

Luther College

Consolidated Financial Statements

May 31, 2023 and 2022

Luther College

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Independent Auditors' Report

To the Board of Regents of
Luther College

Opinion

We have audited the consolidated financial statements of Luther College (the College), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022 and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the College as of May 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern within one year after the date that the consolidated financial statements were issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Minneapolis, Minnesota
September 12, 2023

Luther College

Consolidated Statements of Financial Position May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 16,127,510	\$ 26,182,841
Student accounts receivable, net of allowance for doubtful accounts of \$300,000 in 2023 and \$200,000 in 2022	502,858	642,728
Government grants receivable	412,654	657,678
Contributions receivable, net (Note 5)	2,084,000	5,687,000
Other receivables	1,497,403	473,519
Inventories, prepaid expenses and other assets	1,107,796	1,224,781
Investments:		
Short-term investments	6,210,792	1,234,274
Marketable securities	7,958,930	8,894,824
Mortgages and contracts receivable	1,500,000	1,500,000
Endowment (Note 6)	192,956,906	192,336,631
Beneficial interest in funds held in trust	2,588,310	2,659,178
Cash surrender value of life insurance	5,497,312	5,426,347
Student notes receivable, net (Note 8)	2,157,220	3,128,691
Interest rate swap asset (Note 13)	596,774	140,865
Cash restricted for plant acquisitions	6,662,289	6,744,853
Construction in progress (Note 9)	1,369,549	302,086
Property, plant and equipment, net (Note 10)	56,693,534	60,287,965
	<u>\$ 305,923,837</u>	<u>\$ 317,524,261</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,535,267	\$ 1,950,545
Accrued liabilities (Note 11)	8,403,152	8,344,830
Deferred revenue	1,017,637	904,522
Asset retirement obligations (Note 1)	3,187,525	3,028,528
Long-term debt (Note 12)	19,208,303	20,570,168
Annuities payable	3,277,214	3,756,889
Deposits held in custody for others	576,091	613,359
Government grants refundable (Note 8)	889,151	1,948,819
	<u>39,094,340</u>	<u>41,117,660</u>
Net Assets		
Without donor restrictions (Note 3)	84,560,912	89,800,602
With restrictions (Note 3)	182,268,585	186,605,999
	<u>266,829,497</u>	<u>276,406,601</u>
	<u>\$ 305,923,837</u>	<u>\$ 317,524,261</u>

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities

Year Ended May 31, 2023 (With Comparative Totals for 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenues				
Revenues, gains and other support:				
Tuition and fees, net of scholarships of \$51,226,844 and \$52,171,646 respectively, for May 31, 2023 and 2022	\$ 23,971,989	\$ -	\$ 23,971,989	\$ 25,752,853
Government grants and contracts	1,112,051	73,609	1,185,660	4,936,693
Private gifts and grants	4,831,867	552,121	5,383,988	7,384,309
Investment income	835,287	-	835,287	48,567
Spending allowance appropriation	8,136,122	421,407	8,557,529	8,486,527
Other sources	2,298,965	5,196	2,304,161	1,704,215
Subsidiary	175,158	-	175,158	178,894
Sales and services of educational activities	1,984,014	-	1,984,014	650,201
Sales and services of auxiliary enterprises	17,446,678	-	17,446,678	17,769,440
Transfer from (to) nonoperating	3,082,101	(90,000)	2,992,101	(2,293,450)
	<u>63,874,232</u>	<u>962,333</u>	<u>64,836,565</u>	<u>64,618,249</u>
Net assets released from restrictions	1,835,183	(1,835,183)	-	-
Total revenues, gains and other support	<u>65,709,415</u>	<u>(872,850)</u>	<u>64,836,565</u>	<u>64,618,249</u>
Operating Expenses				
Program expenses:				
Instruction	26,270,385	-	26,270,385	24,484,455
Research	281,045	-	281,045	220,671
Public service	176,530	-	176,530	297,204
Academic support	3,983,028	-	3,983,028	3,923,641
Student services	13,095,078	-	13,095,078	13,746,637
Auxiliary enterprises	13,331,884	-	13,331,884	13,290,628
Support expenses:				
Institutional support	12,107,875	-	12,107,875	11,473,199
Subsidiary	111,121	-	111,121	226,632
Allocable expenses:				
Operation and maintenance of plant	8,018,250	-	8,018,250	7,442,654
Depreciation and amortization	5,450,968	-	5,450,968	5,708,656
Accretion	158,998	-	158,998	151,067
Interest	611,786	-	611,786	669,390
Less allocated expenses	(14,240,002)	-	(14,240,002)	(13,971,767)
Total expenses	<u>69,356,946</u>	<u>-</u>	<u>69,356,946</u>	<u>67,663,067</u>
Change in net assets from operating activities	<u>(3,647,531)</u>	<u>(872,850)</u>	<u>(4,520,381)</u>	<u>(3,044,818)</u>
Nonoperating Activities				
Gifts and grants	140,878	4,012,502	4,153,380	4,766,948
Endowment income	570,463	3,211,135	3,781,598	3,532,622
Loss on investments	(159,446)	(1,575,932)	(1,735,378)	(9,136,688)
Spending allowance appropriation	(795,394)	(7,762,135)	(8,557,529)	(8,486,527)
(Loss) gain on investments (FHIT)	-	(70,868)	(70,868)	132,966
Actuarial adjustment	66,575	(158,309)	(91,734)	(283,671)
Gain on swap agreement	455,909	-	455,909	1,215,825
Transfer (to) from operating	(2,992,101)	-	(2,992,101)	2,293,450
Net assets released from restrictions	1,120,957	(1,120,957)	-	-
Change in net assets from nonoperating activities	<u>(1,592,159)</u>	<u>(3,464,564)</u>	<u>(5,056,723)</u>	<u>(5,965,075)</u>
Change in net assets	<u>(5,239,690)</u>	<u>(4,337,414)</u>	<u>(9,577,104)</u>	<u>(9,009,893)</u>
Net Assets, Beginning	<u>89,800,602</u>	<u>186,605,999</u>	<u>276,406,601</u>	<u>285,416,494</u>
Net Assets, Ending	<u>\$ 84,560,912</u>	<u>\$ 182,268,585</u>	<u>\$ 266,829,497</u>	<u>\$ 276,406,601</u>

