

Audited Financial Statements
and Other Supplementary Information

Northwestern Michigan College

*Years Ended June 30, 2025 and 2024
with Report of Independent Auditors*

Northwestern Michigan College
Audited Financial Statements
and Other Supplementary Information

June 30, 2025

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Northwestern Michigan College

Board of Trustees and Administrative Officials

June 30, 2025

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Management's Discussion and Analysis

Northwestern Michigan College
Management's Discussion and Analysis

June 30, 2025

The discussion and analysis of Northwestern Michigan College's (the "College") financial statements provide an overview of the College's financial activities for the year ended June 30, 2025. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's administration.

Using this Report

The College's financial report includes three financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*.

Northwestern Michigan College Foundation (the "Foundation") is included within these statements as a discretely presented component unit of the College's reporting entity (although it is legally separate and governed by its own board of directors) because its sole purpose is to provide support for the College under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

This annual financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary information, and supplementary information.

Financial Highlights

The College's net position increased by \$14.7 million in fiscal year 2025 including activity recognized to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The College's net position increased by \$5.7 million when excluding GASB 68 & 75 activity.

Property tax revenue from NMC's operating millage increased 8.1% in fiscal year 2025 due to a 9.6% increase in taxable values, offset by increased tax abatements and millage rate erosion due to the Headlee Amendment. The College had no debt-related property tax revenue in fiscal years 2025 or 2024.

State appropriations for general operations were \$10.9 million in fiscal year 2025, an increase of \$264,000 or 2.5%. State appropriations passed through the College for the Michigan Public School Employee's Retirement System (MPERS) Unfunded Actuarial Accrued Liability (UAAL) payments were \$1.9 million, a decrease of \$0.9 million from prior year. The College received

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\$789,000 in support from the State to offset mandatory increases in MPSERS employer contribution rates in fiscal year 2025 compared to \$846,000 in fiscal year 2024, a decrease of \$57,000. Also included in State appropriations is the State's payment in lieu of personal property taxes, which the State abolished as of December 31, 2015. This formula-based reimbursement was \$170,000 for fiscal year 2025, a \$37,000 decrease from prior year. In fiscal year 2025, the College also received (one-time) state support of \$834,000 stemming from the State's FY25 community college budget section 147a(4), a policy change that lowered the MPSERS employer contribution cap from 20.96% to 15.21% for all reporting units. NMC also recognized one-time receipts of \$203,000 from section 147g, another policy change eliminating the required 3% healthcare contributions for employee members; the College recognized a corresponding expense and liability for the 147g receipts, as this amount will be reimbursed to NMC's MPSERS members who made any 3% healthcare contributions during the State's fiscal year 2025. In fiscal year 2024, the College received one-time support of \$1.1 million from the State for Infrastructure, Technology, Equipment, and Maintenance (ITEM) funding and \$143,000 for Critical Incident Mapping (CIM) funding. No ITEM or CIM funding was received in fiscal year 2025. In total, revenue from state appropriations decreased by \$1.3 million in fiscal year 2025 compared to fiscal year 2024.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

The statements of net position and the statements of revenues, expenses, and changes in net position report information on the College's net position and changes therein. These statements include all assets, liabilities, and deferred inflows and outflows using the accrual basis of accounting.

The statements of net position include the College's net pension liability and other post-employment benefits (OPEB) asset recognized in accordance with GASB 68 and 75, respectively. The College's total net position at June 30, 2025, 2024, and 2023 without the accounting required by GASB 68 and GASB 75 was \$103.7 million, \$98.0 million, and \$84.9 million, respectively.

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Summaries of the College's statements of net position at June 30, 2025, 2024, and 2023 are as follows:

	Condensed Statements of Net Position as of June 30 (in thousands)		
	2025	2024	2023
Current assets	\$ 36,286	\$ 30,169	\$ 24,480
Noncurrent assets:			
Capital assets, net	85,153	78,338	76,107
Net OPEB asset	5,892	825	-
Other noncurrent assets	25,129	23,218	17,689
Total assets	152,460	132,550	118,276
Deferred outflows of resources	11,008	15,587	20,436
Current liabilities	12,034	9,666	8,340
Noncurrent liabilities:			
Net pension liability	33,797	46,672	56,452
Net OPEB liability	-	-	3,197
Other noncurrent liabilities	30,883	24,099	25,019
Total liabilities	76,714	80,437	93,008
Deferred inflows of resources	23,137	18,743	16,129
Net position:			
Net investment in capital assets	64,235	58,023	55,029
Restricted surplus	6,442	2,541	-
Unrestricted deficit (Note 9)	(7,060)	(11,607)	(25,454)
Total net position	\$ 63,617	\$ 48,957	\$ 29,575

Statements of Net Position

The primary changes in the assets, deferred outflows, liabilities, and deferred inflows of the College between 2025 and 2024 are as follows:

- Current assets increased \$6.1 million, due in large part to a \$5.0 million U.S. government agency investment shifting classifications from noncurrent assets in fiscal year 2024 to current assets in fiscal year 2025 based on its August 2025 maturity date.
- Capital asset additions totaled \$12.4 million, which includes \$4.8 million in construction costs (in-progress) for the Aviation Hangar expansion project and \$4.4 million investment in aircraft to expand our fleet. Additionally, the College capitalized \$1.0 million for the

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Management's Discussion and Analysis

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acquisition and improvements made to the *Robinson Bay*, a tug vessel gifted to NMC's Great Lakes Maritime Academy, \$476,000 in renovations and technology upgrades at the Front St. Flats apartments, \$218,000 for improvements to the North courtyard at the Great Lakes Campus, and more. Additions were offset by current year depreciation of \$5.6 million. As a result, net capital assets increased by \$6.8 million.

