Luther College

Consolidated Financial Statements

May 31, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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 11, 2024

Luther College

Consolidated Statements of Financial Position
May 31, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	$ 14,234,211	$ 16,127,510
Student accounts receivable, net of allowance of $248,200 in 2024 and $300,000 in 2023	666,341	502,858
Government grants receivable	489,560	412,654
Contributions receivable, net (Note 5)	11,235,000	2,084,000
Other receivables	676,267	1,497,403
Inventories, prepaid expenses and other assets	1,188,433	1,107,796
Investments:		
Short-term investments	6,440,833	6,210,792
Marketable securities	7,794,779	7,958,930
Mortgages and contracts receivable	1,500,000	1,500,000
Endowment (Note 6)	209,451,698	192,956,906
Beneficial interest in funds held in trust	2,898,914	2,588,310
Cash surrender value of life insurance	5,697,536	5,497,312
Student notes receivable, net (Note 8)	1,478,641	2,157,220
Interest rate swap asset (Note 13)	708,146	596,774
Cash restricted for plant acquisitions	6,383,511	6,662,289
Construction in progress (Note 9)	3,010,583	1,369,549
Property, plant and equipment, net (Note 10)	52,824,519	56,693,534
Total assets	$ 326,678,972	$ 305,923,837
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,030,758	$ 2,535,267
Accrued liabilities (Note 11)	7,385,533	8,403,152
Deferred revenue	371,873	1,017,637
Asset retirement obligations (Note 1)	3,322,962	3,187,525
Long-term debt (Note 12)	17,846,438	19,208,303
Annuities payable	3,301,016	3,277,214
Deposits held in custody for others	631,714	576,091
Government grants refundable (Note 8)	193,301	889,151
Total liabilities	35,083,595	39,094,340
Net Assets		
Without donor restrictions (Note 3)	82,741,767	84,560,912
With restrictions (Note 3)	208,853,610	182,268,585
Total net assets	291,595,377	266,829,497
Total liabilities and net assets	$ 326,678,972	$ 305,923,837

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities
Year Ended May 31, 2024 (With Comparative Totals for 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Revenues				
Revenues, gains and other support:				
Tuition and fees, net of scholarships of $49,711,492 and $51,226,844 respectively, for May 31, 2024 and 2023	$ 22,613,346	$ -	$ 22,613,346	$ 23,971,989
Government grants and contracts	1,148,397	76,359	1,224,756	1,185,660
Private gifts and grants	7,146,127	305,477	7,451,604	5,383,988
Investment income	733,602	-	733,602	835,287
Spending allowance appropriation	11,922,303	599,719	12,522,022	8,557,529
Other sources	1,991,396	3,889	1,995,285	2,304,161
Subsidiary	184,603	-	184,603	175,158
Sales and services of educational activities	1,826,230	-	1,826,230	1,984,014
Sales and services of auxiliary enterprises	16,431,672	-	16,431,672	17,446,678
Transfer from (to) nonoperating	2,316,836	(415,000)	1,901,836	2,992,101
	66,314,512	570,444	66,884,956	64,836,565
Net assets released from restrictions	775,174	(775,174)	-	-
Total revenues, gains and other support	67,089,686	(204,730)	66,884,956	64,836,565
Operating Expenses				
Program expenses:				
Instruction	25,264,745	-	25,264,745	26,270,385
Research	531,417	-	531,417	281,045
Public service	208,959	-	208,959	176,530
Academic support	4,085,253	-	4,085,253	3,983,028
Student services	13,332,516	-	13,332,516	13,095,078
Auxiliary enterprises	13,455,688	-	13,455,688	13,331,884
Support expenses:				
Institutional support	11,636,811	-	11,636,811	12,107,875
Subsidiary	162,311	-	162,311	111,121
Allocable expenses:				
Operation and maintenance of plant	8,283,211	-	8,283,211	8,018,250
Depreciation and amortization	5,344,195	-	5,344,195	5,450,968
Accretion	165,753	-	165,753	158,998
Interest	514,332	-	514,332	611,786
Less allocated expenses	(14,307,491)	-	(14,307,491)	(14,240,002)
Total expenses	68,677,700	-	68,677,700	69,356,946
Change in net assets from operating activities	(1,588,014)	(204,730)	(1,792,744)	(4,520,381)
Nonoperating Activities				
Gifts and grants	186,602	14,549,029	14,735,631	4,153,380
Endowment income	615,156	3,296,895	3,912,051	3,781,598
Gain (Loss) on investments	1,987,561	19,111,861	21,099,422	(1,735,378)
Spending allowance appropriation	(1,191,394)	(11,330,628)	(12,522,022)	(8,557,529)
Gain (Loss) on investments (FHIT)	-	310,604	310,604	(70,868)
Actuarial adjustment	154,522	658,880	813,402	(91,734)
Gain on swap agreement	111,372	-	111,372	455,909
Transfer (to) from operating	(2,316,836)	415,000	(1,901,836)	(2,992,101)
Net assets released from restrictions	221,886	(221,886)	-	-
Change in net assets from nonoperating activities	(231,131)	26,789,755	26,558,624	(5,056,723)
Change in net assets	(1,819,145)	26,585,025	24,765,880	(9,577,104)
Net Assets, Beginning	84,560,912	182,268,585	266,829,497	276,406,601
Net Assets, Ending	$ 82,741,767	$ 208,853,610	$ 291,595,377	$ 266,829,497

