Luther College

Consolidated Financial Statements

May 31, 2021 and 2020

Independent Auditors' Report

To the Board of Regents of
Luther College

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, 2021 and 2020, 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, 2021 and 2020, 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

Minneapolis, Minnesota
September 9, 2021

Luther College

Consolidated Statements of Financial Position
May 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 22,248,023	$ 16,672,529
Student accounts receivable, net of allowance for doubtful accounts of $170,000 in 2021 and 2020	716,090	406,289
Government grants receivable	141,308	177,996
Contributions receivable, net (Note 5)	6,222,000	6,324,000
Other receivables	1,479,516	552,730
Inventories, prepaid expenses and other assets	1,157,955	966,519
Investments:		
Short-term investments	1,088,211	5,518,108
Marketable securities	9,855,292	9,362,852
Mortgages and contracts receivable	1,916,000	1,916,000
Real estate	280,000	280,000
Endowment (Note 6)	202,255,824	163,834,637
Beneficial interest in funds held in trust	2,526,212	2,074,636
Cash surrender value of life insurance	5,521,589	5,323,434
Student notes receivable, net (Note 8)	4,269,632	5,222,765
Cash restricted for plant acquisitions	5,508,601	4,919,416
Construction in progress (Note 9)	194,765	988,862
Property, plant and equipment, net (Note 10)	64,723,816	67,470,188
Total assets	$ 330,104,834	$ 292,010,961
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,769,350	$ 1,473,602
Accrued liabilities (Note 11)	8,463,385	9,378,375
Deferred revenue	707,144	616,235
Asset retirement obligations (Note 1)	2,877,461	2,741,315
Interest rate swap liability (Note 13)	1,074,960	1,709,426
Long-term debt (Note 12)	21,955,248	23,438,184
Annuities payable	4,246,114	4,275,642
Deposits held in custody for others	656,905	514,344
Government grants refundable (Note 8)	2,937,773	4,080,445
Total liabilities	44,688,340	48,227,568
Net Assets		
Without donor restrictions (Note 3)	90,478,925	87,527,773
With restrictions (Note 3)	194,937,569	156,255,620
Total net assets	285,416,494	243,783,393
Total liabilities and net assets	$ 330,104,834	$ 292,010,961

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities
Year Ended May 31, 2021 (With Comparative Totals for 2020)

	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total	2020 Total
Operating Revenues				
Revenues, gains and other support:				
Tuition and fees, net of scholarships of $51,910,851 and $53,022,451 respectively for May 31, 2021 and 2020	$ 27,303,611	$ -	$ 27,303,611	$ 30,975,297
Government grants and contracts	3,393,477	64,491	3,457,968	2,715,406
Private gifts and grants	5,879,172	-	5,879,172	6,495,072
Investment income	118,231	-	118,231	370,613
Spending allowance appropriation	7,446,157	389,361	7,835,518	7,424,752
Other sources	1,143,634	5,647	1,149,281	1,974,161
Subsidiary	210,536	-	210,536	171,124
Sales and services of educational activities	208,167	-	208,167	615,195
Sales and services of auxiliary enterprises	17,944,579	-	17,944,579	17,069,511
Transfer from/(to) nonoperating	(1,336,688)	-	(1,336,688)	798,076
	62,310,876	459,499	62,770,375	68,609,207
Net assets released from restrictions	433,501	(433,501)	-	-
Total revenues, gains and other support	62,744,377	25,998	62,770,375	68,609,207
Operating Expenses				
Program expenses:				
Instruction	24,261,260	-	24,261,260	28,027,902
Research	318,648	-	318,648	400,539
Public service	290,707	-	290,707	390,956
Academic support	4,037,276	-	4,037,276	4,050,737
Student services	12,369,017	-	12,369,017	14,062,497
Auxiliary enterprises	13,159,668	-	13,159,668	13,438,514
Support expenses:				
Institutional support	10,543,386	-	10,543,386	11,457,223
Subsidiary	386,398	-	386,398	391,087
Allocable expenses:				
Operation and maintenance of plant	7,812,615	-	7,812,615	8,236,364
Depreciation and amortization	5,985,970	-	5,985,970	6,349,650
Accretion	143,531	-	143,531	136,741
Interest	671,464	-	671,464	770,682
Less allocated expenses	(14,613,580)	-	(14,613,580)	(15,493,437)
Total expenses	65,366,360	-	65,366,360	72,219,455
Change in net assets from operating activities	(2,621,983)	25,998	(2,595,985)	(3,610,248)
Nonoperating Activities				
Gifts and grants	250,745	5,896,257	6,147,002	3,699,440
Endowment income	359,909	2,540,163	2,900,072	3,038,616
Gain on investments	3,538,088	34,961,034	38,499,122	4,233,005
Spending allowance appropriation	(789,981)	(7,045,537)	(7,835,518)	(7,424,752)
Gain (loss) on investments (FHIT)	-	290,743	290,743	(36,777)
Actuarial adjustment	175,980	2,080,531	2,256,511	458,736
Gain (loss) on swap agreement	634,466	-	634,466	(1,192,798)
Transfer from/(to) nonoperating	1,336,688	-	1,336,688	(798,076)
Donor redesignation of net assets	-	-	-	-
Net assets released from restrictions	67,240	(67,240)	-	-
Change in net assets from nonoperating activities	5,573,135	38,655,951	44,229,086	1,977,394
Change in net assets	2,951,152	38,681,949	41,633,101	(1,632,854)
Net Assets, Beginning	87,527,773	156,255,620	243,783,393	245,416,247
Net Assets, Ending	$ 90,478,925	$ 194,937,569	$ 285,416,494	$ 243,783,393

