

Luther College

Consolidated Financial Statements

May 31, 2025 and 2024

Luther College

Table of Contents
May 31, 2025 and 2024

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

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, 2025 and 2024, 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, 2025 and 2024, 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 19, 2025

Luther CollegeConsolidated Statements of Financial Position
May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 12,570,293	\$ 14,234,211
Student accounts receivable, net of allowance of \$300,000 in 2025 and \$248,200 in 2024	639,819	666,341
Government grants receivable	352,227	489,560
Contributions receivable, net (Note 5)	9,740,000	11,235,000
Other receivables	574,238	676,267
Inventories, prepaid expenses and other assets	1,690,917	1,188,433
Investments:		
Short-term investments	17,537,603	6,440,833
Marketable securities	7,970,464	7,794,779
Mortgages and contracts receivable	1,500,000	1,500,000
Endowment (Note 6)	211,406,391	209,451,698
Beneficial interest in funds held in trust	3,025,597	2,898,914
Cash surrender value of life insurance	5,225,220	5,697,536
Student notes receivable, net (Note 8)	1,059,023	1,478,641
Interest rate swap asset (Note 13)	301,831	708,146
Cash restricted for plant acquisitions	5,769,871	6,383,511
Construction in progress (Note 9)	12,182,319	3,010,583
Property, plant and equipment, net (Note 10)	52,034,518	52,824,519
Total assets	<u>\$ 343,580,331</u>	<u>\$ 326,678,972</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 4,699,429	\$ 2,030,758
Accrued liabilities (Note 11)	7,931,068	7,385,533
Deferred revenue	1,690,046	371,873
Asset retirement obligations (Note 1)	4,052,821	3,322,962
Long-term debt (Note 12)	16,455,657	17,846,438
Annuities payable	3,274,251	3,301,016
Deposits held in custody for others	676,661	631,714
Government grants refundable (Note 8)	493,432	193,301
Total liabilities	<u>39,273,365</u>	<u>35,083,595</u>
Net Assets		
Without donor restrictions (Note 3)	77,033,340	82,741,767
With restrictions (Note 3)	<u>227,273,626</u>	<u>208,853,610</u>
Total net assets	<u>304,306,966</u>	<u>291,595,377</u>
Total liabilities and net assets	<u>\$ 343,580,331</u>	<u>\$ 326,678,972</u>

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities

Year Ended May 31, 2025 (With Comparative Totals for 2024)