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities
Year Ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Revenues, gains and other support:			
Tuition and fees, net of scholarships of $51,226,844 for May 31, 2023	$ 23,971,989	$ -	$ 23,971,989
Government grants and contracts	1,112,051	73,609	1,185,660
Private gifts and grants	4,831,867	552,121	5,383,988
Investment income	835,287	-	835,287
Spending allowance appropriation	8,136,122	421,407	8,557,529
Other sources	2,298,965	5,196	2,304,161
Subsidiary	175,158	-	175,158
Sales and services of educational activities	1,984,014	-	1,984,014
Sales and services of auxiliary enterprises	17,446,678	-	17,446,678
Transfer from (to) nonoperating	3,082,101	(90,000)	2,992,101
	63,874,232	962,333	64,836,565
Net assets released from restrictions	1,835,183	(1,835,183)	-
Total revenues, gains and other support	65,709,415	(872,850)	64,836,565
Operating Expenses			
Program expenses:			
Instruction	26,270,385	-	26,270,385
Research	281,045	-	281,045
Public service	176,530	-	176,530
Academic support	3,983,028	-	3,983,028
Student services	13,095,078	-	13,095,078
Auxiliary enterprises	13,331,884	-	13,331,884
Support expenses:			
Institutional support	12,107,875	-	12,107,875
Subsidiary	111,121	-	111,121
Allocable expenses:			
Operation and maintenance of plant	8,018,250	-	8,018,250
Depreciation and amortization	5,450,968	-	5,450,968
Accretion	158,998	-	158,998
Interest	611,786	-	611,786
Less allocated expenses	(14,240,002)	-	(14,240,002)
Total expenses	69,356,946	-	69,356,946
Change in net assets from operating activities	(3,647,531)	(872,850)	(4,520,381)
Nonoperating Activities			
Gifts and grants	140,878	4,012,502	4,153,380
Endowment income	570,463	3,211,135	3,781,598
Loss on investments	(159,446)	(1,575,932)	(1,735,378)
Spending allowance appropriation	(795,394)	(7,762,135)	(8,557,529)
Loss on investments (FHIT)	-	(70,868)	(70,868)
Actuarial adjustment	66,575	(158,309)	(91,734)
Gain on swap agreement	455,909	-	455,909
Transfer to operating	(2,992,101)	-	(2,992,101)
Net assets released from restrictions	1,120,957	(1,120,957)	-
Change in net assets from nonoperating activities	(1,592,159)	(3,464,564)	(5,056,723)
Change in net assets	(5,239,690)	(4,337,414)	(9,577,104)
Net Assets, Beginning	89,800,602	186,605,999	276,406,601
Net Assets, Ending	$ 84,560,912	$ 182,268,585	$ 266,829,497

