 6,234,000
Amounts due in:		
Less than one year	$ 3,101,000	
One to five years	3,814,000	
Total	$ 6,915,000	

At May 31, 2020 and 2019, respectively, promises due in one to five years were discounted using historical interest rates ranging between 1.30 percent and 6.0 percent. Promises due in less than one year were not discounted.

Net unconditional promises to give at May 31, 2020 and 2019 include $1,655,000 and $2,253,000, respectively, due from Cabinet members and Board members. The College received gifts and pledge payments from Board members and officers of $849,000 and $896,000, respectively, for the years ended May 31, 2020 and 2019.

6. Endowment Investments

The following summarizes the College's endowment investments at May 31, 2020 and 2019:

	2020	2019
Cash and short-term investments	$ 12,634,988	$ 12,778,426
Equity securities	-	10,405
Mutual / Commingled funds	109,587,348	111,033,008
Private debt	4,097,600	-
Real estate, at cost	6	6
Alternative investments	37,514,695	38,164,561
Total	$ 163,834,637	$ 161,986,406

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.

7. Liquidity and Availability

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments. The following assets could be made readily available within one year to meet general expenditures as of May 31, 2020 and 2019.

	2020	2019
Cash and cash equivalents	$ 16,672,529	$ 13,917,714
Student accounts receivable, net of allowance for doubtful accounts	406,289	319,612
Government grants receivable	177,996	196,901
Contributions receivable	1,615,000	1,610,000
Other receivables	304,229	266,913
Investments:		
Short-term investments	5,517,151	8,414,150
Endowment:		
Spending rate appropriations	7,424,752	7,127,156
Management designated quasi-endowment	3,753,604	4,583,619
Cash designated by management for plant acquisitions	2,871,301	1,965,919
Financial assets available to meet cash needs for general expenditures within one year	$ 38,742,851	$ 38,401,984

The majority of the College's liquidity is provided by cash and cash equivalents, as well as short-term investments made with cash in excess of daily needs. Principal and interest on student loans are not included above, as those amounts are used solely for new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portions of contributions receivable due within the next year are included as liquid. Additionally, the College has a Board designated quasi-endowment of $21,029,165 and $21,399,349 as of May 31, 2020 and 2019, respectively. Although the College does not intend to spend from its Board designated quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available with Board approval, if necessary.

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, 2020 and 2019, student loans represented 1.8 percent and 2.0 percent of total assets, respectively.

At May 31, 2020 and 2019, student loans consisted of the following:

	2020	2019
Federal government programs	$ 4,372,556	$ 5,395,851
Institutional programs	1,345,209	881,173
	5,717,765	6,277,024
Less allowance for doubtful accounts:		
Beginning of year	(495,000)	(465,800)
Increases	(23,422)	(81,256)
Write-offs	23,422	52,056
End of year	(495,000)	(495,000)
Student notes receivable, net	$ 5,222,765	$ 5,782,024

Funds advanced by the federal government of $4,080,445 and $5,041,630 at May 31, 2020 and 2019, 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.

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Funds due to the wind-down of the Perkins Loan Program. However, the College may choose to liquidate at any time in the future. As of May 31, 2020, the College continues to service the Perkins Loan Program. During the year ended May 31, 2020, the College returned to the government $717,947 in excess cash, which reduced the government grants refundable.

At May 31, 2020 and 2019, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-59 Days	60-89 Days	90+ Days	Total
2020	$ 59,418	$ 165,274	$ 716,589	$ 941,281
2019	$ 45,361	$ 58,611	$ 770,691	$ 874,663

9. Construction in Progress

At May 31, 2020, the following construction projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Source
Dike Road upgrade	$ 2,600,000	$ 794,097	Operations
Main renovation	12,800,000	86,267	Operations and gifts
Regents Center	Undetermined	108,498	Operations and gifts
Total		$ 988,862	

Outstanding commitments on construction contracts totaled $1,507,028 at May 31, 2020.