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating Revenues				
Revenues, gains and other support:				
Tuition and fees, net of scholarships of \$49,739,918 and \$49,711,492 respectively, for May 31, 2025 and 2024	\$ 20,353,420	-	\$ 20,353,420	\$ 22,613,346
Government grants and contracts	1,245,344	169,146	1,414,490	1,224,756
Private gifts and grants	7,152,875	3,752,809	10,905,684	7,451,604
Investment income	973,344	-	973,344	733,602
Spending allowance appropriation	12,627,025	619,141	13,246,166	12,522,022
Other sources	1,697,905	(174)	1,697,731	1,995,285
Subsidiary	212,667	-	212,667	184,603
Sales and services of educational activities	1,900,718	-	1,900,718	1,826,230
Sales and services of auxiliary enterprises	15,741,335	-	15,741,335	16,431,672
Transfer from (to) nonoperating	1,260,927	-	1,260,927	1,901,836
	63,165,560	4,540,922	67,706,482	66,884,956
Net assets released from restrictions	910,846	(910,846)	-	-
Total revenues, gains and other support	64,076,406	3,630,076	67,706,482	66,884,956
Operating Expenses				
Program expenses:				
Instruction	24,779,326	-	24,779,326	25,264,745
Research	429,294	-	429,294	531,417
Public service	119,708	-	119,708	208,959
Academic support	3,935,244	-	3,935,244	4,085,253
Student services	13,718,544	-	13,718,544	13,332,516
Auxiliary enterprises	12,792,628	-	12,792,628	13,455,688
Support expenses:				
Institutional support	13,024,269	-	13,024,269	11,636,811
Subsidiary	121,363	-	121,363	162,311
Allocable expenses:				
Operation and maintenance of plant	7,793,546	-	7,793,546	8,283,211
Depreciation and amortization	5,271,329	-	5,271,329	5,344,195
Accretion	202,160	-	202,160	165,753
Interest	485,885	-	485,885	514,332
Less allocated expenses	(13,752,919)	-	(13,752,919)	(14,307,491)
Total expenses	68,920,377	-	68,920,377	68,677,700
Change in net assets from operating activities	(4,843,971)	3,630,076	(1,213,895)	(1,792,744)
Nonoperating Activities				
Gifts and grants	24,212	8,338,911	8,363,123	14,735,631
Endowment income	441,272	3,381,640	3,822,912	3,912,051
Gain on investments	1,499,759	14,251,398	15,751,157	21,099,422
Spending allowance appropriation	(1,290,343)	(11,955,823)	(13,246,166)	(12,522,022)
Gain on investments (FHIT)	-	126,683	126,683	310,604
Actuarial adjustment	108,986	666,031	775,017	813,402
Gain (Loss) on swap agreement	(406,315)	-	(406,315)	111,372
Transfer (to) from operating	(1,260,927)	-	(1,260,927)	(1,901,836)
Donor redesignation of net assets	(186,045)	186,045	-	-
Net assets released from restrictions	204,945	(204,945)	-	-
Change in net assets from nonoperating activities	(864,456)	14,789,940	13,925,484	26,558,624
Change in net assets	(5,708,427)	18,420,016	12,711,589	24,765,880
Net Assets, Beginning	82,741,767	208,853,610	291,595,377	266,829,497
Net Assets, Ending	\$ 77,033,340	\$ 227,273,626	\$ 304,306,966	\$ 291,595,377

See notes to consolidated financial statements

Luther College

Consolidated Statement of Activities
Year Ended May 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Revenues, gains and other support:			
Tuition and fees, net of scholarships of \$49,711,492 for May 31, 2024	\$ 22,613,346	\$ -	\$ 22,613,346
Government grants and contracts	1,148,397	76,359	1,224,756
Private gifts and grants	7,146,127	305,477	7,451,604
Investment income	733,602	-	733,602
Spending allowance appropriation	11,922,303	599,719	12,522,022
Other sources	1,991,396	3,889	1,995,285
Subsidiary	184,603	-	184,603
Sales and services of educational activities	1,826,230	-	1,826,230
Sales and services of auxiliary enterprises	16,431,672	-	16,431,672
Transfer from (to) nonoperating	2,316,836	(415,000)	1,901,836
	66,314,512	570,444	66,884,956
Net assets released from restrictions	775,174	(775,174)	-
Total revenues, gains and other support	67,089,686	(204,730)	66,884,956
Operating Expenses			
Program expenses:			
Instruction	25,264,745	-	25,264,745
Research	531,417	-	531,417
Public service	208,959	-	208,959
Academic support	4,085,253	-	4,085,253
Student services	13,332,516	-	13,332,516
Auxiliary enterprises	13,455,688	-	13,455,688
Support expenses:			
Institutional support	11,636,811	-	11,636,811
Subsidiary	162,311	-	162,311
Allocable expenses:			
Operation and maintenance of plant	8,283,211	-	8,283,211
Depreciation and amortization	5,344,195	-	5,344,195
Accretion	165,753	-	165,753
Interest	514,332	-	514,332
Less allocated expenses	(14,307,491)	-	(14,307,491)
Total expenses	68,677,700	-	68,677,700
Change in net assets from operating activities	(1,588,014)	(204,730)	(1,792,744)
Nonoperating Activities			
Gifts and grants	186,602	14,549,029	14,735,631
Endowment income	615,156	3,296,895	3,912,051
Gain on investments	1,987,561	19,111,861	21,099,422
Spending allowance appropriation	(1,191,394)	(11,330,628)	(12,522,022)
Gain on investments (FHIT)	-	310,604	310,604
Actuarial adjustment	154,522	658,880	813,402
Gain on swap agreement	111,372	-	111,372
Transfer to (from) operating	(2,316,836)	415,000	(1,901,836)
Net assets released from restrictions	221,886	(221,886)	-
Change in net assets from nonoperating activities	(231,131)	26,789,755	26,558,624
Change in net assets	(1,819,145)	26,585,025	24,765,880
Net Assets, Beginning	84,560,912	182,268,585	266,829,497
Net Assets, Ending	\$ 82,741,767	\$ 208,853,610	\$ 291,595,377