- Current liabilities increased \$2.4 million, including a \$1.5 million increase in accounts payable due to construction payables at June 30, 2025 including \$1.3 million payable relating to the Aviation Hangar expansion project and \$439,000 owed for renovations to the *Robinson Bay* tug vessel. Also, the College's current portion of long-term obligations increased \$610,000 due to the College's issuance of new bonds during the year to finance the Aviation Hangar (and fleet) expansion.
- The College's net pension liability decreased \$12.9 million primarily due to the difference between the projected and actual earnings on pension plan investments based on the market as of September 30, 2024 as well as a change in the proportionate share allocated to the College. The College's net OPEB asset increased \$5.1 million from fiscal year 2024 due to changes in the net difference between projected and actual earnings on OPEB plan investments.
- Deferred inflows are the acquisition of net position that applies to future reporting periods. Deferred outflows are the consumption of net position that applies to future reporting periods. The College's deferred inflows and outflows, and changes therein, stem primarily from the MPSERS plan and include changes in actuarial assumptions, differences between expected and actual experience, changes in the proportionate share of the pension and OPEB liabilities, and contributions to the plan subsequent to the measurement date.

The primary changes in the assets, deferred outflows, liabilities, and deferred inflows of the College between 2024 and 2023 are as follows:

- Current assets increased by \$5.7 million, including a \$9.5 million increase in receivables and a \$4.9 million decrease in cash and cash equivalents and short-term investments combined. The increase in receivables is primarily due to the College's one-time Employee Retention Credit (ERC) filing claim of \$8.0 million in fiscal year 2024. This was supplemented by the timing of other grant related receivables and an increased receivable from the Northwestern Michigan College Foundation (Component Unit) outstanding as of the end of the fiscal year 2024. The College's decrease in cash and cash equivalents and short-term investments combined is due to a decreased amount of cash in more liquid, cash equivalent investments; offset by an increased amount of cash in longer-term government agency securities, impacting the increase in other noncurrent assets.

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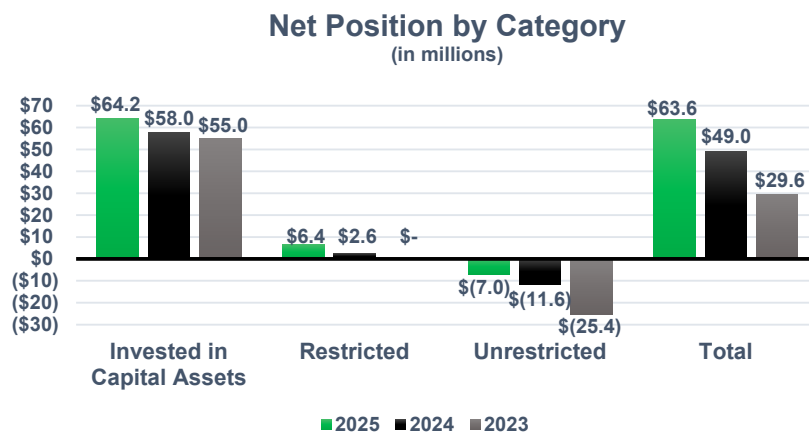
Management's Discussion and Analysis

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- Capital asset additions totaled \$7.4 million, including \$3.4 million for purchase of an apartment complex, \$811,000 for IT port system upgrades, \$456,000 for upgrades to the Boardman Lake Campus building, \$368,000 in GLMA simulators, \$278,000 in video security system upgrades, and \$348,000 in Milliken Auditorium lighting upgrades. These additions were offset by current year depreciation of \$4.9 million. As a result, net capital assets increased by \$2.2 million. Other noncurrent assets increased \$5.5 million primarily due to an increased investment in government agency securities as mentioned above.
- Current liabilities increased \$1.4 million primarily due to a higher accounts payable balance at the end of fiscal year 2024.
- The College's net pension liability decreased \$9.8 million primarily due to the difference between the projected and actual earnings on pension plan investments based on the market as of September 30, 2023 as well as a change in the proportionate share allocated to the College. The College's net OPEB asset increased \$4.0 million from fiscal year 2023 due to changes in the actuarial health care cost trends rate for members over age 65.
- Deferred inflows are the acquisition of net position that applies to future reporting periods. Deferred outflows are the consumption of net position that applies to future reporting periods. The College's deferred inflows and outflows, and changes therein, stem primarily from the MPSERS plan and include changes in actuarial assumptions, differences between expected and actual experience, changes in the proportionate share of the pension and OPEB liabilities, and contributions to the plan subsequent to the measurement date.

Net Position

The following chart provides a graphic breakdown of net position by category as of June 30, 2025, 2024, and 2023:



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Management's Discussion and Analysis

June 30, 2025

The College's net position was \$63.6 million as of June 30, 2025, an increase of \$14.6 million from the prior year. Net position increased by \$5.7 million in fiscal year 2025 before the effects of GASB 68 and 75. The College's net position was \$49.0 million as of June 30, 2024, an increase of \$19.4 million from the prior year. Net position increased by \$5.1 million in fiscal year 2024 before the combined effects of GASB 68 and 75 and the one-time ERC claim filed during fiscal year 2024.

Statements of Revenues, Expenses and Changes in Net Position

Following is a comparison of the major components of the College's operating results for the years ended June 30, 2025, 2024, and 2023:

	Operating Results for the Years Ended June 30 (in thousands)		
	2025	2024	2023
Total operating revenues	\$ 31,031	\$ 33,653	\$ 28,730
Total operating expenses	61,975	65,301	61,451
Operating loss	(30,944)	(31,648)	(32,721)
Net nonoperating revenues and capital contributions	45,604	51,030	33,861
Change in net position	14,660	19,382	1,140
Net position – beginning of year	48,957	29,575	28,435
Net position – end of year	\$ 63,617	\$ 48,957	\$ 29,575

Total Revenues

Total revenues decreased \$7.8 million in fiscal year 2025 primarily due to the College's one-time ERC claim filing of \$8.0 million recognized in fiscal year 2024. Without the effects of the one-time ERC claim in the prior fiscal year, total revenues increased \$0.2 million in fiscal year 2025. The \$0.2 million increase is due to the combined effects of a \$2.5 million increase in federal grant funding (including Pell grants), a \$1.1 million increase in property tax revenues, and \$0.9 million in investment income. This is offset by a \$5.1 million decrease to net tuition and fees which was driven by a \$7.0 million increase in the College's scholarship allowance. The substantial increase in scholarship allowance in fiscal year 2025 stems from a change in methodology for calculating this estimate based on guidance issued by National Association of College and University Business Officers (NACUBO), *Advisory 2023-01: Public Institutions: Accounting for and Reporting Financial Aid as a Discount*, which the College implemented prospectively beginning in fiscal year 2025. Operating property tax revenues increased due to growth in taxable values, offset by increased abatements and millage reductions due to the Headlee Amendment. Debt-related property tax revenue remained at \$0 in 2025.

