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# Northwestern Michigan College Foundation

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**Financial Report**  
**June 30, 2023**

# Northwestern Michigan College Foundation

## **Board of Directors and Officers June 30, 2023**

Jayne Mohr (Chair)  
Pat Warner (First Vice Chair)  
Nick Nissley (Second Vice Chair)  
Debbie Edson (Secretary)  
Steve Fisher (Treasurer)  
Jennifer Hricik (Interim Executive Director)

Suzanne Allen  
Lorraine Beers  
Barb Benson  
Doug Bishop (Trustee)  
Chris Branson  
Bruce Byle  
Kerm Campbell  
Don Coe  
Bill Donberg  
Fran Gingras  
Chris Lamb  
Eleanor Lynn  
Bill Marsh  
Diana Milock  
Laura Oblinger (Trustee)  
Marty Oleson  
Susan Sheldon  
Dave Shooltz  
Kennard Weaver (Trustee)  
Jim Weigand  
Timothy Young  
Al Zelinski  
Nancy Zimmer

### **Faculty Representative**

Cheryl Bloomquist  
Steve Rice

### **Staff Representative**

Linda Berlin

### **Student Representative**

Landon DeHeer  
Sarah Sergent

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## Independent Auditor's Report

To the Board of Directors  
Northwestern Michigan College Foundation

### **Opinion**

We have audited the financial statements of Northwestern Michigan College Foundation (the "Foundation"), a component unit of Northwestern Michigan College, as of and for the years ended June 30, 2023 and 2022 and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Northwestern Michigan College Foundation as of June 30, 2023 and 2022 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **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 *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Foundation 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.

### **Emphasis of Matter**

As discussed in Note 11, the Foundation switched to reporting under requirements of the Governmental Accounting Standards Board (GASB) in accordance with the requirements under the governmental reporting model established by the GASB given that the majority of the members of the governing body are appointed by a governmental entity (Northwestern Michigan College). Our opinion is not modified with respect to this matter.

### **Report on Prior Year Financial Statements**

In our report dated October 12, 2022, we expressed a qualified opinion that the June 30, 2022 financial statements did not fairly present the financial position, results of operations, and cash flows of the Foundation in accordance with accounting principles generally accepted in the United States of America. As described in Note 11, the Foundation has restated its 2022 financial statements to conform with GAAP reporting under GASB. Accordingly, our present opinion on the June 30, 2022 financial statements, as presented herein, is different from that expressed in our previous report.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Directors  
Northwestern Michigan College Foundation

### ***Auditor's Responsibilities for the Audits of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 audits 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 financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Foundation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors  
Northwestern Michigan College Foundation

***Other Information***

Management is responsible for the accompanying listing of board of directors and officers, which is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Our opinion on the basic financial statements does not cover such information, and we do not express an opinion or any form of assurance thereon.

*Plante & Moran, PLLC*

October 18, 2023

### **Purpose of the Northwestern Michigan College Foundation**

The Northwestern Michigan College Foundation ("Foundation") was organized and incorporated in 1981 for the purpose of stimulating voluntary private support from alumni, parents, friends, corporations, foundations, and others for the benefit of Northwestern Michigan College ("College"), a public institution of higher education. The Foundation exists to raise and manage private resources supporting the mission and vision of the College. The Foundation is dedicated to building program and scholarship endowments on behalf of the College as well as addressing, through financial support, the College's long-term academic and other priorities.

### **Financial Reporting Overview**

The Foundation is a not-for-profit organization legally incorporated in Michigan and maintains its tax-exempt status under IRS Section 501(c)3. However, for financial reporting purposes, the Foundation meets the definition of a governmental entity due to its governance structure and relationship with Northwestern Michigan College. The Foundation's bylaws contain two elements that independently qualify it as a government for financial reporting purposes:

- Foundation Board member appointments are approved by the College's Board of Trustees
- The Foundation may be dissolved and its charter revoked by action of the College's Board of Trustees, in which case the net assets of the Foundation would revert to the College

Therefore, the Foundation follows financial reporting guidance promulgated by the Governmental Accounting Standards Board ("GASB"). While the designation as a government for financial reporting purposes has no bearing on the Foundation's legal or tax status, it is noteworthy that certain accounting principles, terminology, and presentation of these financials under GASB differ from other not-for-profits that commonly follow private sector financial reporting guidance issued under the Financial Accounting Standards Board ("FASB").