See notes to consolidated financial statements

Luther CollegeConsolidated Statement of Activities
Year Ended May 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Revenues, gains and other support:			
Tuition and fees, net of scholarships of \$52,171,646	\$ 25,752,853	\$ -	\$ 25,752,853
Government grants and contracts	4,869,332	67,361	4,936,693
Private gifts and grants	6,821,008	563,301	7,384,309
Investment income	48,567	-	48,567
Spending allowance appropriation	8,071,533	414,994	8,486,527
Other sources	1,704,215	-	1,704,215
Subsidiary	178,894	-	178,894
Sales and services of educational activities	650,201	-	650,201
Sales and services of auxiliary enterprises	17,769,440	-	17,769,440
Transfer to nonoperating	(2,293,450)	-	(2,293,450)
	63,572,593	1,045,656	64,618,249
Net assets released from restrictions	911,031	(911,031)	-
Total revenues, gains and other support	64,483,624	134,625	64,618,249
Operating Expenses			
Program expenses:			
Instruction	24,484,455	-	24,484,455
Research	220,671	-	220,671
Public service	297,204	-	297,204
Academic support	3,923,641	-	3,923,641
Student services	13,746,637	-	13,746,637
Auxiliary enterprises	13,290,628	-	13,290,628
Support expenses:			
Institutional support	11,473,199	-	11,473,199
Subsidiary	226,632	-	226,632
Allocable expenses:			
Operation and maintenance of plant	7,442,654	-	7,442,654
Depreciation and amortization	5,708,656	-	5,708,656
Accretion	151,067	-	151,067
Interest	669,390	-	669,390
Less allocated expenses	(13,971,767)	-	(13,971,767)
Total expenses	67,663,067	-	67,663,067
Change in net assets from operating activities	(3,179,443)	134,625	(3,044,818)
Nonoperating Activities			
Gifts and grants	145,196	4,621,752	4,766,948
Endowment income	394,385	3,138,237	3,532,622
Loss on investments	(844,274)	(8,292,414)	(9,136,688)
Spending allowance appropriation	(939,318)	(7,547,209)	(8,486,527)
Gain on investments (FHIT)	-	132,966	132,966
Actuarial adjustment	4,663	(288,334)	(283,671)
Gain on swap agreement	1,215,825	-	1,215,825
Transfer from nonoperating	2,293,450	-	2,293,450
Net assets released from restrictions	231,193	(231,193)	-
Change in net assets from nonoperating activities	2,501,120	(8,466,195)	(5,965,075)
Change in net assets	(678,323)	(8,331,570)	(9,009,893)
Net Assets, Beginning	90,478,925	194,937,569	285,416,494
Net Assets, Ending	\$ 89,800,602	\$ 186,605,999	\$ 276,406,601