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of May 31, 2020 and 2019:

	2020	2019
Land	$ 663,581	$ 663,581
Buildings	140,120,528	140,040,256
Improvements other than buildings	14,927,600	14,927,600
Wind turbine	3,237,495	3,237,495
Equipment and library books	37,755,677	37,206,768
Equipment under capital lease	-	888,866
	196,704,881	196,964,566
Less accumulated depreciation	(129,234,693)	(124,288,907)
Total	$ 67,470,188	$ 72,675,659

11. Accrued Liabilities

Accrued liabilities consisted of the following as of May 31, 2020 and 2019:

	2020	2019
Payroll	$ 5,172,232	$ 4,925,161
Post-retirement benefit obligation (Note 16)	2,409,000	2,589,045
Interest	77,722	83,630
Other	1,719,421	799,726
Total	$ 9,378,375	$ 8,397,562

12. Long-Term Debt

Long-term debt outstanding at May 31, 2020 and 2019 are as follows:

	2020	2019
Iowa Higher Education Loan Authority, Private College Facility Revenue Refunding Bonds, Series 2017	$ 18,152,333	$ 19,199,584
Decorah Bank & Trust Company loan payable	6,466	45,356
Decorah Bank & Trust Company loan payable	139,064	250,379
Bonds, Series 2015	5,232,291	5,559,339
Principal outstanding	23,530,154	25,054,658
Deferred debt acquisition costs, net	(91,970)	(105,646)
Total long-term debt	$ 23,438,184	$ 24,949,012

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 percent to 3.875 percent 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, 2020, the College is in compliance with these covenants. The loan is secured by the equipment purchased with the loan proceeds.

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 percent and is fixed until June 30, 2030. Annual principal payments are $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, 2020, the College is in compliance with these covenants.

On September 1, 2017, the Iowa Higher Education Loan Authority Private College Facility Revenue Refunding Bonds, Series 2017, in the amount $20,945,000 were issued on behalf of the College. The proceeds were used to pay off Iowa Higher Education Loan Authority Private College Facility Revenue Refunding Bonds, Series 2011 in the amount of $20,830,000 and pay costs of issuing the bonds. The bonds are unsecured. The interest rate, which is variable and is calculated monthly at 85.08 percent of USD-LIBOR-BBA, was 1.348 percent and 3.148 percent as of May 31, 2020 and 2019, respectively. The Series 2017 Bonds mature monthly in the amount of $87,271 until September 2037. The loan agreement requires that certain covenants be maintained. As of May 31, 2020, the College is in compliance with these covenants.

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 13.

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

Years ending May 31:	
2021	$ 1,496,619
2022	1,397,507
2023	1,374,298
2024	1,374,298
2025	1,374,298
Thereafter	16,513,134
Total	$ 23,530,154

13. 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 nonperformance by its counterparties.

In fiscal years 2020 and 2019, the College paid $104,770 and $19,025, 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.

As of May 31, 2020, the College had the following outstanding position under an interest rate exchange agreement:

Instrument Type	Effective Date	Notional Amount	Maturity Date	Rate Paid	Rate Received
Variable to fixed rate swap	September 1, 2017	$ 18,152,333	September 1, 2027	2.054 %	85.0768% of USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of May 31, 2020 and 2019 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative: Statement of Financial Position Location	Fair Value 2020	Fair Value 2019
Interest rate swap	Interest rate swap asset (liability)	$ (1,709,426)	$ (516,628)

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets 2020	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets 2019
Interest rate swap	Interest rate swap asset (liability)	$ (1,192,798)	$ (855,626)

14. Endowment

The College's endowment consists of approximately 925 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.

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, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 111,528,513	$ 111,528,513
Donor-restricted accumulated earnings	-	26,790,172	26,790,172
Donor-restricted funds held in trust	-	1,482,571	1,482,571
Board-designated endowment funds	24,800,177	-	24,800,177
Contributions receivable	-	2,744,000	2,744,000
Total endowment net assets	$ 24,800,177	$ 142,545,256	$ 167,345,433

Endowment net asset composition by type of fund consists of the following as of May 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 108,434,293	$ 108,434,293
Donor-restricted accumulated earnings	-	27,278,037	27,278,037
Donor-restricted funds held in trust	-	1,508,515	1,508,515
Board-designated endowment funds	26,023,517	-	26,023,517
Contributions receivable	-	2,779,000	2,779,000
Total endowment net assets	$ 26,023,517	$ 139,999,845	$ 166,023,362