This set of audited financial statements contains a management's discussion and analysis section, the basic financial statements which include the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows, and notes to the financial statements. The statements of net position include all of the Foundation's assets, liabilities and net position, and deferred outflows and inflows of resources. The statements of revenues, expenses and changes in net position account for all of the current year's revenues and expenses when earned or incurred regardless of when cash is received or paid. The Foundation's net position is reported in the statement of net position. Net position, calculated as the Foundation's assets and deferred outflows less liabilities and deferred inflows, is one way to measure the Foundation's financial health. Increases or decreases in the Foundation's net position are one indicator of whether its financial position is improving or deteriorating.

Financial Statement Highlights: Statements of Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Assets</b>			
Current assets	\$ 12,517,161	\$ 7,785,994	\$ 8,638,650
Noncurrent assets	46,860,173	50,005,474	55,476,188
<b>Total assets</b>	<u>59,377,334</u>	<u>57,791,468</u>	<u>64,114,838</u>
<b>Liabilities</b>			
Current liabilities	1,794,315	3,245,877	2,897,988
Noncurrent liabilities	32,825	35,275	74,082
<b>Total liabilities</b>	<u>1,827,140</u>	<u>3,281,152</u>	<u>2,972,070</u>
<b>Deferred inflows</b>	22,091	-	-
<b>Net position</b>			
Restricted			
Nonexpendable - endowment corpus	18,679,064	17,525,939	16,409,948
Expendable -College programs and Student financial aid	34,528,641	32,666,247	39,261,187
Unrestricted	4,320,398	4,318,130	5,471,633
<b>Total net position</b>	<u>\$ 57,528,103</u>	<u>\$ 54,510,316</u>	<u>\$ 61,142,768</u>

**Changes from 2022 to 2023**

Total assets increased by \$1.6 million, or 3%. This increase was driven by net investment gains of \$4.9 million and current year contributions of \$2.8 million, offset by distributions to the College for scholarships and programs in fulfillment of the donor's intent.

Total liabilities decreased by \$1.5 million, or 44%. This decrease was due to differences in the nature of payables to the College at the end of each year, and the timing of the related distributions to the College. The Foundation's payable to the College at June 30, 2022 included a one-time catch-up distribution of \$409,000 to support the operating deficit of the College's Dennon Museum, and one-time unrestricted support of \$200,000 under the Hawk Owl Hero initiative to support the College's operating budget during the pandemic. Additionally, in fiscal year 2022, support for the quarter ended March 2022 totaling \$799,000 wasn't distributed until July 2022, therefore payable at year end. For fiscal year 2023, support for the quarter ended March 2023 totaling \$503,000 was distributed to the College in May 2023, therefore not payable at June 30, 2023.

Deferred inflows represent unearned revenues related to gift annuity agreements. Revenues will be recognized when payments are received or the trust terminates as required under GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

Total net position increased by \$3.0 million, or 6%. The increase in restricted nonexpendable net position of \$1.2 million represents new endowment gifts received. Restricted expendable net position increased due to investment performance, while unrestricted net position remained stable compared to the prior year.



**Changes from 2021 to 2022**

Total assets decreased by \$6.3 million, or -10%. This decrease was due to net investment losses of \$5.6 million and assets distributed to the College, offset by contributions of \$3.8 million during 2022.

Total liabilities increased by \$309,000, or 10%. The increase was due to differences in the nature of amounts due to the College at the end of each year, and the related timing of those distributions or repayments to the College.

Total net position decreased by \$6.6 million, or -11%, due to investment losses previously described.

**Financial Statement Highlights: Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Operating Expenses</b>			
Grants to Northwestern Michigan College	\$ 4,298,421	\$ 3,982,552	\$ 3,361,851
Other operating expenses	592,809	1,122,703	1,246,352
<b>Total operating expenses</b>	<u>4,891,230</u>	<u>5,105,255</u>	<u>4,608,203</u>
<b>Operating Loss</b>	(4,891,230)	(5,105,255)	(4,608,203)
<b>Nonoperating Revenue (Expense)</b>			
Contributions and special events revenue	1,843,428	2,992,168	3,932,571
Net investment income and gains (losses)	4,982,578	(5,593,166)	12,228,117
<b>Total nonoperating revenues</b>	<u>6,826,006</u>	<u>(2,600,998)</u>	<u>16,160,688</u>
<b>Additions to Permanent Endowments</b>	<u>1,083,011</u>	<u>1,073,801</u>	<u>1,826,597</u>
<b>Change in net position</b>	3,017,787	(6,632,452)	13,379,082
<b>Net Position - Beginning of Year</b>	<u>54,510,316</u>	<u>61,142,768</u>	<u>47,763,686</u>
<b>Net Position - End of Year</b>	<u>\$ 57,528,103</u>	<u>\$ 54,510,316</u>	<u>\$ 61,142,768</u>

**Changes from 2022 to 2023**

Grants to Northwestern Michigan College increased by \$316,000, or 8%, due to increased program and scholarship support provided to the College.