See notes to consolidated financial statements

Luther CollegeConsolidated Statements of Cash Flows
Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (9,577,104)	\$ (9,009,893)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	5,609,966	5,859,723
Loss on disposal of property	8,423	-
Gain on interest rate swap valuation	(455,909)	(1,215,825)
Loss on investments, net	2,422,133	10,307,446
Change in beneficial interest in funds held in trust	70,868	(147,762)
Actuarial adjustment of annuities payable	(400,667)	(608,134)
Loan cancellations, reinstatements and write-offs	232,360	106,699
Change in allowance on student notes receivable	-	(157)
Changes in assets and liabilities:		
Student accounts receivable	139,870	73,362
Contributions receivable for operations	668,000	1,000
Government grants and other receivables	(778,860)	489,627
Inventories, prepaid expenses and other assets	46,020	28,416
Accounts payable and accrued liabilities	258,084	62,640
Deferred revenue and deposits held in custody for others	75,847	153,832
Contributions restricted for loans, long-term investment and plant	(4,153,380)	(4,766,948)
Investment income restricted for reinvestment	(481,243)	(460,044)
	<u>(6,315,592)</u>	<u>873,982</u>
Cash flows from operating activities		
	<u>(6,315,592)</u>	<u>873,982</u>
Cash Flows From Investing Activities		
Purchases of investments	(15,370,944)	(37,296,585)
Sales of investments	3,928,529	38,178,730
Repayments of mortgages and contracts receivable	-	416,000
Purchases of property, plant and equipment	(2,535,031)	(1,367,693)
Repayments of loans from students	739,111	1,034,399
	<u>(13,238,335)</u>	<u>964,851</u>
Cash flows from investing activities		
	<u>(13,238,335)</u>	<u>964,851</u>
Cash Flows From Financing Activities		
Payments of principal on indebtedness	(1,374,298)	(1,397,513)
Receipt of investment income restricted for reinvestment	481,243	460,044
Contributions and grants received restricted for loans, long-term investment and plant	7,088,380	5,300,948
Change in government grants refundable	(1,059,668)	(988,954)
Proceeds from issuance of split-interest agreements	11,804	201,935
Payments to annuitants	(90,812)	(83,026)
	<u>5,056,649</u>	<u>3,493,434</u>
Cash flows from financing activities		
	<u>5,056,649</u>	<u>3,493,434</u>
Change in cash and cash equivalents	(14,497,278)	5,332,267
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>38,906,525</u>	<u>33,574,258</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 24,409,247</u>	<u>\$ 38,906,525</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Consolidated Statements of Financial Position		
Cash and cash equivalents	\$ 16,127,510	\$ 26,182,841
Cash restricted for plant acquisitions	6,662,289	6,744,853
Cash and cash equivalents without donor restrictions included in investments	1,619,448	5,978,831
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 24,409,247</u>	<u>\$ 38,906,525</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	<u>\$ 717,097</u>	<u>\$ 347,076</u>
Payments (Receipts) on swap settlements	<u>\$ (96,460)</u>	<u>\$ 325,690</u>
Noncash Investment and Financing Activities		
Property, plant and equipment acquired through accounts payable	<u>\$ 384,960</u>	<u>\$ -</u>

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% 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, which in some cases allow for management designations for endowment, loans to students, investment in property, plant and equipment and other purposes, as disclosed in Note 3.

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 \$150,000 and \$300,000 at May 31, 2023 and 2022, respectively.

Luther College

Notes to Consolidated Financial Statements
May 31, 2023 and 2022

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 met certain performance requirements and/or incurred allowance expenditures in compliance with specific grant or contract provisions. 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 \$597,877 that have not been recognized at May 31, 2023 because qualifying expenditures have not yet been incurred.

On March 11, 2021, the American Rescue Plan (ARP) provided an additional \$39.6 billion in Higher Education Emergency Relief Funds (HEERF III) to support higher education institutions to serve students and ensure learning continues during the COVID-19 pandemic. Institutions received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant is to be used for direct emergency aid to students. For the remaining institutional funds, the College was required to use a portion of the grant to defray expenses associated with coronavirus, implement evidence-based practices to monitor and suppress coronavirus and conduct direct outreach to financial aid applications about the opportunity to receive a financial aid adjustment due to a change in circumstance. The College was awarded \$3,643,649 of HEERF III funding. As of May 31, 2022, \$1,821,825 of the student portion of the grant was expended and recognized as federal grants and student aid expense in fiscal year 2022. The remaining portion of the HEERF III award (\$1,821,824) was received and recognized during the year ended May 31, 2022, 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. There was no HEERF III revenue recorded in 2023.

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 and plant acquisitions.

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.

Investments

Investments in publicly traded securities are stated at fair value based on quoted market prices from national security exchanges. Investments for which quoted prices are not available, are stated at fair value as estimated by management using values provided by external investment managers or general partners. Short term investments, including money market funds and certificates of deposits are recorded at cost. The mortgage and contract receivable was valued at fair value at the date of the contract.

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 as the services are provided. Students are generally billed for courses and programs prior to the start of the course or program. Deferred revenue is typically recognized as revenue in the following fiscal year.

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.

Luther College

Notes to Consolidated Financial Statements
May 31, 2023 and 2022

Changes in the accrual for asset retirement obligations during the years ended May 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning	\$ 3,028,528	\$ 2,877,461
Abatements	-	-
Accretion expense	158,997	151,067
Balance, ending	<u>\$ 3,187,525</u>	<u>\$ 3,028,528</u>

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 consolidated 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. Conditional grants and contributions whose restrictions are met in the same year received, are recorded in net assets without donor restrictions.

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 operating support, actuarial adjustments and changes in fair value of the interest rate swap. The net transfer line item includes (\$3,463,682) and \$1,277,490 transferred from (to) operations to (from) quasi endowment; \$0 and \$21,779 transferred to operations from matured deferred gifts; \$471,581 and \$1,037,739 transferred to the plant fund for capital projects, for the years ended May 31, 2023 and 2022, 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 \$2,348,000 and \$2,063,000 for the years ended May 31, 2023 and 2022, respectively. Advertising expenses totaled approximately \$704,000 and \$717,000 for the years ended May 31, 2023 and 2022, 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 consolidated statements 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, 2023 and 2022, Luther College Ventures, Inc. had carryforward losses and tax deductions in excess of expenses. Income tax benefits/(expense) of \$(30,000) and \$40,000 in 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements Effective in Current Year

In February 2016, the Financial Accounting Standards Board (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). 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 has assessed the impact this standard has on its consolidated financial statements and noted leases are immaterial. The standard was adopted using the modified retrospective approach during the year ended May 31, 2023.

