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# Northwestern Michigan College Foundation

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**Financial Report**  
**June 30, 2024**

# Northwestern Michigan College Foundation

## **Board of Directors and Officers June 30, 2024**

Jayne Mohr (Chair)  
Pat Warner (First Vice Chair)  
Nick Nissley (Second Vice Chair)  
Debbie Edson (Secretary)  
Christopher Lamb (Treasurer)

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Steve Rice

### **Staff Representative**

Linda Berlin

### **Student Representative**

Madison Houy

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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, 2024 and 2023 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, 2024 and 2023 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.

### ***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.

### ***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.

To the Board of Directors  
Northwestern Michigan College Foundation

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.

***Additional Information***

Management is responsible for the accompanying listing of the 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 financial statements does not cover such information, and we do not express an opinion or any form of assurance thereon.

*Plante & Moran, PLLC*

October 21, 2024

### Purpose of the Northwestern Michigan College Foundation

The Northwestern Michigan College Foundation (“the 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 (“the College”), a public institution of higher education. The Foundation exists to raise and manage private resources supporting the mission and vision of the College, and is dedicated to building program and scholarship endowments on behalf of the College and addressing other long-term priorities of the College through financial support.

### Financial Reporting Overview

The Northwestern Michigan College Foundation is a Michigan not-for-profit organization and maintains its tax-exempt status under IRS Section 501(c)3. Under generally accepted accounting principles (“GAAP”), a not-for-profit organization is considered “governmental” for external financial reporting purposes if *one or more* of the following criteria 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

According to the Foundation’s bylaws, its Board member appointments must be approved by the College’s Board of Trustees, who also have the authority to dissolve and revoke Foundation’s charter—in which case the net assets of the Foundation would revert to the College. Therefore, the Foundation is deemed a governmental entity under GAAP and these financial statements were prepared using guidance promulgated by the Governmental Accounting Standards Board (“GASB”). While the “governmental” designation has no bearing on the Foundation’s legal or tax-exempt status, it is noteworthy that the financial accounting principles, terminology, presentation, and disclosures in its financial statements will differ from other not-for-profits that commonly follow private sector reporting guidance promulgated by 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, 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 when earned, and expenses when incurred, as defined by GASB standards.

Net position, calculated as the Foundation’s assets and deferred outflows less liabilities and deferred inflows, is one measure of the Foundation’s financial health. Changes in net position may indicate whether the Foundation’s financial position is improving or deteriorating.

Financial Statement Highlights: Statements of Net Position

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>Assets</b>			
Current assets	\$ 4,261,502	\$ 12,517,161	\$ 7,785,994
Noncurrent assets	60,723,771	46,860,173	50,005,474
<b>Total assets</b>	<u>64,985,273</u>	<u>59,377,334</u>	<u>57,791,468</u>
<b>Liabilities</b>			
Current liabilities	2,296,048	1,794,315	3,245,877
Noncurrent liabilities	28,084	32,825	35,275
<b>Total liabilities</b>	<u>2,324,132</u>	<u>1,827,140</u>	<u>3,281,152</u>
<b>Deferred inflows</b>	48,637	22,091	-
<b>Net position</b>			
Restricted:			
Nonexpendable - endowment corpus	18,787,351	18,679,064	17,525,939
Expendable - College programs and student scholarships	38,290,135	34,528,641	32,666,247
Unrestricted	5,535,018	4,320,398	4,318,130
<b>Total net position</b>	<u>\$ 62,612,504</u>	<u>\$ 57,528,103</u>	<u>\$ 54,510,316</u>

**Changes from 2023 to 2024**

Total assets increased by \$5.6 million, or 9%, driven by net investment income of \$7.0 million and current year contributions of \$3.0 million and offset by grants to the College for student scholarships and College programs in fulfillment of the donor's intent. The decrease in current assets is due to cash outflows for investment purchases, which shifted cash to investments and largely drove the \$13.9 million increase in noncurrent assets as of June 30, 2024.