Other operating expenses changed because of the Foundation not receiving an allocation of contributed services from the College in 2023 as was noted in prior years. GASB guidance would not require the recognition of these services. The table below outlines the actual expenses paid by the Foundation for operations. The reduction from 2022 to 2023 is primarily due to reduced staffing costs.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Other operating expenses as reported	\$ 592,809	\$ 1,122,703	\$ 1,246,352
less: College contributed services	-	(394,820)	(473,582)
Operating expenses paid by Foundation	<u>\$ 592,809</u>	<u>\$ 727,883</u>	<u>\$ 772,770</u>

Contributions and special events revenue declined by \$1.1 million, or 38%, due to the Foundation's *Be What's Possible* campaign concluding during fiscal year 2022. Additionally, the Foundation's annual

June 30, 2023

Scholarship Golf Outing was not held in fiscal year 2023. This event raised approximately \$300,000 for scholarships in fiscal year 2022.

Gifts to the Foundation's permanent endowment are recognized when received. Endowment gifts received in 2023 were comparable to amounts received in 2022 due to continued collection of long-term endowment pledges made by donors during the *Be What's Possible* campaign.

### **Changes from 2021 to 2022**

Grants to Northwestern Michigan College increased by \$621,000, or 18%, due to increased program and scholarship support provided to the College. Specifically, \$409,000 and \$200,000 were provided during fiscal year 2022 as one-time support for the College's Dennis Museum and general operations, respectively.

Other operating expenses declined by \$134,000, or -11%, due to staffing transitions and related position vacancies during the year.

Contributions and special events revenue declined by \$940,000, or 24%, due to the Foundation's *Be What's Possible* campaign ending mid-fiscal year 2022 (December 2021). The campaign was fully active for the full fiscal year ended June 30, 2021.

Gifts to the Foundation's permanent endowment are recognized when received. Endowment gifts received in 2022 declined by \$753,000, or -41% compared to 2021 due to the ending of the campaign during fiscal year 2022 as previously described.

### **Economic Factors Impacting the Future**

The Foundation relies on contributions, investment growth, and certain operational support from the College to carry out its mission, which is "to mobilize generosity to advance learning for a global community." While the Foundation has historically demonstrated stable giving through various economic downturns, a national recession (or fears thereof) could negatively impact donor support and investment returns in the short-term, or long-term depending on its severity and duration. Changes to federal or state tax policy could have a broad impact on charitable giving. And as we enter an election year, political uncertainty could lead to a stagnant market and lead to donor uncertainty in the near future. Lastly, any federal or state policy changes that impact funding for the College or its students (e.g. state operational funding cuts, free college initiatives) could change the support levels needed or requested from the Foundation.

Thanks to the generosity of our alumni and community members, the NMC Foundation is recognized as a top 20 community college foundation nationally. In fiscal year 2023, the Foundation initiated its *NMC Foundation Forward: Mobilizing Generosity* strategic plan, a 10-year plan spanning through 2033 with three strategic goals including engaging donors, expanding partnerships, and resourcing innovation and underlying objectives focused on creating an inspiring, meaningful, and sustained donor experience. Driven and supported by our passionate Foundation Board and leadership team, *NMC Foundation Forward* will guide the Foundation confidently into the future.