See notes to consolidated financial statements

Luther College

Consolidated Statements of Cash Flows
Years Ended May 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	$ 24,765,880	$ (9,577,104)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	5,509,948	5,609,966
Loss on disposal of property	-	8,423
Gain on interest rate swap valuation	(111,372)	(455,909)
(Gain) loss on investments, net	(21,919,684)	2,422,133
Change in beneficial interest in funds held in trust	(310,604)	70,868
Actuarial adjustment of annuities payable	143,127	(400,667)
Loan cancellations, reinstatements and write-offs	257,296	232,360
Change in allowance on student notes receivable	(217,939)	-
Contributions restricted for loans, long-term investment and plant	(14,735,631)	(4,153,380)
Changes in assets and liabilities:		
Student accounts receivable	(163,483)	139,870
Contributions receivable for operations	24,000	668,000
Government grants and other receivables	744,230	(778,860)
Inventories, prepaid expenses and other assets	(280,861)	46,020
Accounts payable and accrued liabilities	(1,418,417)	258,084
Deferred revenue and deposits held in custody for others	(590,141)	75,847
Asset retirement obligations	(30,316)	-
Investment income restricted for reinvestment	(506,098)	(481,243)
Cash flows from operating activities	(8,840,065)	(6,315,592)
Cash Flows From Investing Activities		
Purchases of investments	(45,813,566)	(15,370,944)
Sales of investments	50,638,714	3,928,529
Purchases of property, plant and equipment	(3,207,492)	(2,535,031)
Repayments of loans from students	639,222	739,111
Cash flows from investing activities	2,256,878	(13,238,335)
Cash Flows From Financing Activities		
Payments of principal on indebtedness	(1,374,298)	(1,374,298)
Receipt of investment income restricted for reinvestment	506,098	481,243
Contributions and grants received restricted for loans, long-term investment and plant	5,560,631	7,088,380
Change in government grants refundable	(695,850)	(1,059,668)
Proceeds from issuance of split-interest agreements	-	11,804
Payments to annuitants	(119,325)	(90,812)
Cash flows from financing activities	3,877,256	5,056,649
Change in cash and cash equivalents	(2,705,931)	(14,497,278)
Cash, Cash Equivalents and Restricted Cash, Beginning	24,409,247	38,906,525
Cash, Cash Equivalents and Restricted Cash, Ending	$ 21,703,316	$ 24,409,247
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Consolidated Statements of Financial Position		
Cash and cash equivalents	$ 14,234,211	$ 16,127,510
Cash restricted for plant acquisitions	6,383,511	6,662,289
Cash and cash equivalents without donor restrictions included in investments	1,085,594	1,619,448
Cash, Cash Equivalents and Restricted Cash, Ending	$ 21,703,316	$ 24,409,247
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 888,461	$ 717,097
Receipts on swap settlements	$ (366,754)	$ (96,460)
Noncash Investment and Financing Activities		
Property, plant and equipment acquired through accounts payable	$ 281,249	$ 384,960

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.

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 government grants refundable in the consolidated statements of financial position. The College received cost-reimbursable grants of approximately $491,000 that have not been recognized at May 31, 2024 because qualifying expenditures have not yet been incurred.

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, unless restrictions are met in the same year earned and they are included in net assets without 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.

The College's Board of Regents has the ability to designate surplus to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Regents at any time. The Board of Regents has designated a portion of the College's net assets for strategic initiatives.

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. Receivables are generally unsecured.

At May 31, 2023, management determined 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.

Beginning June 1, 2023, the College recognizes an allowance for credit losses for trade and other receivables to present the net amount expected to be collected as of the date of the statement of financial position. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on the College's expectation as of the statement of financial position date. Receivables are written off when the College determined that such receivables are deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. The College pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the College measures those receivables individually. The College also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The College utilizes the aging method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the College's historical loss experience. In determining its loss rates, the College evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, the customer creditworthiness, changes in the terms of receivables, effect of other external forces such as competition, and legal and regulatory requirements on the level of estimated credit losses in the existing receivables. For receivables that are not expected to be collected within the normal business cycle, the College considers current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP growth, unemployment rates and interest rates amongst others.

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.

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, 2024 and 2023.

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.

Changes in the accrual for asset retirement obligations during the years ended May 31, 2024 and 2023 are as follows:

	2024	2023
Balance, beginning	$ 3,187,525	$ 3,028,528
Abatements	(30,316)	-
Accretion expense	165,753	158,997
Balance, ending	$ 3,322,962	$ 3,187,525

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 gifts, grants, and 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 $(3,841,626) and $(3,463,682) transferred from (to) operations to (from) quasi endowment; $(52,108) and $0 transferred to operations from matured deferred gifts; $1,991,898 and $471,581 transferred to the plant fund for capital projects, for the years ended May 31, 2024 and 2023, 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 and approximately November 20 for the spring semester. Payment 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 $2,524,000 and $2,348,000 for the years ended May 31, 2024 and 2023, respectively. Advertising expenses totaled approximately $714,000 and $704,000 for the years ended May 31, 2024 and 2023, 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, 2024 and 2023, Luther College Ventures, Inc. had carryforward losses and tax deductions in excess of expenses. Income tax expense of $10,000 and $30,000 in 2024 and 2023, 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, 2024 and 2023. The College's tax returns are subject to review and examination by federal and state authorities.