See notes to consolidated financial statements

Luther College

Consolidated Statements of Cash Flows
Years Ended May 31, 2025 and 2024

	2025	2024
Cash Flows From Operating Activities		
Change in net assets	\$ 12,711,589	\$ 24,765,880
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	5,473,489	5,509,948
(Gain) loss on interest rate swap valuation	406,315	(111,372)
(Gain) on investments, net	(16,511,696)	(21,919,684)
Change in beneficial interest in funds held in trust	(126,683)	(310,604)
Actuarial adjustment of annuities payable	(113,929)	143,127
Loan cancellations, reinstatements and write-offs	13,660	257,296
Change in allowance on student notes receivable	(150,000)	(217,939)
Contributions restricted for loans, long-term investment and plant	(8,363,123)	(14,735,631)
Changes in assets and liabilities:		
Student accounts receivable	26,522	(163,483)
Contributions receivable for operations	(3,489,000)	24,000
Government grants and other receivables	239,362	744,230
Inventories, prepaid expenses and other assets	(30,168)	(280,861)
Accounts payable and accrued liabilities	1,313,996	(1,418,417)
Deferred revenue and deposits held in custody for others	1,363,120	(590,141)
Asset retirement obligations	(56,781)	(30,316)
Investment income restricted for reinvestment	(511,177)	(506,098)
Cash flows from operating activities	<u>(7,804,504)</u>	<u>(8,840,065)</u>
Cash Flows From Investing Activities		
Purchases of investments	(45,296,618)	(45,813,566)
Sales of investments	47,495,572	50,638,714
Purchases of property, plant and equipment	(11,150,157)	(3,207,492)
Repayments of loans from students	555,958	639,222
Cash flows from investing activities	<u>(8,395,245)</u>	<u>2,256,878</u>
Cash Flows From Financing Activities		
Payment for debt issuance costs related to long-term debt	(34,700)	-
Payments of principal on indebtedness	(1,374,298)	(1,374,298)
Receipt of investment income restricted for reinvestment	511,177	506,098
Contributions and grants received restricted for loans, long-term investment and plant	13,347,123	5,560,631
Change in government grants refundable	300,131	(695,850)
Proceeds from issuance of split-interest agreements	186,195	-
Payments to annuitants	(99,031)	(119,325)
Cash flows from financing activities	<u>12,836,597</u>	<u>3,877,256</u>
Change in cash and cash equivalents	(3,363,152)	(2,705,931)
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>21,703,316</u>	<u>24,409,247</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u><u>\$ 18,340,164</u></u>	<u><u>\$ 21,703,316</u></u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Consolidated Statements of Financial Position		
Cash and cash equivalents	\$ 12,570,293	\$ 14,234,211
Cash restricted for plant acquisitions	5,769,871	6,383,511
Cash and cash equivalents without donor restrictions included in investments	<u>-</u>	<u>1,085,594</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u><u>\$ 18,340,164</u></u>	<u><u>\$ 21,703,316</u></u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 781,676	\$ 888,461
Receipts on swap settlements	<u><u>\$ (294,604)</u></u>	<u><u>\$ (366,754)</u></u>
Noncash Investment and Financing Activities		
Property, plant and equipment acquired through accounts payable	<u><u>\$ 2,181,459</u></u>	<u><u>\$ 281,249</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 donor 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 \$952,000 that have not been recognized at May 31, 2025 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.