# Northwestern Michigan College Foundation

## Statement of Net Position

June 30, 2023 and 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,751,823	\$ 6,950,728
Receivables - Net of allowances (Note 5)	764,988	835,266
Prepaid expenses and other assets	350	-
Total current assets	12,517,161	7,785,994
Noncurrent assets:		
Receivables (Note 5)	1,110,506	2,251,873
Long-term investments (Note 4)	45,119,826	47,175,891
Cash surrender value - Life insurance	629,841	577,710
Total noncurrent assets	46,860,173	50,005,474
Total assets	59,377,334	57,791,468
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	56,100	39,819
Due to Northwestern Michigan College (Note 8)	1,734,435	3,202,478
Current portion of annuity obligations	3,780	3,580
Total current liabilities	1,794,315	3,245,877
Noncurrent liabilities - Annuity obligations - Net of current portion	32,825	35,275
Total liabilities	1,827,140	3,281,152
<b>Deferred Inflows of Resources</b>	22,091	-
<b>Net Position (Note 10)</b>		
Restricted:		
Nonexpendable - With donor restrictions	18,679,064	17,525,939
Expendable - College programs and student financial aid	34,528,641	32,666,247
Unrestricted	4,320,398	4,318,130
Total net position	<b>\$ 57,528,103</b>	<b>\$ 54,510,316</b>

## Northwestern Michigan College Foundation

### Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Operating Revenue</b>	\$ -	\$ -
<b>Operating Expenses</b>		
Grants to Northwestern Michigan College	4,298,421	3,982,552
Management and general	58,067	55,511
Fundraising	534,742	1,067,192
Total operating expenses	<u>4,891,230</u>	<u>5,105,255</u>
<b>Operating Loss</b>	(4,891,230)	(5,105,255)
<b>Nonoperating Revenue (Expense)</b>		
Contributions	1,674,828	2,698,863
Special event revenue	168,600	293,305
Investment income - Net	1,375,725	1,144,212
Realized and unrealized gains (losses) on investments	<u>3,606,853</u>	<u>(6,737,378)</u>
Total nonoperating revenue (expense)	6,826,006	(2,600,998)
<b>Additions to Permanent Endowments</b>	<u>1,083,011</u>	<u>1,073,801</u>
<b>Change in Net Position</b>	3,017,787	(6,632,452)
<b>Net Position - Beginning of year</b>	<u>54,510,316</u>	<u>61,142,768</u>
<b>Net Position - End of year</b>	<u><u>\$ 57,528,103</u></u>	<u><u>\$ 54,510,316</u></u>

# Northwestern Michigan College Foundation

## Statement of Cash Flows

Years Ended June 30, 2023 and 2022

	2023	2022
<b>Cash Flows from Operating Activities</b>		
Payments to Northwestern Michigan College	\$ (5,766,464)	\$ (3,567,385)
Payments for other operating expenses	(576,178)	(1,210,511)
Net cash and cash equivalents used in operating activities	(6,342,642)	(4,777,896)
<b>Cash Flows from Noncapital Financing Activities</b>		
Contributions for other than endowment or capital purposes	2,886,473	3,105,939
Payments to annuitants	(3,580)	(3,580)
Other receipts	168,600	293,305
Net cash and cash equivalents provided by noncapital financing activities	3,051,493	3,395,664
<b>Cash Flows Provided by Capital and Related Financing Activities -</b>		
Contributions for endowments	1,083,011	1,073,801
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	12,582,683	5,301,359
Income on investments - Net of fees paid	919,051	1,295,095
Purchase of investments	(6,492,501)	(6,806,127)
Net cash and cash equivalents provided by (used in) investing activities	7,009,233	(209,673)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	4,801,095	(518,104)
<b>Cash and Cash Equivalents - Beginning of year</b>	6,950,728	7,468,832
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 11,751,823</b>	<b>\$ 6,950,728</b>
<b>Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities</b>		
Operating loss	\$ (4,891,230)	\$ (5,105,255)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Prepaid and other assets	350	(6,106)
Accounts payable	16,281	(81,702)
Due to Northwestern Michigan College	(1,468,043)	415,167
Total adjustments	(1,451,412)	327,359
Net cash and cash equivalents used in operating activities	<b>\$ (6,342,642)</b>	<b>\$ (4,777,896)</b>

June 30, 2023 and 2022

### Note 1 - Nature of Business

Northwestern Michigan College Foundation (the "Foundation") was incorporated on July 8, 1981. The Foundation was organized to provide support exclusively for the objectives and purposes of Northwestern Michigan College (the "College") and to augment the facilities of the College in such a manner as may be designated by its board of directors, whose members are appointed by the College's board of trustees, creating a voting majority. The Foundation is a discretely presented component unit of the College. All distributions made out of the Foundation, other than normal operating expenses, are to be made to or for the benefit of the College. Upon dissolution of the Foundation, its remaining assets will be distributed to the College. The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