See notes to consolidated financial statements

Luther College

Consolidated Statements of Activities
Year Ended May 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Revenues, gains and other support:			
Tuition and fees, net of scholarships of $53,022,451	$ 30,975,297	$ -	$ 30,975,297
Government grants and contracts	2,625,801	89,605	2,715,406
Private gifts and grants	6,495,072	-	6,495,072
Investment income	370,613	-	370,613
Spending allowance appropriation	7,046,800	377,952	7,424,752
Other sources	1,972,650	1,511	1,974,161
Subsidiary	171,124	-	171,124
Sales and services of educational activities	615,195	-	615,195
Sales and services of auxiliary enterprises	17,069,511	-	17,069,511
Transfer from nonoperating	798,076	-	798,076
	68,140,139	469,068	68,609,207
Net assets released from restrictions	658,105	(658,105)	-
Total revenues, gains and other support	68,798,244	(189,037)	68,609,207
Operating Expenses			
Program expenses:			
Instruction	28,027,902	-	28,027,902
Research	400,539	-	400,539
Public service	390,956	-	390,956
Academic support	4,050,737	-	4,050,737
Student services	14,062,497	-	14,062,497
Auxiliary enterprises	13,438,514	-	13,438,514
Support expenses:			
Institutional support	11,457,223	-	11,457,223
Subsidiary	391,087	-	391,087
Allocable expenses:			
Operation and maintenance of plant	8,236,364	-	8,236,364
Depreciation and amortization	6,349,650	-	6,349,650
Accretion	136,741	-	136,741
Interest	770,682	-	770,682
Less allocated expenses	(15,493,437)	-	(15,493,437)
Total expenses	72,219,455	-	72,219,455
Change in net assets from operating activities	(3,421,211)	(189,037)	(3,610,248)
Nonoperating Activities			
Gifts and grants	880,202	2,819,238	3,699,440
Endowment income	419,412	2,619,204	3,038,616
Gain on investments	769,107	3,463,898	4,233,005
Spending allowance appropriation	(756,852)	(6,667,900)	(7,424,752)
Loss on investments (FHIT)	-	(36,777)	(36,777)
Actuarial adjustment	126,360	332,376	458,736
Loss on swap agreement	(1,192,798)	-	(1,192,798)
Transfer to nonoperating	(798,076)	-	(798,076)
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
Change in net assets	(3,574,878)	1,942,024	(1,632,854)
Net Assets, Beginning	91,102,651	154,313,596	245,416,247
Net Assets, Ending	$ 87,527,773	$ 156,255,620	$ 243,783,393