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, 2025 and 2024.

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, 2025 and 2024 are as follows:

	2025	2024
Balance, beginning	\$ 3,322,962	\$ 3,187,525
Additions	584,480	-
Abatements	(56,781)	(30,316)
Accretion expense	202,160	165,753
Balance, ending	<u>\$ 4,052,821</u>	<u>\$ 3,322,962</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.

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 \$(1,995,503) and \$(3,841,626) transferred from (to) operations to (from) quasi endowment; \$(102,314) and \$(52,108) transferred to operations from matured deferred gifts; \$836,890 and \$1,991,898 transferred to the plant fund for capital projects, for the years ended May 31, 2025 and 2024, 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 \$2,768,000 and \$2,524,000 for the years ended May 31, 2025 and 2024, respectively. Advertising expenses totaled approximately \$802,000 and \$714,000 for the years ended May 31, 2025 and 2024, 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, 2025 and 2024, Luther College Ventures, Inc. had carryforward losses and tax deductions in excess of expenses. Income tax expense of \$40,000 and \$10,000 in 2025 and 2024, 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, 2025 and 2024. 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.

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 the interest rate exchange agreement 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, 2025 and 2024.

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, 2025 and 2024

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2025:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds:				
U.S. equity funds	\$ 60,571,795	\$ 60,571,795	\$ -	\$ -
Non-U.S. equity funds	44,943,637	44,943,637	-	-
U.S. fixed income funds	38,309,458	38,309,458	-	-
Non-U.S. fixed income funds	296,945	296,945	-	-
Interest rate exchange agreement	301,831	-	301,831	-
Beneficial interest in funds held in trust	3,025,597	-	-	3,025,597
Total assets by valuation hierarchy	147,449,263	\$ 144,121,835	\$ 301,831	\$ 3,025,597
Investments measured using NAV:				
Alternative investments:				
Hedge funds	29,104,517			
Private equity funds	18,971,121			
Funds of funds	11,855,685			
Real asset funds	7,263,155			
Private debt funds	1,754,164			
Total assets by NAV	68,948,642			
Total assets at fair value	216,397,905			
Investments at cost:				
Short-term investments	17,537,603			
Short-term endowment investments	6,306,372			
Real estate endowment investments	6			
Mortgage and contract receivable	1,500,000			
	25,343,981			
Less interest rate exchange agreement	(301,831)			
Total investments	\$ 241,440,055			

Luther College

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

The following table summarizes financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of May 31, 2024:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>2,898,914</u>	<u>-</u>	<u>-</u>	<u>2,898,914</u>
Total assets by valuation hierarchy	<u>146,670,380</u>	<u>\$ 143,063,320</u>	<u>\$ 708,146</u>	<u>\$ 2,898,914</u>
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	<u>1,297,644</u>			
Total assets by NAV	<u>64,328,202</u>			
Total assets at fair value	<u>210,998,582</u>			
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	<u>1,500,000</u>			
	<u>17,795,788</u>			
Less interest rate exchange agreement	<u>(708,146)</u>			
Total investments	<u>\$ 228,086,224</u>			

During 2025 and 2024 there were no sales, purchases or transfers of level three assets.

Luther College

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

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	Funds of Funds
Fair value, May 31, 2025	\$ 18,971,121	\$ 7,263,155	\$ 1,754,164	\$ 29,104,517	\$ 11,855,685
Fair value, May 31, 2024	\$ 19,327,554	\$ 6,823,679	\$ 1,297,644	\$ 26,790,365	\$ 10,088,960
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 12 years	0 to 10 years	0 to 6 years	N.A.	N.A.
Dollar amount of unfunded commitments	\$ 10,629,323	\$ 5,104,054	\$ 1,321,973	None	None
Timing to draw down commitments	0 to 11 years	0 to 10 years	0 to 2 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