### Note 2 - Significant Accounting Policies

#### ***Accounting and Reporting Principles***

The Foundation follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). Based on these criteria, there are no component units of the Foundation that are to be included in the reporting entity. Other organizations, including not-for-profit organizations, are considered governmental and are required to comply with GASB if one or more of the following characteristics are met: (i) popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments, (ii) the potential for unilateral dissolution by a government with the net assets reverting to a government, or (iii) the power to enact and enforce a tax levy. The following is a summary of the significant accounting policies used by the Foundation:

#### ***Basis of Accounting***

The Foundation follows the business-type activities requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Foundation meets the grandfather provisions under GASB 34, paragraph 147 for entities that were reporting under The American Institute of Certified Public Accountants Not-for-Profit Model as of the date of Statement No. 34. The Foundation uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### ***Report Presentation***

In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

#### ***Net Position***

Net position is classified according to external donor restrictions or availability of assets for satisfaction of Foundation obligations. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available. Accordingly, the net positions of the Foundation have been grouped into the following categories:

- ***Restricted for Nonexpendable Purposes:*** Net position from gifts and other inflows of assets that represent permanent endowments. Use of these gifts is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.
- ***Restricted Expendable Purposes:*** Net position whose use is subject to externally imposed stipulations that can be fulfilled by action of the Foundation pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of permanent endowment funds and funds designated for student financial aid and other college programs.

**Note 2 - Significant Accounting Policies (Continued)**

- *Unrestricted:* Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Foundation's board of directors or may otherwise be limited by contractual agreements with outside parties.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash deposits, time deposits, and money market funds with original maturities of three months or less.

**Investment Valuation and Income Recognition**

Investments in marketable securities are carried at quoted market value whenever possible. Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Private equity funds that do not have readily determinable market values as of June 30 are valued using net asset value as a practical expedient. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity funds' estimated values may differ materially from the values that would have been used if a ready market for the securities existed. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for further discussion of fair value measurements.

Investment income includes dividends and interest income, net of commission and administrative fees related to investment management totaling \$110,259 and \$82,346 for the years ended June 30, 2023 and 2022, respectively. Realized and unrealized gains (losses) include \$4,063,527 and \$(6,888,261) of recognized unrealized gains (losses) during the years ended June 30, 2023 and 2022, respectively. Realized gains or losses on investments sold are determined using the specific identification method.

**Risks and Uncertainties**

The Foundation invests in various investment securities, including U.S. government obligations, corporate debt instruments, mutual funds, and alternatives investments. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows represent an acquisition of net position that applies to a future period and, as such, is not recognized as an inflow of resources (revenue) until that time. Deferred inflows consist of future revenue streams related to charitable gift annuities.

**Contributions and Pledges Receivable**

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Unconditional donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions for endowment are recorded when received.

**Note 2 - Significant Accounting Policies (Continued)**

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

***Gifts in Kind***

Donated items received by the Foundation (also known as gifts in kind) consist primarily of items donated for use in the College's programs, artwork for the Dennon Museum, and items to be used in special event fundraisers run by the Foundation. The gifts are recorded as contributions and recorded at acquisition value at the date of gift.

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of revenue, expenses, and changes in net position. Costs are reported between the various program and support services on a direct basis.

**Note 3 - Deposits and Investments**

The Foundation's cash and investments are subject to several types of risk, which are addressed within the Foundation's investment policy statement (IPS) as follows. The IPS has a primary emphasis on moderate capital growth. The asset allocation is a mix of equities, fixed income, alternative investments, and cash and cash equivalents, which is rebalanced when the overall portfolio exceeds the minimum or maximum constraints. The primary long-term investment objective for the assets is to achieve a rate of return of 5 percent net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark defined in the IPS. The goal for short-term assets is to protect the principal and provide a reasonable level of return while maintaining enough liquidity to meet the cash flow needs of the Foundation.

The Foundation's cash and investments are subject to several types of risk, which are examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to it. Deposits were reflected in the accounts of the banks of \$11,751,823 and \$6,950,728 as of June 30, 2023 and 2022, respectively. The Foundation had \$11,501,823 and \$6,450,728 exposed to custodial credit risk because the deposits were uninsured or uncollateralized as of June 30, 2023 and 2022, respectively.

***Custodial Credit Risk of Investments***

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. All investments are in the name of the Foundation, as applicable, and the investments are held in accounts with each financial institution from which they are purchased.