New Accounting Pronouncements Not Yet Effective

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount ASU No. 2016-13 (as amended) is effective for annual periods beginning after December 15, 2022 (fiscal year 2024). The College is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its consolidated 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 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. If not determined as of the College's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the College sold all or a portion of its alternative investment, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment. 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, 2023 and 2022.

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.

Luther College

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds:				
U.S. equity funds	\$ 50,978,853	\$ 50,978,853	\$ -	\$ -
Non-U.S. equity funds	43,715,422	43,715,422	-	-
U.S. fixed income funds	33,978,115	33,978,115	-	-
Non-U.S. fixed income funds	308,404	308,404	-	-
Interest rate exchange agreement	596,774	-	596,774	-
Beneficial interest in funds held in trust	2,588,310	-	-	2,588,310
	<u>132,165,878</u>	<u>\$ 128,980,794</u>	<u>\$ 596,774</u>	<u>\$ 2,588,310</u>
Total assets by valuation hierarchy				
Investments measured using NAV:				
Alternative investments:				
Hedge funds	10,834,661			
Private equity funds	16,739,235			
Funds of funds	25,571,042			
Real asset funds	6,517,434			
Private debt funds	619,722			
	<u>60,282,094</u>			
Total assets by NAV				
Total assets at fair value	<u>192,447,972</u>			
Investments at cost:				
Short-term investments	6,210,792			
Short-term endowment investments	11,652,942			
Real estate endowment investments	6			
Mortgage and contract receivable	1,500,000			
	<u>19,363,740</u>			
Less interest rate exchange agreement	<u>(596,774)</u>			
Total investments	<u>\$ 211,214,938</u>			

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Notes to Consolidated Financial Statements

May 31, 2023 and 2022

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds:				
U.S. equity funds	\$ 51,519,141	\$ 51,519,141	\$ -	\$ -
Non-U.S. equity funds	44,809,744	44,809,744	-	-
U.S. fixed income funds	34,811,453	34,811,453	-	-
Non-U.S. fixed income funds	353,174	353,174	-	-
Interest rate exchange agreement	140,865	-	140,865	-
Beneficial interest in funds held in trust	2,659,178	-	-	2,659,178
	<u>134,293,555</u>	<u>\$ 131,493,512</u>	<u>\$ 140,865</u>	<u>\$ 2,659,178</u>
Total assets by valuation hierarchy				
Investments measured using NAV:				
Alternative investments:				
Hedge funds	10,538,925			
Private equity funds	15,715,197			
Funds of funds	26,511,224			
Real asset funds	5,907,419			
	<u>58,672,765</u>			
Total assets by NAV				
Total assets at fair value <u>192,966,320</u>				
Investments at cost:				
Short-term investments	1,234,274			
Short-term endowment investments	11,052,487			
Real estate endowment investments	6			
Mortgage and contract receivable	1,500,000			
Equity operating investment	12,685			
	<u>13,799,452</u>			
Less interest rate exchange agreement <u>(140,865)</u>				
Total investments <u>\$ 206,624,907</u>				

During the years ended May 31, 2023 and 2022, there were sales of level three assets totaling \$0 and \$4,396,487, respectively. During the years ended May 31, 2023 and 2022, there were no purchases of level three assets.

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Notes to Consolidated Financial Statements
May 31, 2023 and 2022

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:

	<u>Private Equity Funds</u>	<u>Real Asset Funds</u>	<u>Private Debt</u>	<u>Hedge Funds and Funds of Funds</u>	<u>Balanced Fund With Options Strategy</u>
Fair value, May 31, 2023	\$ 16,739,235	\$ 6,517,434	\$ 619,722	\$ 25,571,042	\$ 10,834,661
Fair value, May 31, 2022	\$ 15,715,197	\$ 5,907,419	\$ -	\$ 26,511,224	\$ 10,538,925
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.	Provide loans to middle market U.S. based companies with private equity sponsorship	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 10 years	0 to 10 years	N.A.	N.A.
Dollar amount of unfunded commitments	\$ 14,263,595	\$ 6,911,941	\$ 2,399,861	None	None
Timing to draw down commitments	0 to 11 years	0 to 10 years	0 to 10 years	N.A.	N.A.
Redemption terms	N.A.	N.A.	N.A.	Monthly, quarterly and yearly	Monthly
Redemption restrictions	N.A.	N.A.	N.A.	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.	N.A.	None	None

The investment internal rate of return on alternative investments was 6.93% and 7.05% for the years ended May 31, 2023 and 2022, respectively.