See notes to consolidated financial statements

Luther College

Consolidated Statements of Cash Flows
Years Ended May 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	$ 41,633,101	$ (1,632,854)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	6,129,501	6,486,391
Loss on disposal of property	-	10,768
Loss on interest rate swap valuation	(634,466)	1,192,798
Gain on investments, net	(40,243,844)	(3,982,074)
Change in beneficial interest in funds held in trust	(451,576)	36,777
Actuarial adjustment of annuities payable	56,655	(414,520)
Loan cancellations, reinstatements and write-offs	107,561	40,822
Changes in assets and liabilities:		
Student accounts receivable	(309,801)	(86,677)
Contributions receivable for operations	1,606,000	(270,000)
Government grants and other receivables	(890,098)	(32,962)
Inventories, prepaid expenses and other assets	(389,591)	188,441
Accounts payable and accrued liabilities	(604,918)	826,694
Deferred revenue and deposits held in custody for others	233,470	(398,934)
Asset retirement obligation	(7,385)	-
Contributions restricted for loans, long-term investment and plant	(6,147,002)	(3,699,440)
Investment income restricted for reinvestment	(379,962)	(399,407)
Cash flows from operating activities	(292,355)	(2,134,177)
Cash Flows From Investing Activities		
Purchases of investments	(37,111,613)	(25,478,589)
Sales of investments	45,565,180	30,235,866
Purchases of property, plant and equipment	(2,446,149)	(1,525,964)
Disbursements of loans to students	(122,834)	(551,101)
Repayments of loans from students	968,406	1,069,538
Cash flows from investing activities	6,852,990	3,749,750
Cash Flows From Financing Activities		
Payments of principal on indebtedness	(1,496,612)	(1,524,504)
Change in capital lease obligations, net	-	(256,846)
Receipt of investment income restricted for reinvestment	379,962	399,407
Contributions and grants received restricted for loans, long-term investment and plant	4,643,002	3,879,440
Change in government grants refundable	(1,142,672)	(961,185)
Proceeds from issuance of split-interest agreements	25,000	30,000
Payments to annuitants	(111,183)	(175,484)
Cash flows from financing activities	2,297,497	1,390,828
Change in cash and cash equivalents	8,858,132	3,006,401
Cash, Cash Equivalents and Restricted Cash, Beginning	24,716,126	21,709,725
Cash, Cash Equivalents and Restricted Cash, Ending	$ 33,574,258	$ 24,716,126
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Consolidated Statements of Financial Position		
Cash and cash equivalents	$ 22,248,023	$ 16,672,529
Cash restricted for plant acquisitions	5,508,601	4,919,416
Cash and cash equivalents without donor restrictions included in long-term investments	5,817,634	3,124,181
Cash, Cash Equivalents and Restricted Cash, Ending	$ 33,574,258	$ 24,716,126
Supplemental Disclosures of Cash Flow Information		
Interest paid, net of capitalized amounts of $44,400 in 2021 and $2,300 in 2020	$ 678,172	$ 775,517
Payments on swap settlements	$ 344,670	$ 76,514
Noncash Investment and Financing Activities		
Property, plant and equipment acquired through accounts payable	$ -	$ 14,324

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 donor restrictions when expenses are incurred for their intended purpose. Expenses are reported as decreases in net assets without donor restrictions.

Unconditional contributions, including 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 $450,000 and $600,000 at May 31, 2021 and 2020, 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 consolidated statements of financial position. The College received cost-reimbursable grants of approximately $3,894,000 that have not been recognized at May 31, 2021 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 I). 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 was awarded $1,380,684 of HEERF I funding. As of May 31, 2020, the $690,342 student relief portion of the grant was expended and recognized as government grants and contracts revenue and student services expense. As of May 31, 2020, the institutional portion of the grant was expended on room and board refunds, reducing sales and services of auxiliary enterprise revenue and recognized as government grants and contracts revenue. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), which authorized the Higher Education Emergency Relief Fund II (HEERF II), was signed into law. In total, the CRRSAA authorizes $81.88 billion in support for education, in addition to the $30.75 billion expeditiously provided last spring through the CARES Act. Congress expanded the allowable uses for supplemental awards and new awards made under the CRRSAA and for unspent CARES Act funds, subject to certain limitations. In addition, the CRRSAA requires that an institution receiving funding provide the same amount in financial aid grants to students from the new CRRSAA funds that it was required or which it would have been required to provide under its original CARES Act Student Aid Portion award. The College was awarded $2,050,589 of HEERF II funding. As of May 31, 2021, the student relief portion of the grant ($690,342) was expended and recognized as government grants and contracts revenue and student services expense. The remaining portion of the HEERF II Grant award ($1,360,247) was received and recognized as government grants and contracts revenue during the year ended May 31, 2021 as the barriers to recognition were met during the fiscal year. 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 revenues with donor restrictions; 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 consolidated statements 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, 2021 and 2020 are as follows:

	2021	2020
Balance, beginning	$ 2,741,315	$ 2,604,574
Abatements	(7,385)	-
Accretion expense	143,531	136,741
Balance, ending	$ 2,877,461	$ 2,741,315

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.

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, actuarial adjustments and changes in fair value of the interest rate swap. The net transfer line item includes $14,193 and $1,912,88 transferred from quasi-endowment to operations; $0 and $92,867 transferred to operations from matured deferred gifts; $200,000 and $507,749 of contributions Board designated to the plant fund for special projects; and $1,150,881 and $699,923 transferred to the plant fund for capital projects, for the years ended May 31, 2021 and 2020, respectively.

Revenue Recognition

Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load within the first 10 days of the semester or withdraw completely approximately within the first five weeks of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. Services are billed approximately June 15 for fall semester, approximately November 20 for the spring semester. Payments plan arrangements are due the first of the following month. Full semester payments are due August 10 for fall semester and January 10 for spring semester. The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied with the completion of the current academic year. The College determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the College's policies.

The College also provides auxiliary services, such as residence, dining and bookstore services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the College after the first day of class receive no room refund. Students that withdraw from the College may receive a prorated board refund in accordance with the college's board refund policy. Books are returnable until the last day to add or drop a course as identified by the add/drop date of the College calendar for each semester. Refunds issued reduce the amount of revenue recognized.

Fund-Raising and Advertising Expenses

Fund-raising expenses totaled approximately $2,199,000 and $2,291,000 for the years ended May 31, 2021 and 2020, respectively. Advertising expenses totaled approximately $680,000 and $639,000 for the years ended May 31, 2021 and 2020, 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, 2021 and 2020, Luther College Ventures, Inc. had carryforward losses and tax deductions in excess of financial statement expenses. Income tax benefits of $70,000 and $100,000 in 2021 and 2020, 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, 2021 and 2020. 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. There have been no such losses during the years ended May 31, 2021 and 2020.

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 Adopted in the Current Year

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The College adopted this guidance beginning June 1, 2020, using the modified retrospective approach. 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. Certain amounts appearing in the 2020 statement of activities have been reclassified to conform with the 2021 presentation. The reclassifications had no effect on the reporting amounts of total net assets or the change in total net assets.

New Accounting Pronouncement Not Yet Effective

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.

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 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, 2021 and 2020.

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, 2021:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
U.S. equity funds	$ 55,229,460	$ 55,229,460	$ -	$ -
Non-U.S. equity funds	47,943,087	47,943,087	-	-
U.S. fixed income funds	37,993,459	37,993,459	-	-
Non-U.S. fixed income funds	372,400	372,400	-	-
Private debt	4,364,893	-	-	4,364,893
Beneficial interest in funds held in trust	2,526,212	-	-	2,526,212
Total assets by valuation hierarchy	148,429,511	$ 141,538,406	$ -	$ 6,891,105
Investments measured using NAV:				
Alternative investments:				
Hedge funds	11,359,108			
Private equity funds	11,485,043			
Funds of funds	26,677,732			
Real asset funds	4,588,669			
Total assets by NAV	54,110,552			
Total assets at fair value	202,540,063			
Investments at cost:				
Short-term investments	1,088,211			
Short-term endowment investments	12,093,684			
Real estate investments	280,000			
Real estate endowment investments	6			
Mortgage and contract receivable	1,916,000			
Equity operating investment	3,575			
	15,381,476			
Total investments	$ 217,921,539			
Liabilities:				
Interest rate exchange agreements	$ 1,074,960	$ -	$ 1,074,960	$ -

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 asset funds	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 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, 2021.