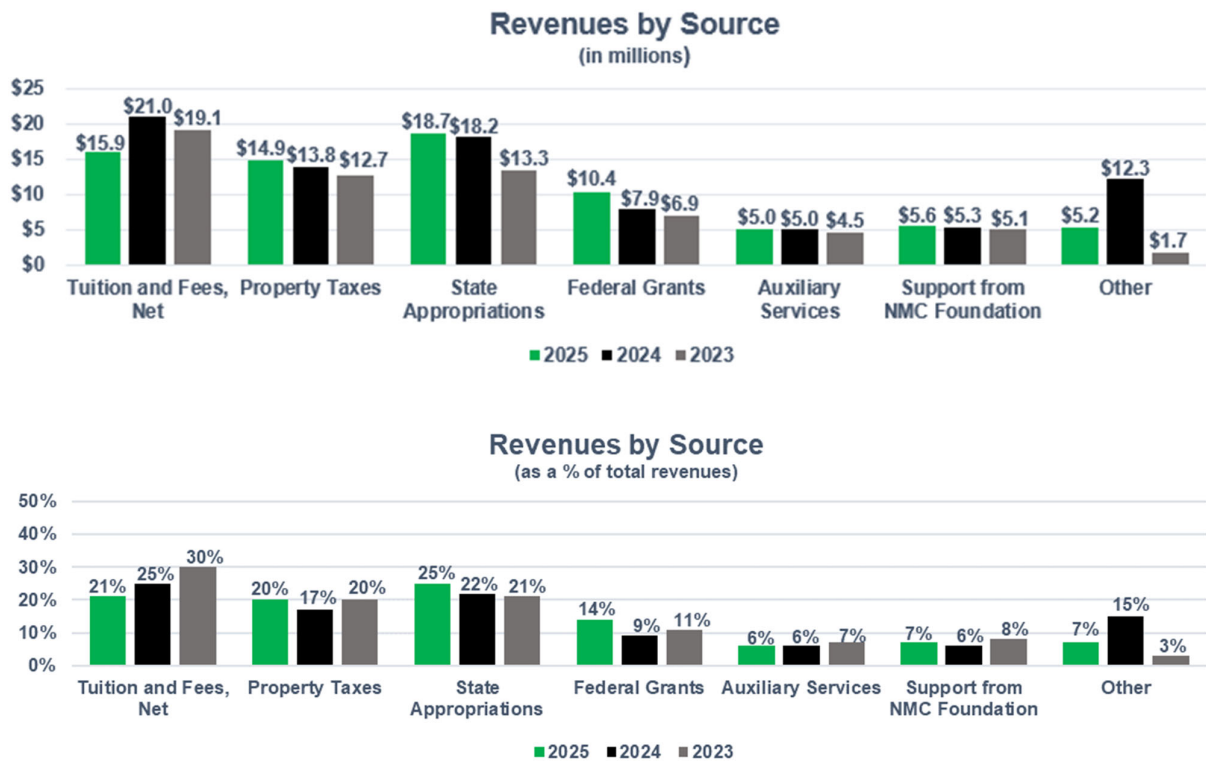
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Total revenues increased \$20.2 million in fiscal year 2024 primarily due to the College's one-time ERC claim filing of \$8.0 which was recognized in fiscal year 2024 and an increase of \$3.9 million in state appropriations in fiscal year 2024. This was supplemented by a \$1.5 million increase in investment income, a \$2.0 million increase in tuition revenue, a \$1.1 million increase in operating property tax revenues, and \$1.9 million in state grant funding toward the College's aviation hangar expansion project that was recognized in fiscal year 2024. Operating property tax revenues increased due to increases in underlying taxable values, offset by abatements and millage reductions due to the Headlee Amendment. Debt-related property tax revenue remained at \$0 in 2024.

The following graphs illustrate total revenues by source, by dollars and percentages, for the years ended June 30, 2025, 2024, and 2023:



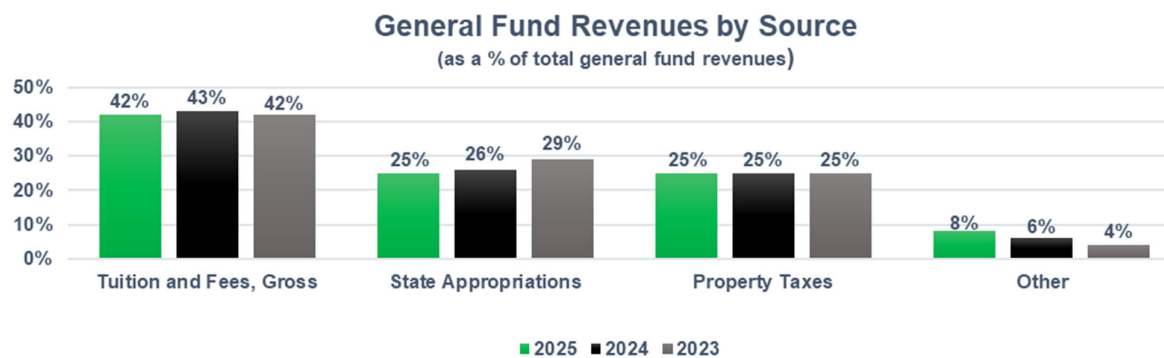
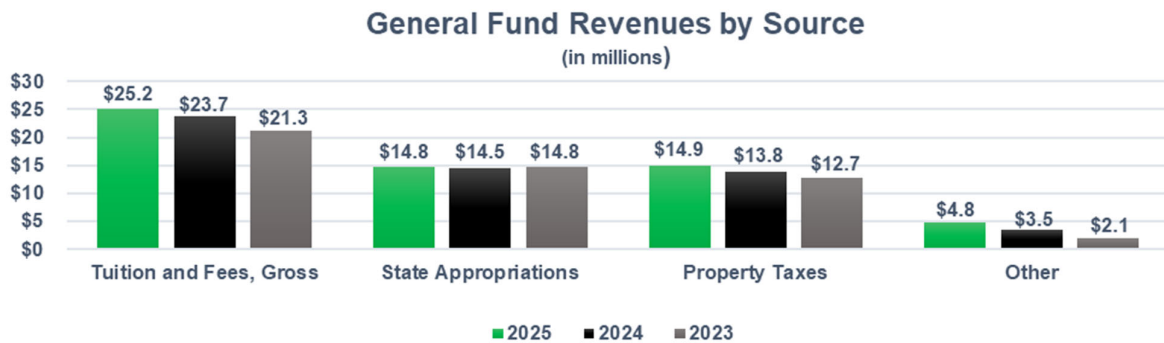
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General Fund Revenues