Luther College

Notes to Consolidated Financial Statements
May 31, 2023 and 2022

3. Restrictions and Limitations on Net Asset Balances

At May 31, 2023 and 2022, the College's net assets without donor restrictions were allocated as follows:

	<u>2023</u>	<u>2022</u>
Operations	\$ 14,303,885	\$ 13,958,804
Long-term investment (board designated endowment funds)	20,661,204	24,511,713
Long-term investment (management designated endowment funds)	3,353,593	3,294,922
Annuity, life income and similar funds	1,793,944	1,740,345
Loans to students	3,162,482	2,976,329
Replacement of plant facilities	2,694,967	1,809,625
Board designated for special projects	750,032	1,401,105
Net investment in plant	37,840,805	40,107,759
Total	<u>\$ 84,560,912</u>	<u>\$ 89,800,602</u>

Net assets with donor restrictions consist of the following at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support, operating	\$ 1,171,505	\$ 1,333,550
Scholarships, instruction and other support, endowment	166,934,981	166,447,971
Acquisition of buildings and equipment	979,941	1,636,312
	<u>169,086,427</u>	<u>169,417,833</u>
Annuity, life income and similar funds	8,081,223	8,418,559
Beneficial interest in funds held in trust, endowment	1,690,158	1,677,036
Beneficial interest in funds held in trust, deferred gifts	898,153	982,142
Loans to students	428,624	423,429
Contributions receivable	2,084,000	5,687,000
Total	<u>\$ 182,268,585</u>	<u>\$ 186,605,999</u>

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended May 31, 2023 and 2022 by incurring expenses, satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2023</u>	<u>2022</u>
Operating:		
Scholarships, instruction and other departmental support	\$ 1,835,183	\$ 911,031
Nonoperating:		
Acquisition of land, building and equipment	1,120,957	231,193
Total	<u>\$ 2,956,140</u>	<u>\$ 1,142,224</u>

These assets were reclassified to net assets without donor restrictions.

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Notes to Consolidated Financial Statements
May 31, 2023 and 2022

5. Contributions Receivable

Contributions receivable include the following unconditional promises to give at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
With donor restrictions:		
Operations	\$ 1,118,000	\$ 1,834,000
Plant projects	188,000	402,000
Endowment	<u>1,124,000</u>	<u>3,854,000</u>
 Gross unconditional promises to give	 2,430,000	 6,090,000
 Less unamortized discount	 (157,000)	 (104,000)
Less allowance for uncollectible accounts	<u>(189,000)</u>	<u>(299,000)</u>
 Net unconditional promises to give	 <u>\$ 2,084,000</u>	 <u>\$ 5,687,000</u>
 Amounts due in:		
Less than one year	\$ 1,060,000	
One to five years	<u>1,370,000</u>	
 Total	 <u>\$ 2,430,000</u>	

At May 31, 2023 and 2022, respectively, promises due in one to five years were discounted using historical interest rates ranging between 1.3% and 6.0%. Promises due in less than one year were not discounted.

6. Endowment Investments

The following summarizes the College's endowment investments at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and short-term investments	\$ 11,652,942	\$ 11,052,487
Mutual funds	120,972,103	122,611,373
Equity securities	49,761	-
Real estate, at cost	6	6
Alternative investments	<u>60,282,094</u>	<u>58,672,765</u>
 Total	 <u>\$ 192,956,906</u>	 <u>\$ 192,336,631</u>

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 consolidated financial statements.

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Notes to Consolidated Financial Statements
May 31, 2023 and 2022

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, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 16,127,510	\$ 26,182,841
Student accounts receivable, net of allowance for doubtful accounts	502,858	642,728
Government grants receivable	412,654	657,678
Contributions receivable	386,000	1,186,000
Other receivables	1,402,145	284,734
Investments:		
Short-term investments	6,151,679	1,075,494
Endowment:		
Spending rate appropriations for the next fiscal year	8,557,529	8,486,527
Management designated quasi-endowment	3,311,165	3,292,553
Cash designated by management for plant acquisitions	<u>4,975,632</u>	<u>3,908,866</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 39,974,190</u>	<u>\$ 45,717,421</u>

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 \$20,706,047 and \$24,511,713 as of May 31, 2023 and 2022, 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, 2023 and 2022, student loans represented .70% and 1.00% of total assets, respectively.

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Notes to Consolidated Financial Statements
May 31, 2023 and 2022

At May 31, 2023 and 2022, student loans consisted of the following:

	<u>2023</u>	<u>2022</u>
Federal government programs	\$ 1,680,354	\$ 2,434,207
Institutional programs	971,805	1,189,423
	<u>2,652,159</u>	<u>3,623,630</u>
Less allowance for doubtful accounts:		
Beginning of year	(494,939)	(495,000)
Increases	-	(106,699)
Write-offs	-	106,760
	<u>(494,939)</u>	<u>(494,939)</u>
End of year	<u>(494,939)</u>	<u>(494,939)</u>
Student notes receivable, net	<u>\$ 2,157,220</u>	<u>\$ 3,128,691</u>

Funds advanced by the federal government of \$889,151 and \$1,948,819 at May 31, 2023 and 2022, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements 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, 2023, the College continues to service the Perkins Loan Program. During the years ending May 31, 2023 and 2022, the College returned \$757,762 and \$825,809 in excess cash to the government, respectively, which reduced the government grants refundable.