	Balances May 31, 2020	Net Realized and Unrealized Gains Included in Change in Net Assets	Purchases	Sales	Net Transfers In (Out) of Level 3	Balances May 31, 2021
Beneficial interest in funds held in trust	$ 2,074,636	$ 290,742	$ 160,834	$ -	$ -	$ 2,526,212
Private debt	4,097,600	267,293	-	-	-	4,364,893
Total	$ 6,172,236	$ 558,035	$ 160,834	$ -	$ -	$ 6,891,105

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)	$ 6,172,236

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 Asset Funds	Hedge Funds and Funds of Funds	Funds of Funds, Balanced Fund With Options Strategy
Fair value, May 31, 2021	$ 11,485,043	$ 4,588,669	$ 26,544,001	$ 11,492,839
Fair value, May 31, 2020	$ 8,030,440	$ 4,733,307	$ 15,499,882	$ 9,251,066
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 12 years	0 to 11 years	N.A.	N.A.
Dollar amount of unfunded commitments	$ 12,648,409	$ 4,635,146	None	None
Timing to draw down commitments	0 to 12 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.	N.A.	None	None

3. Restrictions and Limitations on Net Asset Balances

At May 31, 2021 and 2020, the College's net assets without donor restrictions were allocated as follows:

	2021	2020
Operations	$ 13,007,979	$ 11,749,275
Long-term investment (board designated endowment funds)	24,451,953	21,029,165
Long-term investment (management designated endowment funds)	3,442,048	3,771,012
Annuity, life income and similar funds	1,758,096	1,582,116
Loans to students	2,819,785	2,635,732
Replacement of plant facilities	280,837	795,654
Contributions receivable	-	1,077,000
Board designated for special projects	1,696,614	1,630,847
Net investment in plant	43,021,613	43,256,972
Total	$ 90,478,925	$ 87,527,773

Net assets with donor restrictions consist of the following at May 31, 2021 and 2020:

	2021	2020
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support - operating	$ 1,241,714	$ 1,037,019
Scholarships, instruction and other support - endowment	174,295,505	138,318,687
Acquisition of buildings and equipment	1,066,549	519,199
	176,603,768	139,874,905
Annuity, life income and similar funds	9,155,950	8,635,088
Beneficial interest in funds held in trust - endowment	1,783,507	1,482,571
Beneficial interest in funds held in trust - deferred gifts	742,705	592,065
Loans to students	429,639	423,991
Contributions receivable	6,222,000	5,247,000
Total	$ 194,937,569	$ 156,255,620

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended May 31, 2021 and 2020 by incurring expenses, satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2021	2020
Operating:		
Scholarships, instruction and other departmental support	$ 433,501	$ 658,105
Nonoperating:		
Matured deferred gifts	-	76,493
Acquisition of land, building and equipment	67,240	23,451
Total	$ 500,741	$ 758,049

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, 2021 and 2020:

	2021	2020
Without donor restrictions, completed plant projects	$ -	$ 1,184,000
With donor restrictions:		
Operations	1,777,000	2,367,000
Plant projects	388,000	358,000
Endowment	4,590,000	3,006,000
Gross unconditional promises to give	6,755,000	6,915,000
Less unamortized discount	(208,000)	(258,000)
Less allowance for uncollectible accounts	(325,000)	(333,000)
Net unconditional promises to give	$ 6,222,000	$ 6,324,000
Amounts due in:		
Less than one year	$ 2,889,000	
One to five years	3,866,000	
Total	$ 6,755,000	

At May 31, 2021 and 2020, respectively, promises due in one to five years were discounted using historical interest rates ranging between 6.0 percent and 1.30 percent. Promises due in less than one year were not discounted.

Net unconditional promises to give at May 31, 2021 and 2020 include $1,091,000 and $1,655,000, respectively, due from Cabinet members and Board members. The College received gifts and pledge payments from Board members and officers of $472,000 and $849,000, respectively, for the years ended May 31, 2021 and 2020.