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 June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13*, Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

The methodology replaces the multiple existing impairment methods in current accounting principles generally accepted in the United States of America, which generally require that a loss be incurred before it is recognized. On June 1, 2023, the College adopted the ASU using the modified retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements for the year ended May 31, 2024.

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 NAV 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 NAV 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, 2024 and 2023.

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, 2024:

	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
U.S. equity funds	$ 61,920,365	$ 61,920,365	$ -	$ -
Non-U.S. equity funds	42,394,161	42,394,161	-	-
U.S. fixed income funds	38,468,545	38,468,545	-	-
Non-U.S. fixed income funds	280,249	280,249	-	-
Interest rate exchange agreement	708,146	-	708,146	-
Beneficial interest in funds held in trust	2,898,914	-	-	2,898,914
Total assets by valuation hierarchy	146,670,380	$ 143,063,320	$ 708,146	$ 2,898,914
Investments measured using NAV:				
Alternative investments:				
Hedge funds	26,790,365			
Private equity funds	19,327,554			
Funds of funds	10,088,960			
Real asset funds	6,823,679			
Private debt funds	1,297,644			
Total assets by NAV	64,328,202			
Total assets at fair value	210,998,582			
Investments at cost:				
Short-term investments	6,440,833			
Short-term endowment investments	9,854,949			
Real estate endowment investments	6			
Mortgage and contract receivable	1,500,000			
	17,795,788			
Less interest rate exchange agreement	(708,146)			
Total investments	$ 228,086,223			

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

	Total	Level 1	Level 2	Level 3
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
Total assets by valuation hierarchy	132,165,878	$ 128,980,794	$ 596,774	$ 2,588,310
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			
Total assets by NAV	60,282,094			
Total assets at fair value	192,447,972			
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			
	19,363,740			
Less interest rate exchange agreement	(596,774)			
Total investments	$ 211,214,938			

During 2024 and 2023 there were no sales, purchases or transfers of level three assets.

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	Private Debt	Hedge Funds and Funds of Funds	Balanced Fund With Options Strategy
Fair value, May 31, 2024	$ 19,327,554	$ 6,823,679	$ 1,297,644	$ 26,790,365	$ 10,088,960
Fair value, May 31, 2023	$ 16,739,235	$ 6,517,434	$ 619,722	$ 25,571,042	$ 10,834,661
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	$ 11,716,012	$ 5,908,271	$ 1,768,991	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

3. Restrictions and Limitations on Net Asset Balances

At May 31, 2024 and 2023, the College's net assets without donor restrictions were allocated as follows:

	2024	2023
Operations	$ 17,869,122	$ 14,303,885
Long-term investment (board designated endowment funds)	17,705,360	20,661,204
Long-term investment (management designated endowment funds)	3,489,134	3,353,593
Annuity, life income and similar funds	1,873,363	1,793,944
Loans to students	1,925,911	3,162,482
Replacement of plant facilities	3,547,998	2,694,967
Board designated for special projects	1,004,859	750,032
Net investment in plant	35,326,020	37,840,805
Total	$ 82,741,767	$ 84,560,912

Net assets with donor restrictions consist of the following at May 31, 2024 and 2023:

	2024	2023
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support, operating	$ 1,401,871	$ 1,171,505
Scholarships, instruction and other support, endowment	181,503,112	166,934,981
Acquisition of buildings and equipment	3,943,095	979,941
	186,848,078	169,086,427
Annuity, life income and similar funds	7,854,095	8,081,223
Beneficial interest in funds held in trust, endowment	1,844,814	1,690,158
Beneficial interest in funds held in trust, deferred gifts	1,054,100	898,153
Loans to students	17,523	428,624
Contributions receivable	11,235,000	2,084,000
Total	$ 208,853,610	$ 182,268,585