June 30, 2023 and 2022

**Note 3 - Deposits and Investments (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Foundation's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

At year end, the Foundation had the following investments and maturities:

	2023			
	Total	Less Than 1 Year		
Mutual funds - Fixed income	\$ 3,607,887	\$ 3,607,887		
Total	\$ 3,607,887	\$ 3,607,887		

  

	2022			
	Total	Less Than 1 Year	1-5 Years	6-10 Years
U.S. Treasury	\$ 922,836	\$ 124,727	\$ 798,109	\$ -
Mutual funds - Fixed income	3,457,145	3,457,145	-	-
Corporate bonds	6,338,769	594,838	5,063,292	680,639
Total	\$ 10,718,750	\$ 4,176,710	\$ 5,861,401	\$ 680,639

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by limiting investments to those specified in the board-approved investment policy statement and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Foundation. The Foundation invests in fixed income mutual funds with a long-term growth objective. These funds are not rated by the rating agencies. At June 30, 2023, the Foundation did not hold any investments subject to credit risk.

At June 30, 2022, the Foundation has the following instruments subject to credit risk (interest rate fluctuations) and the related ratings consisted of the following:

Investment	June 30, 2022 Moody's Quality Rating						
	AAA	AA	A+	A	A-	BBB+	BBB
U.S. Treasury	\$ 922,836	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	235,465	248,894	1,492,775	1,513,431	1,986,584	245,782	615,841
Total	\$ 1,158,301	\$ 248,894	\$ 1,492,775	\$ 1,513,431	\$ 1,986,584	\$ 245,782	\$ 615,841

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Foundation's policy does not have specific limits on concentration of credit risk.

**Note 3 - Deposits and Investments (Continued)**

The following investments comprise more than 5 percent of the total investments as of June 30, 2023 and 2022:

	2023	2022
Vanguard Institutional Index	40.00 %	32.00 %
Vanguard Total International Stock Index	11.00	12.00
iShares Russell 2500 ETF	7.00	-
Total	<u>58.00 %</u>	<u>44.00 %</u>

**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. All of the Foundation's foreign investments at June 30, 2023 and 2022 are valued in U.S. dollars; therefore, the Foundation is not subject to foreign currency risk.

**Note 4 - Fair Value Measurements**

The Foundation utilizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at common quoted intervals.

Level 3 inputs are significant unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related assets.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

June 30, 2023 and 2022

**Note 4 - Fair Value Measurements (Continued)**

The Foundation has the following recurring fair value measurements as of June 30, 2023:

Assets Measured at Fair Value on a Recurring Basis at June 30, 2023				
Quoted Prices in				
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2023
<b>Assets</b>				
Mutual funds:				
Domestic equity	\$ 35,636,249	\$ -	\$ -	\$ 35,636,249
Fixed income	3,607,887	-	-	3,607,887
Total	<u>\$ 39,244,136</u>	<u>\$ -</u>	<u>\$ -</u>	39,244,136
Investments measured at NAV:				
Private equity				3,912,550
Real estate				983,858
Multistrategy				<u>979,282</u>
Total assets				<u>\$ 45,119,826</u>

The Foundation has the following recurring fair value measurements as of June 30, 2022:

Assets Measured at Fair Value on a Recurring Basis at June 30, 2022				
Quoted Prices in				
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2022
<b>Assets</b>				
Mutual funds:				
Domestic equity	\$ 30,746,271	\$ -	\$ -	\$ 30,746,271
Fixed income	3,457,145	-	-	3,457,145
Total mutual funds	34,203,416	-	-	34,203,416
Fixed income:				
U.S. Treasury securities	-	922,836	-	922,836
Corporate bonds	-	6,338,769	-	6,338,769
Total fixed income	-	<u>7,261,605</u>	-	<u>7,261,605</u>
Total	<u>\$ 34,203,416</u>	<u>\$ 7,261,605</u>	<u>\$ -</u>	41,465,021
Investments measured at NAV:				
Private equity				3,718,951
Real estate				967,195
Multistrategy				<u>1,024,724</u>
Total assets				<u>\$ 47,175,891</u>

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. Treasuries and corporate bonds at June 30, 2023 and 2022 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

June 30, 2023 and 2022

**Note 4 - Fair Value Measurements (Continued)**

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in the following table.