6. Endowment Investments

The following summarizes the College's endowment investments at May 31, 2021 and 2020:

	2021	2020
Cash and short-term investments	$ 12,093,684	$ 12,634,988
Mutual funds	131,686,689	109,587,348
Private debt	4,364,893	4,097,600
Real estate, at cost	6	6
Alternative investments	54,110,552	37,514,695
Total	$ 202,255,824	$ 163,834,637

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, 2021 and 2020.

	2021	2020
Cash and cash equivalents	$ 22,248,023	$ 16,672,529
Student accounts receivable, net of allowance for doubtful accounts	716,090	406,289
Government grants receivable	141,308	177,996
Contributions receivable	968,000	1,615,000
Other receivables	1,278,528	304,229
Investments:		
Short-term investments	1,070,671	5,517,151
Endowment:		
Spending rate appropriations for the next fiscal year	7,835,518	7,424,752
Management designated quasi-endowment for the next fiscal year	3,440,347	3,753,604
Cash designated by management for plant acquisitions	2,841,434	2,871,301
Financial assets available to meet cash needs for general expenditures within one year	$ 40,539,919	$ 38,742,851

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 $24,451,953 and $21,029,165 as of May 31, 2021 and 2020, 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, 2021 and 2020, student loans represented 1.3 percent and 1.8 percent of total assets, respectively.

At May 31, 2021 and 2020, student loans consisted of the following:

	2021	2020
Federal government programs	$ 3,385,857	$ 4,372,556
Institutional programs	1,378,775	1,345,209
	4,764,632	5,717,765
Less allowance for doubtful accounts:		
Beginning of year	(495,000)	(495,000)
Increases	(107,561)	(23,422)
Write-offs	107,561	23,422
End of year	(495,000)	(495,000)
Student notes receivable, net	$ 4,269,632	$ 5,222,765

Funds advanced by the federal government of $2,937,773 and $4,080,445 at May 31, 2021 and 2020, 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, 2021, the College continues to service the Perkins Loan Program. During the years ending May 31, 2021 and 2020, the College returned $956,258 and $717,947 in excess cash to the government, respectively, which reduced the government grants refundable.

At May 31, 2021 and 2020, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-59 Days	60-89 Days	90+ Days	Total
2021	$ 55,606	$ 57,377	$ 679,429	$ 792,412
2020	$ 59,418	$ 165,274	$ 716,589	$ 941,281

9. Construction in Progress

At May 31, 2021, the following construction projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Source
Main renovation	12,800,000	$ 86,267	Operations and gifts
Regents Center	Undetermined	108,498	Operations and gifts
Total		$ 194,765	

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of May 31, 2021 and 2020:

	2021	2020
Land	$ 663,581	$ 663,581
Buildings	140,115,907	140,120,528
Improvements other than buildings	17,369,709	14,927,600
Wind turbine	3,237,495	3,237,495
Equipment and library books	38,118,593	37,755,677
	199,505,285	196,704,881
Less accumulated depreciation	(134,781,469)	(129,234,693)
Total	$ 64,723,816	$ 67,470,188

11. Accrued Liabilities

Accrued liabilities consisted of the following as of May 31, 2021 and 2020:

	2021	2020
Payroll	$ 5,314,137	$ 5,172,232
Post-retirement benefit obligation (Note 16)	2,392,000	2,409,000
Interest	71,015	77,722
Other	686,233	1,719,421
Total	$ 8,463,385	$ 9,378,375

12. Long-Term Debt and Line of Credit

Long-term debt outstanding at May 31, 2021 and 2020 are as follows:

	2021	2020
Iowa Higher Education Loan Authority, Private College Facility Revenue Refunding Bonds, Series 2017	$ 17,105,083	$ 18,152,333
Decorah Bank & Trust Company loan payable	-	6,466
Decorah Bank & Trust Company loan payable	23,216	139,064
Bonds, Series 2015	4,905,243	5,232,291
Principal outstanding	22,033,542	23,530,154
Deferred debt acquisition costs, net	(78,294)	(91,970)
Total long-term debt	$ 21,955,248	$ 23,438,184

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, 2021, 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, 2021, 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 1.127 percent and 1.348 percent as of May 31, 2021 and 2020, 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, 2021, 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:	
2022	$ 1,397,514
2023	1,374,298
2024	1,374,298
2025	1,374,298
2026	1,374,298
Thereafter	15,138,836
Total	$ 22,033,542

The College has a $5,000,000 unsecured line of credit with a bank with an expiration date of January 4, 2022. The interest rate on the line of credit is 0.70% below the prime rate with a 3.25% floor. The College has not drawn on the line of credit.