The College accounts for its primary operations and programs within its General Fund. The primary General Fund revenue sources are tuition and fees, state appropriations, property taxes, federal grants, and “other” sources which encompasses support from the NMC Foundation, investment income, Lobdell’s sales, New Jobs Training Program administration fees, facility rental income, and more. The following graphs illustrate total General Fund revenues by source, by dollars and percentages, for the years ended June 30, 2025, 2024, and 2023:



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Operating Revenues

The College classifies as operating revenues any sales or receipts derived from primary operations of the College such as tuition, fees, housing, and other auxiliary operations. In addition, certain Federal, State, and private grants are considered operating if they are not for capital purposes and are deemed a contract for services. The following table shows the sources of operating revenues for the years ended June 30, 2025, 2024, and 2023:

Operating Revenues by Source			
Years Ended June 30 (in thousands)			
	2025	2024	2023
Tuition and fees, net	\$ 15,936	\$ 21,052	\$ 19,146
Federal grants	4,477	3,811	3,436
State grants	2,987	1,249	181
Auxiliary services	4,979	4,955	4,519
Other operating	2,652	2,586	1,448
Total operating revenues	<u>\$ 31,031</u>	<u>\$ 33,653</u>	<u>\$ 28,730</u>

Changes in operating revenues for fiscal year 2025 were as follows:

- Net tuition and fees decreased \$5.1 million due to a \$1.9 million increase in gross tuition and fees stemming from increased enrollment, which was offset by a \$7.0 increase in the College's scholarship allowance (contra-revenue) as described previously in the "Total Revenues" section.
- Federal grant revenue from operations increased \$0.7 million primarily due to support for the Reconnect Expansion program and support from the Department of Education for student aviation equipment received in fiscal year 2025.
- State grant revenue from operations increased \$1.7 million primarily due to support received from the State of Michigan for the Michigan Community College Guarantee program.

Changes in operating revenues for fiscal year 2024 were as follows:

- Tuition and fees increased \$2.0 million primarily due to increased enrollment leading to a \$1.5 million increase in academic course revenue and fees. Also impacted by increased aviation flight fees of \$251,000 and increased offerings and related revenue for the College's non-credit enrichment program of \$293,000.

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- State grant revenue from operations increased \$1.2 million primarily due to support received for the Michigan Reconnect and Michigan Achievement programs in fiscal year 2024; partially offset by support received from the Michigan Wraparound program in fiscal year 2023 which also ended in that year.
- Auxiliary and other operating sources continue to increase due to a continued growth in revenue activity in multiple areas.

Nonoperating Revenues and Capital Contributions

Nonoperating revenues are non-exchange in nature, meaning that the College receives value without directly giving equal value in return. Nonoperating revenues include state appropriations, Federal Pell grants, property taxes, support from component unit, and investment income. Capital contributions include state capital appropriations. The following table shows the amounts of these sources of nonoperating revenues for the years ended June 30, 2025, 2024, and 2023:

Nonoperating Revenues and Capital Contributions by Source Years Ended June 30 (in thousands)			
	2025	2024	2023
State appropriations	\$ 15,700	\$ 17,006	\$ 13,145
Pell grants	5,895	4,109	3,529
Employer Retention Credit (ERC)	-	8,037	-
Property taxes	14,891	13,772	12,664
Support from the Foundation	5,607	5,265	5,124
Investment income	2,203	1,640	129
Interest income from ERC	376	-	-
Capital grants and gifts	1,875	1,875	-
Total nonoperating revenues and capital contributions	<u>\$ 46,547</u>	<u>\$ 51,704</u>	<u>\$ 34,591</u>

Nonoperating revenue and capital contribution changes included the following factors for fiscal year 2025:

- Property tax revenue increased by \$1.1 million, or 8.1%, due to a 9.6% increase in taxable values, offset by tax abatements and millage rate erosion due to the Headlee Amendment.
- State appropriations decreased \$1.3 million primarily due to one-time ITEM and CIM funding received in fiscal year 2024 from the State of \$1.2 million. See the "Financial Highlights" section for a detailed account of the various changes in state appropriations in fiscal year 2025 compared to fiscal year 2024.

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- Investment income increased by \$0.6 million due to the current year influx of cash (bond proceeds) and ongoing favorable market conditions during fiscal year 2025. The College recognized unrealized gains of \$982,000 in fiscal year 2025 vs. \$414,000 in fiscal year 2024, a net increase of \$568,000. Favorable market rates drove interest income of \$1.2 million, which is comparable to prior year. Interest income of \$376,000 was also recognized on the Employee Retention Credit receivable which remains outstanding as of June 30, 2025.
- The decrease of \$8.0 million in Employer Retention Credit is due to the nature of this revenue being a one-time recognition of revenue in the year of filing. More information on this credit is provided in Note 5.

Nonoperating revenue and capital contribution changes included the following factors for fiscal year 2024:

- Employee Retention Credit increased to \$8.0 million in fiscal year 2024 because the College filed for and recognized, but did not receive, the revenue for this credit filing with the IRS in 2024 which is still subject to review by the IRS. Additional information on the ERC claim can be found in Note 5 to the financial statements.
- Property tax revenue increased by \$1.1 million, or 8.7%, due to a 9.6% increase in taxable values, offset by tax abatements and millage rate erosion due to the Headlee Amendment.
- State appropriations increased \$3.9 million primarily due to a \$1.6 million increase in MPSERS UAAL payments in fiscal year 2024 plus one-time funding received from the State for ITEM and CIM funding of \$1.1 million and \$143,000, respectively.
- Investment income increased by \$1.5 million due to continued investment in liquid investments and favorable market conditions during fiscal year 2024. The College recognized unrealized gains of \$414,000 in fiscal year 2024 and unrealized losses of \$532,000 in fiscal year 2023; a net increase of \$946,000. Increasing interest rates in the market for the majority of the fiscal year resulted in interest income of \$1.2 million, an increase of \$570,000 from prior year.
- Capital grants and gifts increased to \$1.9 million in fiscal year 2024 due to the receipt of a capital grant for the aviation hangar expansion project.