Total liabilities increased by approximately \$500,000, or 27%. In fiscal year 2024, there was a larger distribution payable from the Foundation to the College at year-end compared to fiscal year 2023 that relates predominantly to increased Foundation support in 2024 for the College's Dennon Museum Center.

Deferred inflows represent deferred revenues related to gift annuity agreements. Revenue 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 \$5.1 million, or 9%. The increases in restricted and unrestricted net position were both driven by investment gains.

**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 Dennis 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 deferred revenues related to gift annuity agreements. Revenues will be recognized as payments are received or the trust terminates in accordance with 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.

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>Operating Expenses</b>			
Grants to Northwestern Michigan College	\$ 4,729,229	\$ 4,298,421	\$ 3,982,552
Other operating expenses	592,071	592,809	1,122,703
<b>Total operating expenses</b>	<u>5,321,300</u>	<u>4,891,230</u>	<u>5,105,255</u>
<b>Operating Loss</b>	(5,321,300)	(4,891,230)	(5,105,255)
<b>Nonoperating Revenue (Expense)</b>			
Contributions and special events revenue	3,206,707	1,843,428	2,992,168
Net investment income and gains (losses)	6,992,262	4,982,578	(5,593,166)
<b>Total nonoperating revenues</b>	<u>10,198,969</u>	<u>6,826,006</u>	<u>(2,600,998)</u>
<b>Additions to Permanent Endowments</b>	<u>206,732</u>	<u>1,083,011</u>	<u>1,073,801</u>
<b>Change in net position</b>	5,084,401	3,017,787	(6,632,452)
<b>Net Position - Beginning of Year</b>	57,528,103	54,510,316	61,142,768
<b>Net Position - End of Year</b>	<u>\$ 62,612,504</u>	<u>\$ 57,528,103</u>	<u>\$ 54,510,316</u>

**Changes from 2023 to 2024**

Grants to Northwestern Michigan College increased by \$431,000, or 10%, due to increased program and scholarship support provided to the College. Other operating expenses remained neutral.

Contributions and special events revenue increased by \$1.4 million, or 74%, due to the Foundation securing several major gifts during fiscal year 2024 restricted for certain programs and scholarships.

Gifts to the Foundation’s permanent endowment are recognized when received. Endowment gifts received in 2024 decreased \$876,000 compared to 2023 due to successful collection in previous years of endowed



pledges remaining from the *Be What’s Possible Campaign*. That campaign generated a large volume of endowed pledge gifts in 2018, many of which were collectible over five years.

**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 recognized in prior years. GASB guidance does not require the recognition of donated services.

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 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.

**Statement of Cash Flows**

Another way to assess the Foundation’s financial health is by analyzing the statements of cash flows. This statement’s primary purpose is to provide relevant information about the cash inflows and outflows of the Foundation during a period of time. This statement also helps users assess the following:

- The Foundation’s ability to generate future cash flows
- Its ability to meet existing obligations as they come due
- Its needs for external financing

A summary of the Foundation’s cash flows for the years ended June 30, 2024, 2023, and 2022 is as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM</b>			
Operating activities	\$ (4,819,917)	\$ (6,342,642)	\$ (4,777,896)
Noncapital financing activities	3,332,247	3,051,493	3,395,664
Capital and related financing activities	206,732	1,083,011	1,073,801
Investment activities	(7,192,611)	7,009,233	(209,673)
<b>Net change in cash and cash equivalents</b>	<u>(8,473,549)</u>	<u>4,801,095</u>	<u>(518,104)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>11,751,823</u>	<u>6,950,728</u>	<u>7,468,832</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,278,274</u>	<u>\$ 11,751,823</u>	<u>\$ 6,950,728</u>

There are no cash inflows from operating activities due to the nature of the Foundation’s revenue sources. As a result, there are only operating outflows primarily for grants made to the College. There are additional outflows for general administrative and fundraising costs as well. The operating outflows vary from year to year based on the support approved and transferred to the College during the fiscal year.

Cash inflows provided by noncapital financing activities primarily include contributions from donors which fluctuates annually and can be impacted by the pledges receivable balance.

Cash inflows from capital and related financing activities result from additions to permanent endowments from donors.