Changes in endowment net assets for the year ended May 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2019	$ 26,023,517	$ 139,999,845	$ 166,023,362
Investment return:			
Investment income	419,412	2,619,204	3,038,616
Net appreciation, realized and unrealized	769,107	3,463,898	4,233,005
Net appreciation (depreciation), realized and unrealized funds held in trust	-	(25,945)	(25,945)
Total investment return	1,188,519	6,057,157	7,245,676
Contributions	-	2,790,007	2,790,007
Matured deferred gifts	272,207	401,147	673,354
Change in contributions receivable	-	(35,000)	(35,000)
Appropriation of endowment assets for expenditure	(756,852)	(6,667,900)	(7,424,752)
Other changes:			
Transfer to operating reserve	(1,927,214)	-	(1,927,214)
Endowment net assets, May 31, 2020	$ 24,800,177	$ 142,545,256	$ 167,345,433

Changes in endowment net assets for the year ended May 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2018	$ 28,937,162	$ 139,280,484	$ 168,217,646
Investment return:			
Investment income	523,484	2,694,423	3,217,907
Net appreciation (depreciation), realized and unrealized	(92,139)	(715,782)	(807,921)
Net appreciation (depreciation), realized and unrealized funds held in trust	-	(69,716)	(69,716)
Total investment return	431,345	1,908,925	2,340,270
Contributions	-	3,051,149	3,051,149
Matured deferred gifts	-	157,893	157,893
Change in contributions receivable	-	1,905,000	1,905,000
Appropriation of endowment assets for expenditure	(823,550)	(6,303,606)	(7,127,156)
Other changes:			
Transfer to operating reserve	(2,521,440)	-	(2,521,440)
Endowment net assets, May 31, 2019	$ 26,023,517	$ 139,999,845	$ 166,023,362

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. As of May 31, 2020, funds with original gift values of $9,573,866 and fair values of $9,157,685, and deficiencies of $416,181 were reported in net assets with donor restrictions. As of May 31, 2019, funds with original gift values of $8,526,093 and fair values of $8,149,635, and deficiencies of $376,458 were reported in net assets with donor restrictions. These deficiencies, which the College believes are temporary, resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation has been 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 net assets with donor restrictions.

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 5 percent plus inflation. Actual returns in any year may vary from this amount.

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 funds of funds to diversify the risk inherent in alternative investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board has authorized that the amount to be allocated to operations from the endowment fund be determined by applying a spending rate of 5 percent to the average of the fair value of the endowment investments at the end of 20 trailing 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 by inflation. 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.

Endowment net assets included in the statements of financial position as of May 31, 2020 and 2019 include the following:

	2020	2019
Endowment investments (Note 6)	$ 163,834,637	$ 161,986,406
Funds held in trust	1,482,571	1,508,515
Contributions receivable	2,744,000	2,779,000
Interest receivable	31,960	40,549
Interfund balance (due to operating)	(747,735)	(291,108)
Total endowment net assets	$ 167,345,433	$ 166,023,362

15. Deferred Gift Agreements

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts and charitable gift annuities. 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 with donor or without donor 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 1.8 percent to 10.2 percent in making the calculation at May 31, 2020 and 2019.

During the years ended May 31, 2020 and 2019, the College received gift income relating to deferred gift agreements of $11,198 and $490,272, respectively. Total assets (marketable securities, real estate and cash value of life insurance) held by the College under deferred gift agreements were $14,841,651 and $16,019,140 at May 31, 2020 and 2019, respectively.

16. 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 $1,351,000 and $1,584,000 for the years ended May 31, 2020 and 2019, respectively.

An early retirement plan was available to eligible faculty members but was discontinued in September 2019. The estimated accrued liability for the early retirement benefit is calculated using historical participation rates, current faculty membership and projected salary increases, discounted at a rate of 3.4 percent for May 31, 2019. The plan was unfunded. The total accrued liability for the early retirement benefits is $0 and $214,045 for May 31, 2020 and 2019, respectively.