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended May 31, 2024 and 2023 by incurring expenses, satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2024	2023
Operating:		
Scholarships, instruction and other departmental support	$ 775,174	$ 1,835,183
Nonoperating:		
Acquisition of land, building and equipment	221,886	1,120,957
Total	$ 997,060	$ 2,956,140

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, 2024 and 2023:

	2024	2023
With donor restrictions:		
Operations	$ 1,056,000	$ 1,118,000
Plant projects	11,059,000	188,000
Endowment	659,000	1,124,000
Gross unconditional promises to give	12,774,000	2,430,000
Less unamortized discount	(948,000)	(157,000)
Less allowance for uncollectible accounts	(591,000)	(189,000)
Net unconditional promises to give	$ 11,235,000	$ 2,084,000
Amounts due in:		
Less than one year	$ 4,878,000	
One to five years	7,896,000	
Total	$ 12,774,000	

At May 31, 2024 and 2023, 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, 2024 and 2023:

	2024	2023
Cash and short-term investments	$ 9,854,949	$ 11,652,942
Mutual funds	135,268,542	120,972,103
Equity securities	-	49,761
Real estate, at cost	6	6
Alternative investments	64,328,201	60,282,094
Total	$ 209,451,698	$ 192,956,906

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.

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, 2024 and 2023.

	2024	2023
Cash and cash equivalents	$ 14,234,211	$ 16,127,510
Student accounts receivable, net of allowance for doubtful accounts	666,341	502,858
Government grants receivable	489,560	412,654
Contributions receivable	641,000	386,000
Other receivables	609,368	1,402,145
Investments:		
Short-term investments	6,440,833	6,151,679
Endowment:		
Spending rate appropriations for the next fiscal year	12,522,022	8,557,529
Management designated quasi-endowment	3,441,231	3,311,165
Cash designated by management for plant acquisitions	1,597,997	4,975,632
Financial assets available to meet cash needs for general expenditures within one year	$ 40,642,563	$ 39,974,190

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. Cash designated for plant acquisitions are unrestricted funds that can be used at the discretion of management to fund operating expenses. Additionally, the College has a Board designated quasi-endowment of $17,705,360 and $20,661,207 as of May 31, 2024 and 2023, 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, 2024 and 2023, student loans represented .45% and .70% of total assets, respectively.

At May 31, 2024 and 2023, student loans consisted of the following:

	2024	2023
Federal government programs	$ 1,121,873	$ 1,680,354
Institutional programs	633,768	971,805
	1,755,641	2,652,159
Less allowance for credit/loan losses:		
Beginning of year	(494,939)	(494,939)
Decreases	217,939	-
End of year	(277,000)	(494,939)
Student notes receivable, net	$ 1,478,641	$ 2,157,220

Funds advanced by the federal government of $193,301 and $889,151 at May 31, 2024 and 2023, 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, 2024, the College continues to service the Perkins Loan Program. During the years ending May 31, 2024 and 2023, the College returned $502,935 and $757,762 in excess cash to the government, respectively, which reduced the government grants refundable.

At May 31, 2024 and 2023, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-59 Days	60-89 Days	90+ Days	Total
2024	$ 31,070	$ 48,924	$ 311,812	$ 391,806
2023	$ 4,980	$ 7,181	$ 561,962	$ 574,123

9. Construction in Progress

At May 31, 2024, the following construction projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Source
Brandt Hall Windows (Phase 1-3)	$ 4,200,000	$ 2,817,692	Operations
Athletic Facilities Renew	24,500,000	192,891	Operations and gifts
Total		$ 3,010,583	

Outstanding commitments on construction contracts totaled approximately $24,080,000 at May 31, 2024.

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of May 31, 2024 and 2023:

	2024	2023
Land	$ 663,581	$ 663,581
Buildings	140,289,386	140,457,877
Improvements other than buildings	18,962,618	18,825,803
Wind turbine	3,237,495	3,237,495
Equipment and library books	39,831,777	39,000,051
	202,984,857	202,184,807
Less accumulated depreciation	(150,160,338)	(145,491,273)
Total	$ 52,824,519	$ 56,693,534

11. Accrued Liabilities

Accrued liabilities consisted of the following as of May 31, 2024 and 2023:

	2024	2023
Payroll	$ 4,970,500	$ 4,865,386
Post-retirement benefit obligation (Note 16)	2,218,000	2,793,000
Interest	102,395	87,864
Other	94,638	656,902
Total	$ 7,385,533	$ 8,403,152

12. Long-Term Debt and Line of Credit

Long-term debt outstanding at May 31, 2024 and 2023 are as follows:

	2024	2023
Iowa Higher Education Loan Authority, Private College Facility Revenue Refunding Bonds, Series 2017	$ 13,963,334	$ 15,010,584
Bonds, Series 2015	3,924,099	4,251,147
Principal outstanding	17,887,433	19,261,731
Deferred debt acquisition costs, net	(40,995)	(53,428)
Total long-term debt	$ 17,846,438	$ 19,208,303

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, 2024, the College was 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. 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 5.16% and 4.99% as of May 31, 2024 and 2023, 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, 2024, the College was 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.

On August 23, 2024, Luther College entered into a five-year loan agreement for up to $17,000,000 with BMO Bank N.A. to provide bridge financing for the renovation of the Regents Center athletics building into the Gerdin Fieldhouse for Athletics and Wellness.

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

Years ending May 31:	
2025	$ 1,374,298
2026	1,374,298
2027	1,374,298
2028	1,374,298
2029	1,374,298
Thereafter	11,015,943
Total	$ 17,887,433

The College has a $5,000,000 unsecured line of credit with a bank with an expiration date of January 5, 2025. The interest rate on the line of credit is 0.70% below the prime rate with a 4.25% 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 2024 and 2023, the College paid $370,267 and $143,912, 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, 2024, 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	$ 15,185,125	September 1, 2027	1.974 %	70% of Daily Simple SOFR

Derivative instruments are reported in the consolidated statements of financial position at fair value as of May 31, 2024 and 2023 as follows:

Derivatives Not Designated as Hedging Instruments	Asset (Liability) Derivative: Consolidated Statements of Financial Position Location	Fair Value 2024	Fair Value 2023
Interest rate swap	Interest rate swap asset	$ 708,146	$ 596,774

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 Statements of Activities 2024	2023
Interest rate swap	Gain on swap agreement	$ 111,372	$ 455,909

14. Endowment

The College's endowment consists of approximately 1,000 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 accounting principles generally accepted in the United States of America (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, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 120,226,310	$ 120,226,310
Donor-restricted accumulated earnings	-	60,861,802	60,861,802
Donor-restricted funds held in trust	-	1,844,814	1,844,814
Board and management designated endowment funds	21,194,494	415,000	21,609,494
Contributions receivable, net	-	608,000	608,000
Total endowment net assets	$ 21,194,494	$ 183,955,926	$ 205,150,420

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 and management designated endowment funds	24,014,797	-	24,014,797
Contributions receivable, net	-	928,000	928,000
Total endowment net assets	$ 24,014,797	$ 169,553,139	$ 193,567,936

Changes in endowment net assets for the year ended May 31, 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2023	$ 24,014,797	$ 169,553,139	$ 193,567,936
Investment return:			
Investment income	615,156	3,296,895	3,912,051
Net appreciation, realized and unrealized	1,987,561	19,111,861	21,099,422
Net appreciation, realized and unrealized funds held in trust	-	154,653	154,653
Total investment return	2,602,717	22,563,409	25,166,126
Contributions	-	2,188,996	2,188,996
Matured deferred gifts	-	886,010	886,010
Change in contributions receivable	-	(320,000)	(320,000)
Appropriation of endowment assets for expenditure	(1,191,394)	(11,330,628)	(12,522,022)
Other changes:			
Transfer from operating reserve	(4,231,626)	-	(4,231,626)
Transfer for Board-designated	-	415,000	415,000
Endowment net assets, May 31, 2024	$ 21,194,494	$ 183,955,926	$ 205,150,420

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
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)
Endowment net assets, May 31, 2023	$ 24,014,797	$ 169,553,139	$ 193,567,936

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, 2024, approximately fifteen funds with original gift values of $1,339,182 and fair values of $1,308,811 and deficiencies of $30,371 were reported in net assets with donor restrictions. As of May 31, 2023, approximately seventy-one 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. 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. For year ending May 31, 2024, the Board approved an additional 2% spending. The total amount allocated to operations from the endowment was 7% of the fair value of the endowment investments at the end of the 20 trailing calendar quarters for the year ended May 31, 2024.