Cash provided by or used in investing activities fluctuates depending on the timing of purchases and sales of investments and the fluctuations in the market.

**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, economic events could negatively impact donor support and investment returns in the short and/or long-term depending on severity and duration. Changes to federal or state tax policy could have a broad impact on charitable giving. In election years, political uncertainty creates market volatility. 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 type and amount of support the College and its students need from the Foundation.

Thanks to the generosity of our alumni and community members, the NMC Foundation is recognized nationally as one of the top community college foundations. 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. The plan contains 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* is guiding the Foundation confidently into the future.

# Northwestern Michigan College Foundation

## Statement of Net Position

June 30, 2024 and 2023

	2024	2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,278,274	\$ 11,751,823
Receivables - Net of allowances (Note 5)	983,228	764,988
Prepaid expenses and other assets	-	350
Total current assets	4,261,502	12,517,161
Noncurrent assets:		
Receivables - Net of allowances (Note 5)	556,414	1,110,506
Long-term investments (Note 4)	59,500,269	45,119,826
Cash surrender value - Life insurance	667,088	629,841
Total noncurrent assets	60,723,771	46,860,173
Total assets	64,985,273	59,377,334
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	100,425	56,100
Due to Northwestern Michigan College (Note 8)	2,191,843	1,734,435
Current portion of annuity obligations	3,780	3,780
Total current liabilities	2,296,048	1,794,315
Noncurrent liabilities - Annuity obligations - Net of current portion	28,084	32,825
Total liabilities	2,324,132	1,827,140
<b>Deferred Inflows of Resources</b>	48,637	22,091
<b>Net Position</b>		
Restricted:		
Nonexpendable - With donor restrictions	18,787,351	18,679,064
Expendable - College programs and student scholarships	38,290,135	34,528,641
Unrestricted	5,535,018	4,320,398
Total net position	<b>\$ 62,612,504</b>	<b>\$ 57,528,103</b>

## Northwestern Michigan College Foundation

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

Years Ended June 30, 2024 and 2023

	2024	2023
<b>Operating Revenue</b>	\$ -	\$ -
<b>Operating Expenses</b>		
Grants to Northwestern Michigan College	4,729,229	4,298,421
Institutional administration	34,203	58,067
Fundraising	557,868	534,742
Total operating expenses	<u>5,321,300</u>	<u>4,891,230</u>
<b>Operating Loss</b>	(5,321,300)	(4,891,230)
<b>Nonoperating Revenue</b>		
Contributions	2,979,745	1,674,828
Special event revenue	226,962	168,600
Investment income - Net	1,694,155	1,375,725
Realized and unrealized gains on investments	5,298,107	3,606,853
Total nonoperating revenue	<u>10,198,969</u>	<u>6,826,006</u>
<b>Additions to Permanent Endowments</b>	<u>206,732</u>	<u>1,083,011</u>
<b>Change in Net Position</b>	5,084,401	3,017,787
<b>Net Position - Beginning of year</b>	<u>57,528,103</u>	<u>54,510,316</u>
<b>Net Position - End of year</b>	<u><u>\$ 62,612,504</u></u>	<u><u>\$ 57,528,103</u></u>

# Northwestern Michigan College Foundation

## Statement of Cash Flows

Years Ended June 30, 2024 and 2023

	2024	2023
<b>Cash Flows from Operating Activities</b>		
Payments to Northwestern Michigan College	\$ (4,276,200)	\$ (5,766,464)
Payments for other operating expenses	(543,717)	(576,178)
Net cash and cash equivalents used in operating activities	(4,819,917)	(6,342,642)
<b>Cash Flows from Noncapital Financing Activities</b>		
Contributions for other than endowment or capital purposes	3,108,865	2,886,473
Payments to annuitants	(3,580)	(3,580)
Other receipts	226,962	168,600
Net cash and cash equivalents provided by noncapital financing activities	3,332,247	3,051,493
<b>Cash Flows Provided by Capital and Related Financing Activities -</b>		
Contributions for endowments	206,732	1,083,011
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	9,065,187	12,582,683
Income on investments - Net of fees paid	1,722,263	919,051
Purchase of investments	(17,980,061)	(6,492,501)
Net cash and cash equivalents (used in) provided by investing activities	(7,192,611)	7,009,233
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(8,473,549)	4,801,095
<b>Cash and Cash Equivalents - Beginning of year</b>	11,751,823	6,950,728
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,278,274</b>	<b>\$ 11,751,823</b>
<b>Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities</b>		
Operating loss	\$ (5,321,300)	\$ (4,891,230)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Prepaid and other assets	(350)	350
Accounts payable	48,704	16,281
Due to Northwestern Michigan College	453,029	(1,468,043)
Total adjustments	501,383	(1,451,412)
Net cash and cash equivalents used in operating activities	<b>\$ (4,819,917)</b>	<b>\$ (6,342,642)</b>