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Operating Expenses

Operating expenses include all the costs necessary to perform and conduct the programs and primary functions of the College such as wages and benefits, professional services, software and technology maintenance, utilities, staff development, and depreciation expense. In the College's external financial statements, these expenses are categorized by function in accordance with the *Michigan Community College Data Inventory Report* requirements. Total operating expenses decreased by \$3.3 million or -5.1% for fiscal year 2025 after increasing by \$3.8 million or 6.3% in fiscal year 2024. The following table summarizes operating expenses by function for the years ended June 30, 2025, 2024, and 2023:

Operating Expenses by Function			
Years Ended June 30 (in thousands)			
	2025	2024	2023
Instruction	\$ 18,533	\$ 19,778	\$ 18,411
Public service	2,377	2,214	1,979
Academic support	6,784	7,264	7,368
Student services	10,406	14,013	11,858
Institutional administration	8,258	8,145	7,463
Operating and maintenance of plant	5,453	4,854	4,998
Depreciation	5,852	5,232	5,517
Information technology	4,312	3,801	3,856
Total operating expenses	\$ 61,975	\$ 65,301	\$ 61,450

Highlights of the major changes between fiscal years 2025 and 2024 by category are as follows:

- Instruction costs decreased due primarily to changes in OPEB liabilities and their related deferred inflows and outflows.
- Student services decreased primarily due to the allocation of financial aid expenses as scholarship allowance in fiscal year 2025. This is partially offset by increased financial aid and scholarship award activity in fiscal year 2025.

Highlights of the major changes between fiscal years 2024 and 2023 by category are as follows:

- Instruction costs increased due primarily to an increase in MPSERS UAAL activity in addition to positive adjustment for changes in OPEB liabilities and their related deferred inflows and outflows.

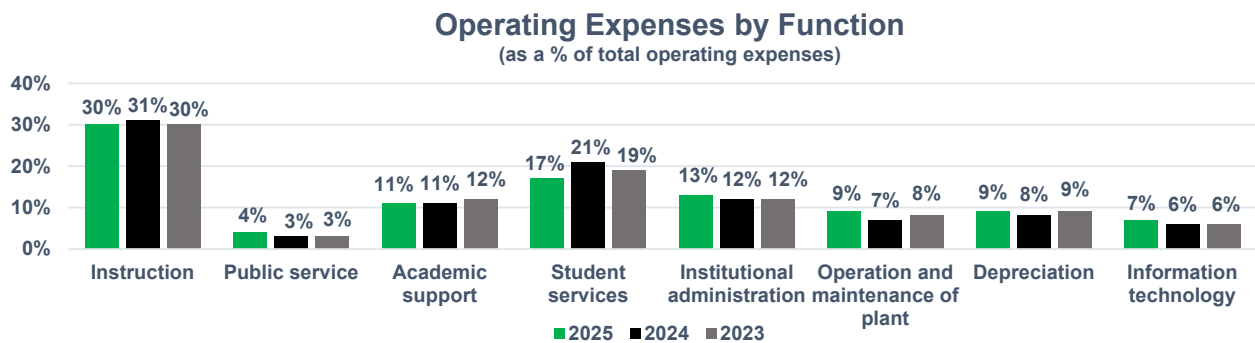
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- Student services increased primarily due to increased financial aid and scholarship award activity in fiscal year 2024 and increases to wages; partially offset by a higher scholarship allowance in fiscal year 2024.

For external reporting purposes, the College's funds are consolidated and internal expenses are eliminated. The following graph illustrates the composition of operating expenses for the years ended June 30, 2025, 2024, and 2023:



Statements of Cash Flows

Another way to assess the College'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 College during a period of time. This statement also helps users assess the following:

- The College'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 College's cash flows for the years ended June 30, 2025, 2024, and 2023 is as follows:

	Cash Flows		
	Years Ended June 30 (in thousands)		
	2025	2024	2023
Cash (used in) provided by:			
Operating activities	\$ (31,815)	\$ (30,119)	\$ (31,574)
Noncapital financing activities	41,212	38,238	37,520
Capital financing activities	(3,659)	(7,071)	(4,747)
Investing activities	(900)	(10,246)	152
Net increase (decrease) in cash	4,838	(9,198)	1,351
Cash and cash equivalents, beginning of year	8,249	17,447	16,096
Cash and cash equivalents, end of year	<u>\$ 13,087</u>	<u>\$ 8,248</u>	<u>\$ 17,447</u>

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Cash inflows from operating activities include receipts for tuition and fees, grants, contracts, and auxiliary activities, which include student residence halls and apartments, Hawk Owl Café (cafeteria), NMC Bookstore, Dennon Museum Center, Hagerty Events Center, and the University partnership activities, International Affairs Forum, and WNMC radio. These cash inflows are offset by outflows for vendor and employee payroll payments. For fiscal year 2025, net cash used in operating activities increased primarily due to decreases in receipts for tuition and fees and higher personnel costs and partially offset by increased receipts for grants. For fiscal year 2024, net cash used in operating activities decreased primarily due to increases in receipts for tuition and fees and grants and partially offset by higher personnel costs.

Cash inflows provided by noncapital financing activities primarily include receipts for the College's nonoperating revenues such as state appropriations, property taxes, Pell grants, and support from the Foundation for purposes other than capital. The increase in fiscal year 2025 is primarily due to more property tax receipts and federal Pell grants. The increase in fiscal year 2024 is primarily due to higher property tax revenue, state appropriations, and federal Pell grants.