At May 31, 2023 and 2022, the following amounts were past due under student loan programs:

	Amounts Past Due			
	<u>1-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>	<u>Total</u>
2023	<u>\$ 4,980</u>	<u>\$ 7,181</u>	<u>\$ 561,962</u>	<u>\$ 574,123</u>
2022	<u>\$ 8,219</u>	<u>\$ 2,300</u>	<u>\$ 605,065</u>	<u>\$ 615,584</u>

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Notes to Consolidated Financial Statements
May 31, 2023 and 2022

9. Construction in Progress

At May 31, 2023, the following construction projects were in progress:

	<u>Estimated Total Cost</u>	<u>Cost to Date</u>	<u>Funding Source</u>
Brandt Hall Windows (Phase 1-3)	\$ 4,200,000	\$ 1,273,659	Operations and gifts
Main Hall Roof	100,000	<u>95,890</u>	Operations and gifts
Total		<u>\$ 1,369,549</u>	

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 663,581	\$ 663,581
Buildings	140,457,877	140,420,654
Improvements other than buildings	18,825,803	17,369,709
Wind turbine	3,237,495	3,237,495
Equipment and library books	<u>39,000,051</u>	<u>38,859,978</u>
	202,184,807	200,551,417
Less accumulated depreciation	<u>(145,491,273)</u>	<u>(140,263,452)</u>
Total	<u>\$ 56,693,534</u>	<u>\$ 60,287,965</u>

11. Accrued Liabilities

Accrued liabilities consisted of the following as of May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Payroll	\$ 4,865,386	\$ 4,672,267
Post-retirement benefit obligation (Note 16)	2,793,000	2,911,000
Interest	87,864	67,640
Other	<u>656,902</u>	<u>693,923</u>
Total	<u>\$ 8,403,152</u>	<u>\$ 8,344,830</u>

Luther College

Notes to Consolidated Financial Statements
May 31, 2023 and 2022

12. Long-Term Debt and Line of Credit

Long-term debt outstanding at May 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Iowa Higher Education Loan Authority, Private College Facility Revenue Refunding Bonds, Series 2017	\$ 15,010,584	\$ 16,057,833
Bonds, Series 2015	<u>4,251,147</u>	<u>4,578,195</u>
Principal outstanding	19,261,731	20,636,028
Deferred debt acquisition costs, net	<u>(53,428)</u>	<u>(65,860)</u>
Total long-term debt	<u>\$ 19,208,303</u>	<u>\$ 20,570,168</u>

In January 2015, the City of Decorah, Iowa sold its Private College Facility Revenue Refunding Bonds, Series 2015, in the amount of \$6,868,000. The proceeds from the sale of the bonds were loaned to the College and were used to pay off the City of Decorah, Iowa Private College Facility Revenue Bonds, Series 2010 in the amount of \$6,847,826 and pay the costs of issuance of the bonds. The bonds are unsecured. The interest rate on the proceeds is 3.29% and is fixed until June 30, 2030. Annual principal payments 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, 2023, the College was not in compliance with these covenants, but received a waiver from the bank.

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. Prior to March 1, 2023, the variable interest rate was calculated monthly at 85.08% of USD-LIBOR-BBA. On March 1, 2023, the loan agreement was amended to modify the calculated monthly interest rate to 70% of SOFR. The interest rate was 4.99% and 1.714% as of May 31, 2023 and 2022, 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, 2023, the College was not in compliance with these covenants, but received a waiver from the bank.

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.

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

Years ending May 31:	
2024	\$ 1,374,298
2025	1,374,298
2026	1,374,298
2027	1,374,298
2028	1,374,298
Thereafter	<u>12,390,241</u>
Total	<u>\$ 19,261,731</u>

The College has a \$5,000,000 unsecured line of credit with a bank with an expiration date of January 4, 2024. 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 consolidated 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 consolidated 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 2023 and 2022, the College paid \$143,912 and \$317,057, respectively, more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreement is recorded as interest expense in the consolidated statements of activities.

As of May 31, 2023, the College had the following outstanding position under an interest rate exchange agreement:

<u>Instrument Type</u>	<u>Effective Date</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
Variable to fixed rate swap	September 1, 2017	\$ 15,010,583	September 1, 2027	1.974 %	70% of Daily Simple SOFR

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Derivative instruments are reported in the consolidated statements of financial position at fair value as of May 31, 2023 and 2022 as follows:

Derivatives Not Designated as Hedging Instruments	Asset (Liability) Derivative		
	Consolidated Statement of Financial Position Location	Fair Value	
		2023	2022
Interest rate swap	Interest rate swap asset	\$ 596,774	\$ 140,865

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

Derivatives Not Designated as Hedging Instruments	Location of Gain on Derivatives Recognized in the Consolidated Statement of Activities	Amount of Gain on Derivatives Recognized in the Consolidated Statement of Activities	
		2023	2022
		Interest rate swap	Gain on swap agreement

14. Endowment

The College's endowment consists of approximately 975 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

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Endowment net asset composition by type of fund consists of the following as of May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 117,337,062	\$ 117,337,062
Donor-restricted accumulated earnings	-	49,597,919	49,597,919
Donor-restricted funds held in trust	-	1,690,158	1,690,158
Board-designated endowment funds	24,014,797	-	24,014,797
Contributions receivable, net	-	928,000	928,000
	<u>-</u>	<u>928,000</u>	<u>928,000</u>
Total endowment net assets	<u>\$ 24,014,797</u>	<u>\$ 169,553,139</u>	<u>\$ 193,567,936</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 124,577,922	\$ 124,577,922
Donor-restricted accumulated earnings	-	41,870,049	41,870,049
Donor-restricted funds held in trust	-	1,677,036	1,677,036
Board-designated endowment funds	27,806,635	-	27,806,635
Contributions receivable, net	-	3,620,000	3,620,000
	<u>-</u>	<u>3,620,000</u>	<u>3,620,000</u>
Total endowment net assets	<u>\$ 27,806,635</u>	<u>\$ 171,745,007</u>	<u>\$ 199,551,642</u>