**Investments in Entities that Calculate Net Asset Value per Share**

The Foundation holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

As of June 30, 2023 and 2022, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2023
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible
Private equity funds	\$ 3,912,550	\$ 3,718,951	\$ 527,037	Monthly or quarterly
Real estate fund	983,858	967,195	-	Monthly
Multistrategy hedge fund	978,454	1,024,724	-	Monthly
				Redemption Notice Period
				Quarterly
				Monthly
				Semiannual
Total investments measured at NAV	<u>\$ 5,874,862</u>	<u>\$ 5,710,870</u>	<u>\$ 527,037</u>	

The multistrategy funds class invests in funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this in this class have been estimated using net asset value per share of the investments.

The real estate fund invests directly into a diverse portfolio of private real estate. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The private equity funds class includes several private equity funds that invest in a diverse portfolio of companies. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

**Note 5 - Contributions Receivable**

Contributions receivable may be restricted by donors for scholarships and fellowships, property and equipment, or designated departments of the College. Contributions receivable have been reported at their discounted, net realizable values based on a rate of approximately 4 percent at the date of the gift. The following table shows the balance due to the Foundation at June 30, 2023 and 2022:

	2023	2022
Gross promises to give before unamortized discount	\$ 2,053,468	\$ 3,316,599
Less allowance for uncollectible contributions	(25,000)	(25,000)
Less allowance for net present value discount	<u>(152,974)</u>	<u>(204,460)</u>
Net contributions receivable	<u>\$ 1,875,494</u>	<u>\$ 3,087,139</u>
Further classified as:		
Current receivables	\$ 764,988	\$ 820,767
Noncurrent receivables	<u>1,110,506</u>	<u>2,266,372</u>
Total	<u>\$ 1,875,494</u>	<u>\$ 3,087,139</u>

**Note 6 - Cash Surrender Value of Life Insurance**

The Foundation is the owner and beneficiary of life insurance policies with death benefit values of approximately \$1,878,996 at June 30, 2023 and 2022. The assignments of these policies were received as gifts for various college programs, student financial aid, and other designations.

**Note 7 - Split-interest Agreements**

The Foundation is party to split-interest agreements with certain donors. Under the agreements, the donor contributed funds to the Foundation. Investments related to these gift annuities were \$56,598 and \$55,413 at June 30, 2023 and 2022, respectively. As a condition of accepting the gift, the Foundation is required to pay a specified amount each year to the donors or a designated beneficiary until his or her death. Payments to beneficiaries were \$3,580 in 2023 and 2022. Upon the death of the beneficiaries, the remaining funds become the property of the Foundation. Obligations under the split-interest agreements represent the present value of future payments required to be paid to beneficiaries under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries using discount rates ranging from 1.8 percent to 7.0 percent.

**Note 8 - Related Party Transactions**

Northwestern Michigan College is a public higher education institution offering a broad array of programs. During the years ended June 30, 2023 and 2022, the Foundation made payments to the College in the amount of \$4,251,297 and \$3,756,384, respectively, primarily for scholarships and college programs. In addition, the Foundation reimbursed to the College for operating expenses totaling \$534,742 and \$678,662 for the years ended June 30, 2023 and 2022, respectively. Amounts payable to the College were \$1,734,435 and \$3,202,478 at June 30, 2023 and 2022, respectively.

**Note 9 - Functional Expenses**

The Foundation's expenses by nature and function are as follows for the year ended June 30, 2023:

	Program Services	Support Services - Management and General	Support Services - Fundraising	Total
Grants to the College	\$ 4,251,297	\$ -	\$ -	\$ 4,251,297
Gifts in kind	47,124	-	-	47,124
Contracted services	-	-	534,742	534,742
Consulting	-	21,112	-	21,112
Professional development	-	805	-	805
Insurance premiums	-	34,968	-	34,968
Other	-	1,182	-	1,182
<b>Total</b>	<b>\$ 4,298,421</b>	<b>\$ 58,067</b>	<b>\$ 534,742</b>	<b>\$ 4,891,230</b>

**Note 9 - Functional Expenses (Continued)**

The Foundation's expenses by nature and function are as follows for the year ended June 30, 2022:

	Program Services	Support Services - Management and General	Support Services - Fundraising	Total
Grants to the College	\$ 3,756,384	\$ -	\$ -	\$ 3,756,384
Gifts in kind	226,168	-	-	226,168
Contracted services	-	9,945	1,067,192	1,077,137
Consulting	-	10,350	-	10,350
Professional development	-	621	-	621
Insurance premiums	-	33,409	-	33,409
Other	-	1,186	-	1,186
Total	<u>\$ 3,982,552</u>	<u>\$ 55,511</u>	<u>\$ 1,067,192</u>	<u>\$ 5,105,255</u>