Luther College

Notes to Consolidated Financial Statements
May 31, 2025 and 2024

3. Restrictions and Limitations on Net Asset Balances

At May 31, 2025 and 2024, the College's net assets without donor restrictions were allocated as follows:

	2025	2024
Operations	\$ 17,221,855	\$ 17,869,122
Long-term investment (board designated endowment funds)	19,869,040	17,705,360
Long-term investment (management designated endowment funds)	-	3,489,134
Annuity, life income and similar funds	1,795,691	1,873,363
Loans to students	1,374,805	1,925,911
Replacement of plant facilities	420,359	3,547,998
Board designated for special projects	503,091	1,004,859
Net investment in plant	35,848,499	35,326,020
Total	\$ 77,033,340	\$ 82,741,767

Net assets with donor restrictions consist of the following at May 31, 2025 and 2024:

	2025	2024
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support, operating	\$ 1,543,118	\$ 1,401,871
Scholarships, instruction and other support, endowment	192,258,964	181,503,112
Acquisition of buildings and equipment	12,874,568	3,943,095
	206,676,650	186,848,078
Annuity, life income and similar funds	7,812,760	7,854,095
Beneficial interest in funds held in trust, endowment	1,934,710	1,844,814
Beneficial interest in funds held in trust, deferred gifts	1,090,887	1,054,100
Loans to students	18,619	17,523
Contributions receivable	9,740,000	11,235,000
Total	\$ 227,273,626	\$ 208,853,610

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended May 31, 2025 and 2024 by incurring expenses, satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2025	2024
Operating:		
Scholarships, instruction and other departmental support	\$ 910,846	\$ 775,174
Nonoperating:		
Matured deferred gifts	77,828	-
Acquisition of land, building and equipment	127,117	221,886
Total	\$ 1,115,791	\$ 997,060

These assets were reclassified to net assets without donor restrictions.

Luther College

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

5. Contributions Receivable

Contributions receivable include the following unconditional promises to give at May 31, 2025 and 2024:

	2025	2024
With donor restrictions:		
Operations	\$ 4,936,000	\$ 1,056,000
Plant projects	5,034,000	11,059,000
Endowment	897,000	659,000
Gross unconditional promises to give	10,867,000	12,774,000
Less unamortized discount	(614,000)	(948,000)
Less allowance for uncollectible accounts	(513,000)	(591,000)
Net unconditional promises to give	\$ 9,740,000	\$ 11,235,000
Amounts due in:		
Less than one year	\$ 5,992,000	
One to five years	4,875,000	
Total	\$ 10,867,000	

At May 31, 2025 and 2024, 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, 2025 and 2024:

	2025	2024
Cash and short-term investments	\$ 6,306,372	\$ 9,854,949
Mutual funds	136,151,371	135,268,541
Real estate, at cost	6	6
Alternative investments	68,948,642	64,328,202
Total	\$ 211,406,391	\$ 209,451,698

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, 2025 and 2024.

	2025	2024
Cash and cash equivalents	\$ 12,570,293	\$ 14,234,211
Student accounts receivable, net of allowance for doubtful accounts	639,819	666,341
Government grants receivable	352,227	489,560
Contributions receivable	2,872,000	641,000
Other receivables	562,126	609,368
Investments:		
Short-term investments	17,504,171	6,440,833
Endowment:		
Spending rate appropriations for the next fiscal year	13,245,750	12,522,022
Management designated quasi-endowment	1,978,703	3,441,231
Cash designated by management for plant acquisitions	1,861,355	1,597,997
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 51,586,444</u>	<u>\$ 40,642,563</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. 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 \$19,869,040 and \$17,705,360 as of May 31, 2025 and 2024, 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, 2025 and 2024, student loans represented .31% and 0.45% of total assets, respectively.