Changes in endowment net assets for the year ended May 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2022	\$ 27,806,635	\$ 171,745,007	\$ 199,551,642
Investment return:			
Investment income	570,463	3,211,135	3,781,598
Net depreciation, realized and unrealized	(159,446)	(1,575,933)	(1,735,379)
Net appreciation, realized and unrealized funds held in trust	-	13,122	13,122
	<u>-</u>	<u>13,122</u>	<u>13,122</u>
Total investment return	411,017	1,648,324	2,059,341
Contributions	-	6,423,113	6,423,113
Matured deferred gifts	12,970	190,830	203,800
Change in contributions receivable	-	(2,692,000)	(2,692,000)
Appropriation of endowment assets for expenditure	(795,394)	(7,762,135)	(8,557,529)
Other changes:			
Transfer from operating reserve	(3,420,431)	-	(3,420,431)
	<u>(3,420,431)</u>	<u>-</u>	<u>(3,420,431)</u>
Endowment net assets, May 31, 2023	<u>\$ 24,014,797</u>	<u>\$ 169,553,139</u>	<u>\$ 193,567,936</u>

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Changes in endowment net assets for the year ended May 31, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, May 31, 2021	\$ 27,894,001	\$ 180,298,012	\$ 208,192,013
Investment return:			
Investment income	394,385	3,138,237	3,532,622
Net appreciation, realized and unrealized	(844,274)	(8,292,414)	(9,136,688)
Net appreciation, realized and unrealized funds held in trust	-	(106,470)	(106,470)
Total investment return	<u>(449,889)</u>	<u>(5,260,647)</u>	<u>(5,710,536)</u>
Contributions	-	4,341,066	4,341,066
Matured deferred gifts	-	512,785	512,785
Change in contributions receivable	-	(599,000)	(599,000)
Appropriation of endowment assets for expenditure	(939,318)	(7,547,209)	(8,486,527)
Other changes:			
Transfer to operating reserve	<u>1,301,841</u>	<u>-</u>	<u>1,301,841</u>
Endowment net assets, May 31, 2022	<u>\$ 27,806,635</u>	<u>\$ 171,745,007</u>	<u>\$ 199,551,642</u>

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, 2023, funds with original gift values of \$11,547,750 and fair values of \$11,284,433 and deficiencies of \$263,318 were reported in net assets with donor restrictions. As of May 31, 2022, funds with original gift values of \$2,692,780 and fair values of \$2,588,725 and deficiencies of \$104,055 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% 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% 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. A portion of the endowment without donor restrictions is held in reserve outside of the standard spending policy. Transfers to or from endowment reserves may be made each year depending on the needs of the College.

Endowment net assets included in the consolidated statements of financial position as of May 31, 2023 and 2022 include the following:

	<u>2023</u>	<u>2022</u>
Endowment investments (Note 6)	\$ 192,956,906	\$ 192,336,631
Funds held in trust	1,690,158	1,677,036
Contributions receivable	928,000	3,620,000
Interest receivable	151,274	36,275
Interfund balance (due to/from operating)	(2,158,402)	1,881,700
Total endowment net assets	<u>\$ 193,567,936</u>	<u>\$ 199,551,642</u>

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 .06% to 8.0% in making the calculation at May 31, 2023 and 2022.

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During the years ended May 31, 2023 and 2022, the College received gift income relating to deferred gift agreements of \$11,804 and \$63,729, respectively. Total assets (marketable securities, real estate and cash value of life insurance) held by the College under deferred gift agreements were \$13,479,984 and \$14,343,357 at May 31, 2023 and 2022, 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. Contributions to the Retirement Plan are paid currently and amounted to approximately \$1,214,000 and \$1,193,000 for the years ended May 31, 2023 and 2022, 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 consolidated financial statements at May 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Total Expected Benefit Obligation Earned to Date, Based on Service		
Current retirees and dependents:		
Pre-65 payments	\$ 458,000	\$ 561,000
Post-65 payments	851,000	922,000
Active employees:		
Pre-65 payments	1,484,000	1,428,000
Post-65 payments	-	-
	<u>\$ 2,793,000</u>	<u>\$ 2,911,000</u>
Benefit obligation at end of year		
	<u>\$ 2,793,000</u>	<u>\$ 2,911,000</u>
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	\$ 2,911,000	\$ 2,392,000
Net benefits earned	178,000	127,000
Expected benefit payments	(88,000)	(119,000)
Total loss (gain)	<u>(208,000)</u>	<u>511,000</u>
Benefit obligation at end of year	<u>\$ 2,793,000</u>	<u>\$ 2,911,000</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	208,000	119,000
Participant contribution:		
Benefits paid	<u>(208,000)</u>	<u>(119,000)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded Status		
Underfunded status at year end	<u>\$ (2,793,000)</u>	<u>\$ (2,911,000)</u>