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 2021 and 2020, the College paid $344,497 and $104,770, 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 consolidated statements of activities.

As of May 31, 2021, 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	$ 17,105,083	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, 2021 and 2020 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative: Statement of Financial Position Location	Fair Value 2021	Fair Value 2020
Interest rate swap	Interest rate swap liability	$ 1,074,960	$ 1,709,426

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 Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities 2021	2020
Interest rate swap	Gain (loss) of swap agreement	$ 634,466	$ (1,192,798)

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, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 121,590,596	$ 121,590,596
Donor-restricted accumulated earnings	-	52,704,909	52,704,909
Donor-restricted funds held in trust	-	1,783,507	1,783,507
Board-designated endowment funds	27,894,001	-	27,894,001
Contributions receivable	-	4,219,000	4,219,000
Total endowment net assets	$ 27,894,001	$ 180,298,012	$ 208,192,013

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

Changes in endowment net assets for the year ended May 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2020	$ 24,800,177	$ 142,545,256	$ 167,345,433
Investment return:			
Investment income	359,909	2,540,163	2,900,072
Net appreciation, realized and unrealized	3,538,088	34,961,034	38,499,122
Net appreciation, realized and unrealized funds held in trust	-	300,935	300,935
Total investment return	3,897,997	37,802,132	41,700,129
Contributions	-	3,951,548	3,951,548
Matured deferred gifts	-	1,569,613	1,569,613
Change in contributions receivable	-	1,475,000	1,475,000
Appropriation of endowment assets for expenditure	(789,981)	(7,045,537)	(7,835,518)
Other changes:			
Transfer to operating reserve	(14,192)	-	(14,192)
Endowment net assets, May 31, 2021	$ 27,894,001	$ 180,298,012	$ 208,192,013

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 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

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, 2021, funds with original gift values of $118,731 and fair values of $104,753 and deficiencies of $13,978 were reported in net assets with donor restrictions. 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. 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, 2021 and 2020 include the following:

	2021	2020
Endowment investments (Note 6)	$ 202,255,824	$ 163,834,637
Funds held in trust	1,783,507	1,482,571
Contributions receivable	4,219,000	2,744,000
Interest receivable	35,066	31,960
Interfund balance (due to operating)	(101,384)	(747,735)
Total endowment net assets	$ 208,192,013	$ 167,345,433

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 .6 percent to 10.2 percent in making the calculation at May 31, 2021 and 2020.

During the years ended May 31, 2021 and 2020, the College received gift income relating to deferred gift agreements of $9,945 and $11,198, respectively. Total assets (marketable securities, real estate and cash value of life insurance) held by the College under deferred gift agreements were $15,546,483 and $14,841,651 at May 31, 2021 and 2020, 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 $158,000 and $1,351,000 for the years ended May 31, 2021 and 2020, respectively. Contributions were suspended for the period June 1, 2020 through May 31, 2021.

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 consolidated financial statements at May 31, 2021 and 2020:

	2021	2020
Total Expected Benefit Obligation Earned to Date, Based on Service		
Current retirees and dependents:		
Pre-65 payments	$ 198,000	$ 200,000
Post-65 payments	1,077,000	1,172,000
Active employees:		
Pre-65 payments	1,059,000	977,000
Post-65 payments	58,000	60,000
Benefit obligation at end of year	$ 2,392,000	$ 2,409,000
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	$ 2,409,000	$ 2,375,000
Net benefits earned	115,000	123,000
Expected benefit payments	(94,000)	(147,000)
Total loss (gain)	(38,000)	58,000
Benefit obligation at end of year	$ 2,392,000	$ 2,409,000
Change in Plan Assets		
Fair value of plan assets at beginning of year	$	$ -
Employer contribution	94,000	147,000
Participant contribution:		
Benefits paid	(94,000)	(147,000)
Fair value of plan assets at end of year	$ -	$ -
Funded Status		
Underfunded status at year end	$ (2,392,000)	$ (2,409,000)