Cash used in capital and related financing activities decreased in fiscal year 2025 compared to fiscal year 2024 primarily due to the proceeds received from new capital debt in the form of a bond issuance for the aviation hangar expansion project and was partially offset by an increase in purchased capital assets. Cash used in capital and related financing activities increased in fiscal year 2024 compared to fiscal year 2023 primarily due to the increase in purchased capital assets; partially offset by recognition of capital grant funds received in fiscal year 2024 for the aviation hangar expansion project.

Cash provided by or used in investing activities fluctuates depending on the timing of purchases and sales of investments. Cash used by investing activities decreased in 2025 due to a decrease in both maturities and purchases of investments. Cash used by investing activities decreased in 2024 due to higher investment income and a decrease in both maturities and purchases of investments.

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Capital Assets

At June 30, 2025, the College had \$195 million invested in capital assets before accumulated depreciation of \$110.2 million. Depreciation charges totaled \$5.6 million for the current fiscal year. Details of these assets are as follows:

	Capital Assets as of June 30 (in thousands)		
	2025	2024	2023
Land and land improvements	\$ 10,876	\$ 10,830	\$ 10,543
Infrastructure	7,943	7,943	7,943
Buildings and improvements	126,319	125,392	121,200
Furniture, fixtures, and equipment	43,876	38,306	35,878
Construction in progress	6,386	515	324
Capital assets	<u>\$ 195,400</u>	<u>\$ 182,986</u>	<u>\$ 175,887</u>

Additional information regarding capital assets can be found in Note 6 to the financial statements.

Debt Administration

The College's most recent bond rating by Standard & Poor's was AA as of October 2024. The College had the following outstanding debt balances at June 30, 2025, 2024, and 2023:

	Debt Outstanding as of June 30 (in thousands)		
	2025	2024	2023
Bonds payable	<u>\$ 29,444</u>	<u>\$ 21,736</u>	<u>\$ 22,942</u>

Additional information regarding the College's debt can be found in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The economic outlook for the College is strongly tied to national and State economic conditions. Although State appropriations have been determined for the upcoming fiscal year, it is important to note that in times of financial constraint, State and Federal funding can be adversely impacted. The College currently faces heightened uncertainty at the Federal level due to an ongoing government shutdown as well as a variety of proposed policy and Agency oversight changes. While the U.S. economy remains strong, rising cost of living in the Grand Traverse area coupled with the region's insufficient supply of affordable housing is challenging the recruitment efforts for prospective employees and students.

Northwestern Michigan College

Management's Discussion and Analysis

June 30, 2025

The College entered into new collective bargaining agreements for faculty and faculty chairs effective August 1, 2025, and is beginning negotiations with the Service Employees International Union (SEIU) for maintenance and custodial employees for its contract that expires on December 31, 2025.

Although the College is experiencing its third year of increased enrollment, regional, state, and national data all continue to indicate declining trends in birth rates and numbers of high school graduates. The College recently completed its 2022-2025 strategic plan and is currently in the process of developing a new strategic plan to address enrollment, student success initiatives, and campus vibrancy. The College maintains adequate operating reserves to address economic volatility that could impact its operations.

The College will receive a 2.3% increase in state appropriations for general operations during fiscal year 2026 over the baseline appropriations for fiscal year 2025. The College's fiscal year 2026 budget also includes increased property tax revenue of 5.2% for expected increases in taxable values. For tuition, the College charges rates based on the primary residence of the student, including categories for in-district, in-state, out of state, or international. Further, the College uses a tiered structure to accommodate higher-cost programs such as its maritime, culinary, automotive, audio-technology, and nursing programs. To offset inflation and rising labor costs, the Board of Trustees approved a 4.0% rate increase for 2025-2026 academic year. The College's Fall 2025 contact hours increased 8.2% against a budgeted 3.4% increase.

Under the GASB 68 and GASB 75 standards, the College reports its proportionate share of the net pension and net OPEB assets related to the MPSERS plans on its statements of net position. While the implementation of these standards has impacted the College's net position, their application has not impacted the College's bond rating, cash position, nor its ability to meet current obligations. The State is currently projecting that the unfunded actuarial accrued liability will be fully-funded by 2038.

The College is self-funded for its employee health and dental costs and reviews related market offerings and risk exposure annually through a contracted benefit advisor. Employees are required to contribute to the plan with the enactment of Public Act 152 of 2011.

The College has reviewed its cash flow data and reserve funds. Northwestern Michigan College is financially positioned to continue normal operations.

Basic Financial Statements

Report of Independent Auditors

To the Board of Trustees
Northwestern Michigan College
Traverse City, Michigan

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Northwestern Michigan College (College) and the Northwestern Michigan College Foundation (Foundation), a discretely presented component unit of the College, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the College's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College and its discretely presented component unit, the Northwestern Michigan College Foundation, as of June 30, 2025, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 College and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Northwestern Michigan College as of June 30, 2024 were audited by other auditors whose report dated October 21, 2024 expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP 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 College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit 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 an audit conducted in accordance with GAAS and *Government Auditing Standards* 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 an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis, schedule of the College's proportionate share of the net pension liability, schedule of pension contributions, schedule of the College's proportionate share of the net OPEB liability (asset), and schedule of OPEB contributions, 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 U.S. GAAP, 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 audit 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northwestern Michigan College's basic financial statements. The 2025 combining statement of net position and combining statement of revenue, expenses, and changes in net position and the 2024 comparative totals are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 2025 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The report of the other auditors dated October 21, 2024, stated that the 2024 combining statement of net position and the 2024 combining statement of revenue, expenses, and changes in net position, from which the 2024 comparative totals were derived, was subjected to the auditing procedures applied in their audit of the 2024 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the those basic financial statements themselves, and other additional procedures in accordance with

GAAS and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole as of and for the year ended June 30, 2024.