June 30, 2024 and 2023

### 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.

June 30, 2024 and 2023

**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 \$80,068 and \$110,259 for the years ended June 30, 2024 and 2023, respectively. Realized and unrealized gains include \$4,812,388 and \$4,063,527 of recognized unrealized gains during the years ended June 30, 2024 and 2023, 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 mutual funds, corporate debt instruments, and alternative 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 irrevocable split-interest agreements made up of 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 Denno's 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.

**Upcoming Accounting Pronouncements**

In December 2023, the Governmental Accounting Standards Board issued Statement No. 102, *Certain Risk Disclosures*, which requires governments to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. It also requires governments to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements. The provisions of this statement are effective for the Foundation's financial statements for the year ending June 30, 2025.

In April 2024, the Governmental Accounting Standards Board issued Statement No. 103, *Financial Reporting Model Improvements*, which establishes new accounting and financial reporting requirements, or modifies existing requirements, related to the following: management's discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenue, expenses, and changes in fund net position; information about major component units in basic financial statements; budgetary comparison information; and financial trends information in the statistical section. The provisions of this statement are effective for the Foundation's financial statements for the year ending June 30, 2026.

**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 \$3,479,809 and \$11,642,700 as of June 30, 2024 and 2023, respectively. The Foundation had \$3,229,809 and \$11,501,823 exposed to custodial credit risk because the deposits were uninsured or uncollateralized as of June 30, 2024 and 2023, respectively.



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

***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.

***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:

	2024			
	Total	Less Than 1 Year	1-5 Years	6-10 Years
Mutual funds - Fixed income	\$ 9,840,066	\$ 9,840,066	\$ -	\$ -
	2023			
	Total	Less Than 1 Year	1-5 Years	6-10 Years
Mutual funds - Fixed income	\$ 3,607,887	\$ 3,607,887	\$ -	\$ -

***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, 2024 and 2023, the Foundation did not hold any investments subject to credit risk.

***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.

The following investments comprise more than 5 percent of the total investments as of June 30, 2024 and 2023:

	2024	2023
Vanguard Institutional Index	36.00 %	40.00 %
Vanguard Total International Stock Index	10.00	11.00
Vanguard Total Bond Market Index	6.00	-
iShares Russell 2500 ETF	6.00	7.00
Total	58.00 %	58.00 %

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

**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, 2024 and 2023 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.

The Foundation has the following recurring fair value measurements as of June 30, 2024:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2024			
	Quoted Prices in			Balance at June 30, 2024
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Mutual funds:				
Domestic equity	\$ 42,883,865	\$ -	\$ -	\$ 42,883,865
Fixed income	9,840,066	-	-	9,840,066
Total	<u>\$ 52,723,931</u>	<u>\$ -</u>	<u>\$ -</u>	52,723,931
Investments measured at NAV:				
Private equity				4,715,127
Real estate				998,142
Multistrategy				<u>1,063,069</u>
Total investments measured at NAV				<u>6,776,338</u>
Total assets				<u>\$ 59,500,269</u>

**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 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 investments measured at NAV				<u>5,875,690</u>
Total assets				<u>\$ 45,119,826</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, 2024 and 2023 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.