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	<u>2023</u>	<u>2022</u>
Amounts recognized in the consolidated statements of financial position consist of:		
Noncurrent assets	\$ -	\$ -
Current liabilities	(208,000)	(119,000)
Noncurrent liabilities	<u>(2,585,000)</u>	<u>(2,792,000)</u>
Net amount recognized in accrued liabilities	<u>\$ (2,793,000)</u>	<u>\$ (2,911,000)</u>
Weighted Average Assumptions Used to Calculate the Benefit Obligation at May 31		
Discount rate	4.8%	4.0%
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	4.6%	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:

	<u>One Percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on postretirement benefit obligation at May 31, 2023	\$ 230,000	\$ (261,000)

Annual premium payments were approximately \$59,000 and \$79,000 for the years ended May 31, 2023 and 2022, respectively. During the fiscal year ending May 31, 2024, the College expects to contribute \$208,000 in benefit payments for the postretirement medical plan.

Estimated future postretirement medical payments (which reflect expected future service, as appropriate) as of May 31, 2023 are as follows:

Years ending May 31:	
2024	\$ 198,000
2025	208,000
2026	206,000
2027	181,000
2028	191,000
2029 - 2043	3,295,000

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.

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17. Expense Allocations

The consolidated 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, 2023:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	\$ 20,941,422	\$ 4,797,629	\$ 25,739,051
Employee benefits	7,839,184	1,689,713	9,528,897
Student employment	1,931,799	122,062	2,053,861
Supplies and other operating expenses	2,610,619	2,516,480	5,127,099
Services and events	10,263,110	2,176,699	12,439,809
Occupancy and maintenance	4,153,126	317,346	4,470,472
Travel	3,457,180	318,825	3,776,005
Depreciation, amortization and accretion	5,337,282	272,684	5,609,966
Interest	604,228	7,558	611,786
Total expenses	<u>\$ 57,137,950</u>	<u>\$ 12,218,996</u>	<u>\$ 69,356,946</u>

Expenses reported by function on the consolidated statement of activities are summarized by natural classification for the year ended May 31, 2022:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	\$ 20,577,821	\$ 4,557,319	\$ 25,135,140
Employee benefits	7,997,087	1,648,216	9,645,303
Student employment	1,907,853	127,264	2,035,117
Supplies and other operating expenses	4,373,354	2,554,146	6,927,500
Services and events	9,209,731	1,994,093	11,203,824
Occupancy and maintenance	3,774,223	273,931	4,048,154
Travel	2,029,914	109,002	2,138,916
Depreciation, amortization and accretion	5,431,733	427,990	5,859,723
Interest	661,520	7,870	669,390
Total expenses	<u>\$ 55,963,236</u>	<u>\$ 11,699,831</u>	<u>\$ 67,663,067</u>

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Notes to Consolidated Financial Statements

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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 Federal Deposit Insurance Corporation (FDIC) and similar coverages is subject to the usual risks of balances in excess of those limits. The College currently has 43% of its cash and cash equivalents in a bank with a tier 1 risk-based capital ratio of 13.58 and a total risk-based capital ratio of 14.83 and 100% of cash restricted for plant acquisitions in a bank with a tier 1 risk-based capital ratio of 11.25 and a total risk-based capital ratio of 12.13. 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 consolidated 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	\$ 852,583
Funds held in trust	<u>18,679</u>
Total annuities with donor restrictions	<u>\$ 871,262</u>
Net assets with donor restrictions - restricted in perpetuity:	
Endowment fund	\$ 130,267,343
Funds held in trust	2,569,632
Contributions receivable	928,000
Annuity, life income and similar funds	<u>7,228,640</u>
Total net assets with donor restrictions - restricted in perpetuity	<u>140,993,615</u>
Net assets with donor restrictions – time or purpose	<u>\$ 40,403,708</u>

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Note 10 provides information on the Colleges property, plant and equipment, 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, at May 31, 2023 based on the July 1, 2019 implementation date.

Pre-implementation:	
Property plant and equipment, net	\$ 50,773,121
Post-implementation:	
Property plant and equipment, net with outstanding debt for original purchase	-
Property plant and equipment, net without outstanding debt for original purchase	<u>5,920,413</u>
Total property plant and equipment, net	<u>\$ 56,693,534</u>

The fiscal 2023 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, 2023.

Gifts and grants	\$ 140,828
Endowment income	570,463
Actuarial adjustment	66,575
Gain on swap agreement	455,909
Net assets released from restrictions	<u>1,120,957</u>
Total nonoperating revenue and other gains	<u>\$ 2,354,732</u>

20. Contingencies

The College is subject to asserted and unasserted claims encountered in the normal course of business. In the opinion of management and legal counsel, disposition of these matters will not have a material effect on the College's financial condition or results of operations.

The College has received federal grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

21. Related-Party Transactions

Net unconditional promises to give due from Cabinet members and Board members at May 31, 2023 and 2022 were \$69,000 and \$190,000, respectively. The College received gifts and pledge payments from Board members and officers of \$357,000 and \$540,000, respectively, for the years ended May 31, 2023 and 2022. There are no other unsecured or secured related-party receivables at May 31, 2023 or 2022.

22. Subsequent Events

Luther College has evaluated subsequent events through September 12, 2023, which is the date that the consolidated financial statements were issued.