The College provides medical benefits through a self-insurance plan which is available to all eligible 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, 2020 and 2019:

	2020	2019
Total Expected Benefit Obligation Earned to Date, Based on Service		
Current retirees and dependents:		
Pre-65 payments	$ 200,000	$ 417,000
Post-65 payments	1,172,000	1,117,000
Active employees:		
Pre-65 payments	977,000	774,000
Post-65 payments	60,000	67,000
Benefit obligation at end of year	$ 2,409,000	$ 2,375,000
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	$ 2,375,000	$ 2,304,000
Net benefits earned	123,000	127,000
Expected benefit payments	(147,000)	(150,000)
Total loss	58,000	94,000
Benefit obligation at end of year	$ 2,409,000	$ 2,375,000
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	147,000	150,000
Participant contribution:		
Benefits paid	(147,000)	(150,000)
Fair value of plan assets at end of year	$ -	$ -
Funded Status		
Underfunded status at year end	$ (2,409,000)	$ (2,375,000)

	2020	2019
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	(147,000)	(150,000)
Noncurrent liabilities	(2,262,000)	(2,225,000)
Net amount recognized in accrued liabilities	$ (2,409,000)	$ (2,375,000)
Weighted Average Assumptions Used to Calculate the Benefit Obligation at May 31		
Discount rate	2.2%	3.4%
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	4.2%	3.9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.7%	3.9%
Year that the rate reaches the ultimate trend rate	2074	2074

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	One Percentage Point Decrease
Effect on postretirement benefit obligation at May 31, 2020	$ 232,000	$ (268,000)

Annual premium payments were approximately $67,000 and $70,000 for the years ended May 31, 2020 and 2019, respectively. During the fiscal year ending May 31, 2021, the College expects to contribute $94,000 in benefit payments for the postretirement medical plan.

Estimated future postretirement medical payments (which reflect expected future service, as appropriate) as of May 31, 2020 are as follows:

Years ending May 31:	
2021	$ 94,000
2022	117,000
2023	128,000
2024	146,000
2025	161,000
2026 - 2039	2,427,000

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.

17. Expense Allocations

The financial statements report certain categories of expenses that are related to more than one program or supporting function. These expenses include depreciation and amortization, interest, information technology, and facilities operations and maintenance. Depreciation expense is allocated based on the use of the building or equipment. Expenses for the administration, supervision, operation, maintenance, preservation and protection of the College's physical plant are allocated based on square footage methodology. Interest expense is allocated based on the use of space benefiting from debt proceeds. Costs of other categories are allocated on the basis of estimates of time and effort.

Expenses reported by function on the statement of activities are summarized by natural classification for the year ended May 31, 2020:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	$ 23,887,631	$ 4,329,894	$ 28,217,525
Employee benefits	9,628,519	2,111,850	11,740,369
Student employment	1,884,152	125,422	2,009,574
Supplies and other operating expenses	2,933,086	2,216,452	5,149,538
Services and events	8,956,611	1,833,221	10,789,832
Occupancy and maintenance	3,791,518	414,186	4,205,704
Travel	2,669,206	180,634	2,849,840
Depreciation, amortization and accretion	5,868,313	618,078	6,486,391
Interest	752,109	18,573	770,682
Total expenses	$ 60,371,145	$ 11,848,310	$ 72,219,455

Expenses reported by function on the statement of activities are summarized by natural classification for the year ended May 31, 2019:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	$ 23,666,776	$ 4,387,902	$ 28,054,678
Employee benefits	9,803,723	1,723,551	11,527,274
Student employment	2,326,876	174,951	2,501,827
Supplies and other operating expenses	3,036,657	2,337,876	5,374,533
Services and events	9,939,750	2,014,965	11,954,715
Occupancy and maintenance	3,093,957	289,359	3,383,316
Travel	3,843,065	336,819	4,179,884
Depreciation, amortization and accretion	6,100,451	618,269	6,718,720
Interest	780,154	23,523	803,677
Total expenses	$ 62,591,409	$ 11,907,215	$ 74,498,624

18. Concentrations

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 69 percent of its cash and cash equivalents and 100 percent of cash restricted for plant acquisitions in a bank with a tier 1 risk-based capital ratio of 12.4 and a total risk-based capital ratio of 13.33. 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.

19. Subsequent Events

Luther College has evaluated subsequent events through September 14, 2020, which is the date that the financial statements were issued.