	2021	2020
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	(94,000)	(147,000)
Noncurrent liabilities	(2,298,000)	(2,262,000)
Net amount recognized in accrued liabilities	$ (2,392,000)	$ (2,409,000)
Weighted Average Assumptions Used to Calculate the Benefit Obligation at May 31		
Discount rate	2.6%	2.2%
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%	4.2%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.7%	3.7%
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	Decrease
Effect on postretirement benefit obligation at May 31, 2021	$ 230,000	$ (267,000)

Annual premium payments were approximately $70,000 and $67,000 for the years ended May 31, 2021 and 2020, respectively. During the fiscal year ending May 31, 2022, 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, 2021 are as follows:

Years ending May 31:	
2022	$ 119,000
2023	131,000
2024	149,000
2025	166,000
2026	143,000
2027 - 2041	2,505,000

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 consolidated 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 consolidated statement of activities are summarized by natural classification for the year ended May 31, 2021:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	$ 22,029,552	$ 4,385,650	$ 26,415,202
Employee benefits	8,947,647	1,735,737	10,683,384
Student employment	1,954,044	109,343	2,063,387
Supplies and other operating expenses	2,918,548	2,252,389	5,170,937
Services and events	8,727,939	1,514,682	10,242,621
Occupancy and maintenance	3,216,330	263,586	3,479,916
Travel	461,198	48,750	509,948
Depreciation, amortization and accretion	5,522,683	606,818	6,129,501
Interest	658,635	12,829	671,464
Total expenses	$ 54,436,576	$ 10,929,784	$ 65,366,360

Expenses reported by function on the consolidated 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

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 56 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 14.5 and a total risk-based capital ratio of 15.8. 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. Department of Education Financial Responsibility Information

The Department of Education (ED) revised the regulations for financial responsibility which are required to be implemented for reports issued after July 1, 2020. The regulations require the College to provide additional disclosures, including a financial responsibility supplemental schedule, to assist ED in measuring financial responsibility through the composite score of financial ratios. The financial responsibility supplemental schedule must contain all the composite score of financial ratios, with a cross-reference to the financial statement line or note that contains the element.

Note 3 provides information on the Colleges net assets with donor restrictions but does not provide a breakdown of those net assets restricted in perpetuity. The following table provides a breakdown of those net assets restricted in perpetuity by the donor.

Annuities with donor restrictions:	
Annuity, life income and similar funds	$ 959,278
Funds held in trust	42,305
Total annuities with donor restrictions	$ 1,001,583
Net assets with donor restrictions – restricted in perpetuity:	
Donor restricted endowment fund	$ 121,590,596
Donor restricted funds held in trust	2,483,907
Donor restricted contributions receivable	4,219,000
Donor restricted annuity, life income and similar funds	8,196,672
Total net assets with donor restrictions – restricted in perpetuity	$ 136,490,175

Note 10 provides information on the Colleges property, plant and equipment, net, but does not provide a breakout by the implementation date on July 1, 2019. The following table provides a breakdown of property, plant and equipment, net, at May 31, 2021 based on the July 1, 2019 implementation date.

Pre-implementation:	
Land, buildings and equipment, net	$ 59,101,102
Post-implementation:	
Land, buildings and equipment, net with outstanding debt for original purchase	-
Land, buildings and equipment, net without outstanding debt for original purchase	5,622,714
Construction in progress	194,765
Total land, buildings and equipment, net	$ 64,918,581

The consolidated statement of activities provides information on the Colleges revenues and expenses without donor restrictions, but does not provide a total of those activities consistent with the ED calculation. The following table provides a breakdown of those nonoperating revenue and other gains without donor restrictions for the year ended May 31, 2021.

Gifts and grants	$ 250,745
Endowment income	359,909
Gain on investments	3,538,088
Actuarial adjustment	175,980
Gain on swap agreement	634,466
Transfer from (to) nonoperating	1,336,688
Net assets released from restrictions	67,240
Total nonoperating revenue and other gains	$ 6,363,116

20. Subsequent Events

Luther College has evaluated subsequent events through September 9, 2021, which is the date that the financial statements were issued.