Additional Information

Management is responsible for the accompanying listing of board of trustees and administrative officials, 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 do not cover such information, and we do not express an opinion or any form of assurance thereon.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2025 on our consideration of Northwestern Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northwestern Michigan College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Michigan College's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Grand Rapids, Michigan
October 15, 2025

Northwestern Michigan College

Statements of Net Position

	June 30			
	College		Component Unit – Foundation	
	2025	2024	2025	2024
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,561,212	\$ 8,216,793	\$ 1,806,338	\$ 3,278,274
Receivables, current	16,756,232	16,241,374	1,208,089	983,228
Short-term investments	12,172,572	2,500,872	-	-
Prepaid expenses and other assets	2,796,369	3,210,113	2,267	-
Total current assets	36,286,385	30,169,152	3,016,694	4,261,502
Noncurrent assets:				
Restricted cash and cash equivalents, unspent bond proceeds	8,525,316	31,800	-	-
Restricted short-term investments, unspent bond proceeds	-	1,359,646	-	-
Receivables, net of current portion	-	-	630,844	556,414
Long-term investments	16,603,518	21,826,229	67,113,710	59,500,269
Net OPEB asset	5,892,039	824,683	-	-
Capital assets, net	85,153,246	78,337,953	-	-
Cash surrender value of life insurance	-	-	703,105	667,088
Total noncurrent assets	116,174,119	102,380,311	68,447,659	60,723,771
Total assets	152,460,504	132,549,463	71,464,353	64,985,273
Deferred outflows of resources	11,008,106	15,587,135	-	-
Liabilities				
Current liabilities:				
Accounts payable	4,118,933	2,612,670	80,224	100,425
Due to Northwestern Michigan College	-	-	2,074,515	2,191,843
Accrued liabilities and other:				
Accrued wages and benefits	2,711,135	2,327,424	-	-
Accrued interest payable	167,860	110,598	-	-
Unearned revenue	1,738,921	1,927,847	-	-
Annuity obligations, current	-	-	3,580	3,780
Long-term obligations, current	3,297,625	2,687,230	-	-
Total current liabilities	12,034,474	9,665,769	2,158,319	2,296,048
Noncurrent liabilities:				
Annuity obligations, net of current portion	-	-	36,755	28,084
Net pension liability	33,796,611	46,671,580	-	-
Long-term obligations, net of current portion	27,857,816	20,695,186	-	-
Deposits	3,025,320	3,403,837	-	-
Total noncurrent liabilities	64,679,747	70,770,603	36,755	28,084
Total liabilities	76,714,221	80,436,372	2,195,074	2,324,132
Deferred inflows of resources	23,137,361	18,742,727	82,305	48,637
Net position				
Net investment in capital assets	64,235,015	58,023,894	-	-
Restricted:				
Nonexpendable - with donor restrictions	-	-	19,624,436	18,787,351
Expendable - College programs and student scholarships	-	-	43,583,220	38,290,135
Expendable - Capital projects	550,003	1,716,533	-	-
Expendable - Net OPEB asset	5,892,039	824,683	-	-
Unrestricted (deficit)	(7,060,029)	(11,607,611)	5,979,318	5,535,018
Total net position	\$ 63,617,028	\$ 48,957,499	\$ 69,186,974	\$ 62,612,504

See accompanying notes.

Northwestern Michigan College

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30			
	College		Component Unit – Foundation	
	2025	2024	2025	2024
Operating revenues				
Student tuition and fees - Net of scholarship allowance of \$9,626,122 for 2025 and \$2,636,150 for 2024	\$ 15,935,646	\$ 21,052,412	\$ -	\$ -
Federal grants and contributions	4,477,037	3,810,821	-	-
State grants and contributions	2,986,800	1,248,741	-	-
Private gifts, grants, and contracts	528,706	570,408	-	-
Other sources	2,123,830	2,015,743	-	-
Sales and services of auxiliary activities - Net of allowance of \$348,775 for 2025 and none for 2024	4,979,123	4,954,677	-	-
Total operating revenues	31,031,142	33,652,802	-	-
Operating expenses				
Instruction	18,533,022	19,777,517	-	-
Public service	2,376,738	2,213,967	-	-
Academic support	6,783,931	7,264,303	-	-
Student services	10,405,964	14,013,335	-	-
Institutional administration	8,258,347	8,144,853	38,959	34,203
Operation and maintenance of plant	5,452,537	4,853,685	-	-
Depreciation and amortization	5,852,005	5,232,320	-	-
Information technology	4,312,314	3,801,263	-	-
Fundraising expense	-	-	776,925	557,868
Total operating expenses	61,974,858	65,301,243	815,884	592,071
Operating loss	(30,943,716)	(31,648,441)	(815,884)	(592,071)
Nonoperating revenues (expenses)				
State appropriations	15,700,388	17,005,917	-	-
Federal Pell Grants	5,895,107	4,109,210	-	-
Employee Retention Credit (ERC)	-	8,037,442	-	-
Property taxes	14,890,963	13,771,898	-	-
Support from component unit (grants to College)	5,607,075	5,264,761	(4,894,864)	(4,729,229)
Contributions and special event revenue	-	-	3,799,570	3,206,707
Investment income	2,202,553	1,640,189	7,619,518	6,992,262
Interest income from ERC	376,095	-	-	-
Bond issuance and amortization costs	(19,343)	29,874	-	-
Interest expense on capital-related debt	(924,593)	(703,735)	-	-
Total nonoperating revenues (expenses)	43,728,245	49,155,556	6,524,224	5,469,740
Income before other revenues	12,784,529	17,507,115	5,708,340	4,877,669
Other revenues				
Capital grants and gifts	1,875,000	1,875,000	-	-
Additions to permanent endowments	-	-	866,130	206,732
Total other revenues	1,875,000	1,875,000	866,130	206,732
Change in net position	14,659,529	19,382,115	6,574,470	5,084,401
Net position, beginning of year	48,957,499	29,575,384	62,612,504	57,528,103
Net position, end of year	\$ 63,617,028	\$ 48,957,499	\$ 69,186,974	\$ 62,612,504

See accompanying notes.