Luther College

Notes to Consolidated Financial Statements May 31, 2025 and 2024

At May 31, 2025 and 2024, student loans consisted of the following:

	2025	2024
Federal government programs	\$ 720,603	\$ 1,121,873
Institutional programs	465,420	633,768
	<u>1,186,023</u>	<u>1,755,641</u>
Less allowance for credit/loan losses:		
Beginning of year	(277,000)	(494,939)
Decreases	<u>150,000</u>	<u>217,939</u>
End of year	<u>(127,000)</u>	<u>(277,000)</u>
Student notes receivable, net	<u>\$ 1,059,023</u>	<u>\$ 1,478,641</u>

Funds advanced by the federal government of \$493,432 and \$193,301 at May 31, 2025 and 2024, 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, 2025, the College continues to service the Perkins Loan Program. During the years ending May 31, 2025 and 2024, the College returned \$361,054 and \$502,935 in excess cash to the government, respectively, which reduced the government grants refundable.

At May 31, 2025 and 2024, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-59 Days	60-89 Days	90+ Days	Total
2025	<u>\$ 22,455</u>	<u>\$ 26,998</u>	<u>\$ 228,708</u>	<u>\$ 278,161</u>
2024	<u>\$ 31,070</u>	<u>\$ 48,924</u>	<u>\$ 311,812</u>	<u>\$ 391,806</u>

Luther College

Notes to Consolidated Financial Statements
May 31, 2025 and 2024

9. Construction in Progress

At May 31, 2025, the following construction projects were in progress:

	<u>Estimated Total Cost</u>	<u>Cost to Date</u>	<u>Funding Source</u>
Athletic Facilities Renew	25,500,000	\$ 12,182,319	Operations and gifts
Total		<u>\$ 12,182,319</u>	

Outstanding commitments on construction contracts totaled approximately \$12,300,000 at May 31, 2025.

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of May 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Land	\$ 663,581	\$ 663,581
Buildings	144,179,383	140,289,386
Improvements other than buildings	18,962,618	18,962,618
Wind turbine	3,237,495	3,237,495
Equipment and library books	37,943,344	39,831,777
	204,986,421	202,984,857
Less accumulated depreciation	<u>(152,951,903)</u>	<u>(150,160,338)</u>
Total	<u>\$ 52,034,518</u>	<u>\$ 52,824,519</u>

11. Accrued Liabilities

Accrued liabilities consisted of the following as of May 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Payroll	\$ 5,197,705	\$ 4,970,500
Post-retirement benefit obligation (Note 16)	2,274,000	2,218,000
Interest	69,696	102,395
Other	389,667	94,638
Total	<u>\$ 7,931,068</u>	<u>\$ 7,385,533</u>

Luther College

Notes to Consolidated Financial Statements
May 31, 2025 and 2024

12. Long-Term Debt and Line of Credit

Long-term debt outstanding at May 31, 2025 and 2024 are as follows:

	2025	2024
Iowa Higher Education Loan Authority, Private College Facility Revenue Refunding Bonds, Series 2017	\$ 12,916,084	\$ 13,963,334
City of Decorah, Iowa Private College Facility Revenue Refinancing Bonds, Series 2015	3,597,051	3,924,099
Principal outstanding	16,513,135	17,887,433
Deferred debt acquisition costs, net	(57,478)	(40,995)
Total long-term debt	\$ 16,455,657	\$ 17,846,438

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, 2025, 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 4.48% and 5.16% as of May 31, 2025 and 2024, 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, 2025, 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.

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. The College has not drawn on the contract.