Endowment net assets included in the consolidated statements of financial position as of May 31, 2024 and 2023 include the following:

	2024	2023
Endowment investments (Note 6)	$ 209,451,698	$ 192,956,906
Funds held in trust	1,844,814	1,690,158
Contributions receivable	608,000	928,000
Interest receivable	114,804	151,274
Interfund balance (due to/from operating)	(6,868,896)	(2,158,402)
Total endowment net assets	$ 205,150,420	$ 193,567,936

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 7.4% in making the calculation at May 31, 2024 and 2023.

During the years ended May 31, 2024 and 2023, the College received gift income relating to deferred gift agreements of $0 and $11,804, respectively. Total assets (marketable securities, real estate and cash value of life insurance) held by the College under deferred gift agreements were $13,248,026 and $13,479,984 at May 31, 2024 and 2023, 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 $1,238,000 and $1,214,000 for the years ended May 31, 2024 and 2023, 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, 2024 and 2023:

	2024	2023
Total Expected Benefit Obligation Earned to Date, Based on Service		
Current retirees and dependents:		
Pre-65 payments	$ 266,000	$ 458,000
Post-65 payments	648,000	851,000
Active employees:		
Pre-65 payments	1,304,000	1,484,000
Post-65 payments	-	-
Benefit obligation at end of year	$ 2,218,000	$ 2,793,000
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	$ 2,793,000	$ 2,911,000
Net benefits earned	192,000	178,000
Expected benefit payments	(198,000)	(88,000)
Total gain	(569,000)	(208,000)
Benefit obligation at end of year	$ 2,218,000	$ 2,793,000
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	569,000	208,000
Participant contribution:		
Benefits paid	(569,000)	(208,000)
Fair value of plan assets at end of year	$ -	$ -
Funded Status		
Underfunded status at year end	$ (2,218,000)	$ (2,793,000)

	2024	2023
Amounts recognized in the consolidated statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	(569,000)	(208,000)
Noncurrent liabilities	(1,649,000)	(2,585,000)
Net amount recognized in accrued liabilities	$ (2,218,000)	$ (2,793,000)
Weighted Average Assumptions Used to Calculate the Benefit Obligation at May 31		
Discount rate	5.3%	4.8%
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%	4.6%
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, 2024	$ 174,000	$ (195,000)

Annual premium payments were approximately $61,000 and $59,000 for the years ended May 31, 2024 and 2023, respectively. During the fiscal year ending May 31, 2024, the College expects to contribute $569,000 in benefit payments for the postretirement medical plan.

Estimated future postretirement medical payments (which reflect expected future service, as appropriate) as of May 31, 2024 are as follows:

Years ending May 31:	
2025	$ 112,000
2026	137,000
2027	142,000
2028	159,000
2029	179,000
2030 – 2044	2,875,000

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 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, 2024:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	$ 21,438,684	$ 5,020,960	$ 26,459,644
Employee benefits	7,024,584	1,593,921	8,618,505
Student employment	1,769,539	131,466	1,901,005
Supplies and other operating expenses	2,132,491	2,181,927	4,314,418
Services and events	10,816,472	2,068,556	12,885,028
Occupancy and maintenance	4,524,228	353,939	4,878,167
Travel	3,416,761	179,892	3,596,653
Depreciation, amortization and accretion	5,246,161	263,787	5,509,948
Interest	509,658	4,674	514,332
Total expenses	$ 56,878,578	$ 11,799,122	$ 68,677,700

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	$ 57,137,950	$ 12,218,996	$ 69,356,946

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 65% of its cash and cash equivalents in a bank with a tier 1 risk-based capital ratio of 12.33 and a total risk-based capital ratio of 13.73 and 100% of cash restricted for plant acquisitions in a bank with a tier 1 risk-based capital ratio of 12.33 and a total risk-based capital ratio of 13.73. 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. 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.

20. Related-Party Transactions

Net unconditional promises to give due from Cabinet members and Board members at May 31, 2024 and 2023 were $174,000 and $69,000, respectively. The College received gifts and pledge payments from Board members and officers of $230,000 and $357,000, respectively, for the years ended May 31, 2024 and 2023. There are no other unsecured or secured related-party receivables at May 31, 2024 or 2023.

21. Subsequent Events

Luther College has evaluated subsequent events through September 11, 2024, which is the date that the consolidated financial statements were issued.