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, 2024 and 2023, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2024	June 30, 2023	Unfunded Commitments	June 30, 2024	
	Fair Value	Fair Value		Redemption Frequency, if Eligible	Redemption Notice Period
Private equity funds	\$ 4,715,127	\$ 3,912,550	\$ 180,741	Monthly or quarterly	Quarterly
Real estate fund	998,142	983,858	-	Monthly	Monthly
Multistrategy hedge fund	1,063,069	979,282	-	Monthly	Semiannual
Total investments measured at NAV	<u>\$ 6,776,338</u>	<u>\$ 5,875,690</u>	<u>\$ 180,741</u>		

June 30, 2024 and 2023

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

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Gross promises to give before unamortized discount	\$ 1,636,799	\$ 2,053,468
Less allowance for uncollectible contributions	(40,000)	(25,000)
Less allowance for net present value discount	<u>(57,157)</u>	<u>(152,974)</u>
Net contributions receivable	<u>\$ 1,539,642</u>	<u>\$ 1,875,494</u>
Further classified as:		
Current receivables	\$ 983,228	\$ 764,988
Noncurrent receivables	<u>556,414</u>	<u>1,110,506</u>
Total	<u>\$ 1,539,642</u>	<u>\$ 1,875,494</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 \$1,400,000 at June 30, 2024 and 2023. The assignments of these policies were received as gifts for various college programs, student scholarships, 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 \$59,526 and \$56,598 at June 30, 2024 and 2023, 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 2024 and 2023. 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, 2024 and 2023, the Foundation made payments to the College in the amount of \$4,700,912 and \$4,251,297, respectively, primarily for scholarships and college programs. In addition, the Foundation reimbursed the College for operating expenses totaling \$557,868 and \$534,742 for the years ended June 30, 2024 and 2023, respectively. Amounts payable to the College were \$2,191,843 and \$1,734,435 at June 30, 2024 and 2023, respectively.

**Note 9 - Functional Expenses**

The Foundation's expenses by nature and function are as follows for the year ended June 30, 2024:

	Support to College	Institutional Administration	Fundraising	Total
Grants to the College	\$ 4,700,912	\$ -	\$ -	\$ 4,700,912
Gifts in kind	28,317	-	-	28,317
Contracted services	-	-	557,868	557,868
Professional development	-	346	-	346
Insurance premiums	-	32,775	-	32,775
Other	-	1,082	-	1,082
<b>Total</b>	<b>\$ 4,729,229</b>	<b>\$ 34,203</b>	<b>\$ 557,868</b>	<b>\$ 5,321,300</b>

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

	Support to College	Institutional Administration	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 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

	Endowment Net Position Composition by Type of Fund as of June 30, 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,590,025	\$ -	\$ 1,590,025
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	18,787,351	18,787,351
Accumulated investment gains	-	13,349,147	13,349,147
Total donor-restricted endowment funds	-	32,136,498	32,136,498
Total	\$ 1,590,025	\$ 32,136,498	\$ 33,726,523

June 30, 2024 and 2023

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

	Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net position - Beginning of year	\$ 1,532,201	\$ 28,978,735	\$ 30,510,936
Investment return:			
Investment income	4,354	979,446	983,800
Net appreciation (realized and unrealized)	52,837	2,917,913	2,970,750
Total investment return	57,191	3,897,359	3,954,550
Contributions	5,719	206,732	212,451
Appropriation of endowment assets for expenditure	-	(877,238)	(877,238)
Other changes - Transfers	(5,086)	(69,090)	(74,176)
Endowment net position - End of year	<u>\$ 1,590,025</u>	<u>\$ 32,136,498</u>	<u>\$ 33,726,523</u>
	Endowment Net Endowment 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	<u>\$ 1,532,201</u>	<u>\$ 28,978,735</u>	<u>\$ 30,510,936</u>
	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 depreciation (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	<u>\$ 1,532,201</u>	<u>\$ 28,978,735</u>	<u>\$ 30,510,936</u>

June 30, 2024 and 2023

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

***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 \$279,117 and \$917,328, a current fair value of \$213,080 and \$841,603, and a deficiency of \$66,037 and \$75,725 as of June 30, 2024 and 2023, 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.

***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, 2024 and 2023.