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

Years ending May 31:	
2026	\$ 1,374,298
2027	1,374,298
2028	1,374,298
2029	1,374,298
2030	1,374,298
Thereafter	<u>9,641,645</u>
Total	<u>\$ 16,513,135</u>

The College has a \$5,000,000 unsecured line of credit with a bank with an expiration date of March 1, 2026. 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 2025 and 2024, the College paid \$281,485 and \$370,267, 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, 2025, 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, 2025 and 2024 as follows:

Derivatives Not Designated as Hedging Instruments	Asset (Liability) Derivative		
	Consolidated Statements of Financial Position Location	Fair Value	
		2025	2024
Interest rate swap	Interest rate swap asset	\$ 301,831	\$ 708,146

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

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain on Derivatives Recognized in the Consolidated Statement of Activities	Amount of (Loss) Gain on Derivatives Recognized in the Consolidated Statements of Activities	
		2025	2024
Interest rate swap	Gain (Loss) on swap agreement	\$ (406,315)	\$ 111,372

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

Luther CollegeNotes to Consolidated Financial Statements
May 31, 2025 and 2024

Endowment net asset composition by type of fund consists of the following as of May 31, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 125,252,777	\$ 125,252,777
Donor-restricted accumulated earnings	-	67,006,187	67,006,187
Donor-restricted funds held in trust	-	1,934,710	1,934,710
Board and management designated endowment funds	19,869,040	-	19,869,040
Contributions receivable, net	-	775,000	775,000
Total endowment net assets	\$ 19,869,040	\$ 194,968,674	\$ 214,837,714

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

Changes in endowment net assets for the year ended May 31, 2025 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2024	\$ 21,194,494	\$ 183,955,926	\$ 205,150,420
Investment return:			
Investment income	441,272	3,381,640	3,822,912
Net appreciation, realized and unrealized	1,519,120	14,251,398	15,770,518
Net appreciation, realized and unrealized funds held in trust	-	89,897	89,897
Total investment return	1,960,392	17,722,935	19,683,327
Contributions	-	4,178,318	4,178,318
Matured deferred gifts	-	901,588	901,588
Change in contributions receivable	-	167,000	167,000
Appropriation of endowment assets for expenditure	(1,290,343)	(11,957,093)	(13,247,436)
Other changes:			
Transfer from Board-designated	(1,995,503)	-	(1,995,503)
Endowment net assets, May 31, 2025	\$ 19,869,040	\$ 194,968,674	\$ 214,837,714

Luther College

Notes to Consolidated Financial Statements
May 31, 2025 and 2024

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 to Board-designated	-	415,000	415,000
Endowment net assets, May 31, 2024	\$ 21,194,494	\$ 183,955,926	\$ 205,150,420

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, 2025, approximately three funds with original gift values of \$118,731 and fair values of \$101,802 and deficiencies of \$16,929 were reported in net assets with donor restrictions. 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. 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, 2025, 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, 2025.

Endowment net assets included in the consolidated statements of financial position as of May 31, 2025 and 2024 include the following:

	2025	2024
Endowment investments (Note 6)	\$ 211,406,391	\$ 209,451,698
Funds held in trust	1,934,710	1,844,814
Contributions receivable	775,000	608,000
Interest receivable	28,912	114,804
Interfund balance (due to/from operating)	692,701	(6,868,896)
Total endowment net assets	<u>\$ 214,837,714</u>	<u>\$ 205,150,420</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 7.8% in making the calculation at May 31, 2025 and 2024.

Luther College

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

During the years ended May 31, 2025 and 2024, the College received gift income relating to deferred gift agreements of \$109,032 and \$0, respectively. Total assets (marketable securities, real estate and cash value of life insurance) held by the College under deferred gift agreements were \$13,244,389 and \$13,248,026 at May 31, 2025 and 2024, respectively.

16. Employee Benefit Plans

The College has a 403(b) defined contribution retirement plan provided for eligible salaried and hourly employees through the Iowa Association of Independent Colleges and Universities Multiple Employer Plan (The Plan). Under this arrangement, the College and the Plan participants make contributions to the Plan. During the years ending May 31, 2025 and 2024, the College contributed 5% of the covered payroll for eligible employees who contributed at least 3% of their covered payroll to the Plan. Contributions to the Retirement Plan are paid currently and amounted to approximately \$1,234,000 and \$1,238,000 for the years ended May 31, 2025 and 2024, 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, 2025 and 2024:

	2025	2024
Total Expected Benefit Obligation Earned to Date, Based on Service		
Current retirees and dependents:		
Pre-65 payments	\$ 243,000	\$ 266,000
Post-65 payments	616,000	648,000
Active employees:		
Pre-65 payments	1,415,000	1,304,000
Post-65 payments	-	-
Benefit obligation at end of year	<u>\$ 2,274,000</u>	<u>\$ 2,218,000</u>
Change in Projected Benefit Obligation		
Benefit obligation at beginning of year	\$ 2,218,000	\$ 2,793,000
Net benefits earned	168,000	192,000
Expected benefit payments	(112,000)	(198,000)
Total gain	<u>-</u>	<u>(569,000)</u>
Benefit obligation at end of year	<u>\$ 2,274,000</u>	<u>\$ 2,218,000</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	-	569,000
Participant contribution:		
Benefits paid	<u>-</u>	<u>(569,000)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

Luther College

Notes to Consolidated Financial Statements

May 31, 2025 and 2024

Funded Status

Underfunded status at year end

\$ (2,274,000) \$ (2,218,000)

2025

2024

Amounts recognized in the consolidated statements of financial position consist of:

Noncurrent assets

\$ - \$ -

Liabilities

(2,274,000) (2,218,000)

Net amount recognized in accrued liabilities

\$ (2,274,000) \$ (2,218,000)

Weighted Average Assumptions Used to Calculate the Benefit Obligation at May 31

Discount rate

5.3%

5.3%

Expected return on plan assets

-

-

Rate of compensation increase

-

-

Assumed Health Care Cost Trend Rates at May 31

Health care cost trend rate assumed for next year

5.2%

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, 2025

\$ 178,000

\$ (200,000)

Annual premium payments were approximately \$54,000 and \$61,000 for the years ended May 31, 2025 and 2024, respectively. During the fiscal year ending May 31, 2025, the College expects to contribute \$0 in benefit payments for the postretirement medical plan.

Estimated future postretirement medical payments (which reflect expected future service, as appropriate) as of May 31, 2025 are as follows:

Years ending May 31:

2026

\$ 137,000

2027

142,000

2028

159,000

2029

179,000

2030

205,000

2031 - 2044

2,835,000

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, 2025:

	Program Activities	Support Activities	Total Expenses
Salaries and wages	\$ 21,153,532	\$ 5,247,938	\$ 26,401,470
Employee benefits	8,149,711	1,829,514	9,979,225
Student employment	1,701,252	120,275	1,821,527
Supplies and other operating expenses	1,866,791	3,028,631	4,895,422
Services and events	10,711,041	2,262,327	12,973,368
Occupancy and maintenance	3,577,874	261,778	3,839,652
Travel	2,907,530	142,810	3,050,340
Depreciation, amortization and accretion	5,225,037	248,452	5,473,489
Interest	481,977	3,907	485,884
Total expenses	<u>\$ 55,774,745</u>	<u>\$ 13,145,632</u>	<u>\$ 68,920,377</u>

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	<u>\$ 56,878,578</u>	<u>\$ 11,799,122</u>	<u>\$ 68,677,700</u>

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 59% of its cash and cash equivalents in a bank with a tier 1 risk-based capital ratio of 13.72 and a total risk-based capital ratio of 15.24 and 100% of cash restricted for plant acquisitions in a bank with a tier 1 risk-based capital ratio of 13.72 and a total risk-based capital ratio of 15.24. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. The College currently has 27% of its investments concentrated in two funds. 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. The College received 30% of its total contribution revenue from one donor. Twenty-one percent of the College's pledge receivable is from one donor.

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, 2025 and 2024 were \$433,000 and \$174,000, respectively. The College received gifts and pledge payments from Board members and officers of \$461,000 and \$230,000, respectively, for the years ended May 31, 2025 and 2024. There are no other unsecured or secured related-party receivables at May 31, 2025 or 2024.

21. Subsequent Events

Luther College has evaluated subsequent events through September 19, 2025, which is the date that the consolidated financial statements were issued.