**Note 10 - Donor-restricted and Board-designated Endowments**

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net position associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net position - restricted expendable because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures or are purpose restricted until the criteria are met. The board of directors of the Foundation had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

June 30, 2023 and 2022

**Note 10 - Donor-restricted and Board-designated Endowments (Continued)**

	Endowment Net Position Composition by Type of Fund as of June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,532,201	\$ -	\$ 1,532,201
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	18,679,060	18,679,060
Accumulated investment gains	-	10,299,675	10,299,675
Total donor-restricted endowment funds	-	28,978,735	28,978,735
Total	\$ 1,532,201	\$ 28,978,735	\$ 30,510,936
	Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net position - Beginning of year	\$ 1,483,484	\$ 25,876,185	\$ 27,359,669
Investment return:			
Investment income	3,803	808,889	812,692
Net appreciation (realized and unrealized)	9,114	1,953,191	1,962,305
Total investment return	12,917	2,762,080	2,774,997
Contributions	36,011	1,083,011	1,119,022
Appropriation of endowment assets for expenditure	(211)	(818,761)	(818,972)
Other changes - Transfers	-	76,220	76,220
Endowment net position - End of year	\$ 1,532,201	\$ 28,978,735	\$ 30,510,936
	Endowment Net Endowment Composition by Type of Fund as of June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,483,484	\$ -	\$ 1,483,484
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	17,525,939	17,525,939
Accumulated investment gains	-	8,350,246	8,350,246
Total donor-restricted endowment funds	-	25,876,185	25,876,185
Total	\$ 1,483,484	\$ 25,876,185	\$ 27,359,669

June 30, 2023 and 2022

**Note 10 - Donor-restricted and Board-designated Endowments (Continued)**

	Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net position - Beginning of year	\$ 1,503,480	\$ 28,509,484	\$ 30,012,964
Investment return:			
Investment income	3,324	671,097	674,421
Net depreciation (realized and unrealized)	(18,031)	(3,662,900)	(3,680,931)
Total investment return	(14,707)	(2,991,803)	(3,006,510)
Contributions	-	1,073,801	1,073,801
Appropriation of endowment assets for expenditure	(217)	(771,579)	(771,796)
Other changes - Transfers	(5,072)	56,282	51,210
Endowment net position - End of year	<u>\$ 1,483,484</u>	<u>\$ 25,876,185</u>	<u>\$ 27,359,669</u>

***Underwater Endowment Funds***

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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 17 and 16 donor-restricted endowment funds, which together have an original gift value of \$952,329 and \$1,124,320, a current fair value of \$841,603 and \$950,098, and a deficiency of \$75,725 and \$115,582 as of June 30, 2023 and 2022, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Foundation's board of directors.

***Return Objectives and Risk Parameters***

The Foundation 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 Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent, net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.



June 30, 2023 and 2022

**Note 10 - Donor-restricted and Board-designated Endowments (Continued)**

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

In the absence of unique or special circumstances and subject to the determination of the Foundation's finance and audit committee, distributions from donor-restricted funds held in perpetuity or any funds treated as donor-restricted funds held in perpetuity (DRFHP) will be determined according to the following formula and will occur on a monthly or quarterly basis:

$$\begin{aligned} &70\% \text{ (up to 5\% of the five-year moving average market value of DRFHP as of prior fiscal} \\ &\text{year end)} \\ &+ 30\% \text{ (prior year spending level) (prior year CPI + 1\%)} \\ &= \text{Annual target spending} \end{aligned}$$

Additionally, the treatment and accounting of gifts with donor restrictions versus gifts without donor restrictions to the Foundation will be managed by college staff. The Foundation's board of directors will periodically review and approve policies and procedures governing gifts to the Foundation.

The Foundation has a spending policy of appropriating for distribution each year 4.5 percent for the fiscal years ended June 30, 2023 and 2022.

**Note 11 - Change in Reporting Framework**

The Foundation's financial statements for the year ended June 30, 2021 were reported under the not-for-profit reporting model established by the Financial Accounting Standards Board (FASB). The fund is required to report under the governmental reporting model established by the Governmental Accounting Standards Board given that the majority of the members of the board of directors appointed are approved by Northwestern Michigan College's board of trustees. As a result, the Foundation adopted the GASB reporting effective July 1, 2021. There was no impact to beginning net position as a result of the adoption.