Northwestern Michigan College

Statements of Cash Flows

	Year Ended June 30			
	College		Component Unit – Foundation	
	2025	2024	2025	2024
Cash flows from operating activities				
Student tuition and fees	\$ 15,693,810	\$ 21,986,248	\$ -	\$ -
Grants and contracts	7,691,812	4,874,113	-	-
Payments to suppliers	(26,810,728)	(33,254,935)	(838,352)	(543,717)
Payments to employees	(35,047,439)	(29,919,162)	-	-
Auxiliary activities receipts	4,979,123	4,954,677	-	-
Other	1,678,217	1,239,989	-	-
Federal direct lending receipts	5,215,363	5,354,956	-	-
Federal direct lending disbursements	(5,215,363)	(5,354,956)	-	-
Net cash from operating activities	(31,815,205)	(30,119,070)	(838,352)	(543,717)
Cash flows from noncapital financing activities				
Property taxes	14,890,963	13,771,898	-	-
Gifts and contributions for other than capital purposes	5,424,232	4,818,411	3,319,572	3,108,865
State appropriations	15,001,432	15,538,480	-	-
Federal Pell Grants	5,895,107	4,109,210	-	-
Payments to annuitants	-	-	(3,580)	(3,580)
Other receipts	-	-	180,707	226,962
Gifts and grants to Northwestern Michigan College	-	-	(5,012,192)	(4,276,200)
Net cash from noncapital financing activities	41,211,734	38,237,999	(1,515,493)	(943,953)
Cash flows from capital and related financing activities				
Purchase of capital assets	(12,412,845)	(7,099,760)	-	-
Proceeds received on new capital debt	8,190,000	-	-	-
Principal paid on capital debt	(1,215,000)	(1,175,000)	-	-
Proceeds received on new capital debt premium	798,025	-	-	-
Interest paid on capital debt	(894,331)	(671,890)	-	-
Capital grants received	1,875,000	1,875,000	-	-
Contributions for endowment purposes	-	-	866,130	206,732
Net cash from capital and related financing activities	(3,659,151)	(7,071,650)	866,130	206,732
Cash flows from investing activities				
Proceeds from sales and maturities of investments	18,622,880	15,748,309	2,607,480	9,065,187
Interest on investments	1,221,033	1,226,029	2,288,584	1,722,263
Purchase of investments, net	(20,743,356)	(27,220,310)	(4,880,285)	(17,980,061)
Net cash from investing activities	(899,443)	(10,245,972)	15,779	(7,192,611)
Net change in cash and cash equivalents	4,837,935	(9,198,693)	(1,471,936)	(8,473,549)
Cash and cash equivalents, beginning of year	8,248,593	17,447,286	3,278,274	11,751,823
Cash and cash equivalents, end of year	<u>\$ 13,086,528</u>	<u>\$ 8,248,593</u>	<u>\$ 1,806,338</u>	<u>\$ 3,278,274</u>
Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 4,561,212	\$ 8,216,793	\$ 1,806,338	\$ 3,278,274
Restricted cash and cash equivalents	8,525,316	31,800	-	-
Total cash and cash equivalents	<u>\$ 13,086,528</u>	<u>\$ 8,248,593</u>	<u>\$ 1,806,338</u>	<u>\$ 3,278,274</u>

See accompanying notes.

Northwestern Michigan College

Statements of Cash Flows

	Year Ended June 30			
	College		Component Unit – Foundation	
	2025	2024	2025	2024
Reconciliation of operating loss to net cash from operating activities				
Operating loss	\$ (30,943,716)	\$ (31,648,441)	\$ (815,884)	\$ (592,071)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	5,852,005	5,232,320	-	-
Loss on disposal of assets	-	1,530	-	-
Changes in assets and liabilities:				
Receivables	(420,735)	(858,769)	-	-
Prepaid expenses and other assets	413,744	(1,011,910)	(2,267)	(350)
Deferred outflows of resources	5,442,800	4,848,995	-	-
Accounts payable	1,506,263	1,130,880	(20,201)	48,704
Accrued liabilities and other	383,711	194,183	-	-
Unearned revenue	(567,443)	260,994	-	-
Compensated absences	65,857	32,727	-	-
Net pension liability	(12,874,969)	(9,780,574)	-	-
Net OPEB asset	(5,067,356)	(2,372,111)	-	-
Deferred inflows of resources	4,394,634	3,851,106	-	-
Cash from operating activities	<u>\$ (31,815,205)</u>	<u>\$ (30,119,070)</u>	<u>\$ (838,352)</u>	<u>\$ (543,717)</u>

See accompanying notes.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies

Reporting Entity

Northwestern Michigan College (College) is a Michigan community college whose financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001.

The College reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on the application of the criteria, the College has one component unit. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationship with the College.

Northwestern Michigan College Foundation (Foundation) is a separate legal entity established as a 501(c)(3) corporation to solicit, collect, hold, and invest donations made for the promotion of educational activities at the College and to augment the facilities of the College. The Foundation's board members are appointed by the College's board of trustees, creating a voting majority, and upon dissolution of the Foundation, its remaining assets will be distributed to the College. Although the College does not necessarily control the timing or amount of receipts from the Foundation, the majority of resources, or income earned thereon, and the Foundation's holdings and investments are restricted by the donors for the activities of the College. Because of these factors, the Foundation is considered a component unit of the College.

The Foundation follows U.S. GAAP, as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the GASB. Other organizations, including not-for-profit organizations, are considered governmental and are required to comply with GASB requirements 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. Separate financial statements of the Foundation may be obtained by contacting Northwestern Michigan College Foundation, 1701 East Front Street, Traverse City, MI 49686.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Basis of Presentation

The financial statements of the College use the economic resources measurement focus and the 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.

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Change in Accounting Estimate

Effective for the year ended June 30, 2025, the College revised its methodology for estimating the scholarship allowance for student tuition and fees. This change was prompted by an updated analysis of historical data regarding student payment patterns and external financial aid awards, leading to a more precise estimation of the ultimate transaction price. The new method uses data at the more granular student level as compared to an aggregated approach used in the past. Management believes this updated method provides a more accurate representation of the practices surrounding the awarding of aid at the College. This is considered a change in accounting estimate, and as required by U.S. GAAP, it has been applied prospectively. The effect of this change was an increase in the scholarship allowance of approximately \$7 million and a corresponding decrease in net student tuition and fees revenue and student services expenses for the year ended June 30, 2025. The prior year's financial statements have not been restated.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Fair Value Measurements (continued)

A description of each category in the fair value hierarchy is as follows:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurement, refer to Note 4 to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less when acquired.

Investments

Investments are reported at fair value. Short-term investments consist of investments with an initial maturity greater than three months and mature within one year of year-end. Realized and unrealized gains and losses are reflected in the statement of revenue, expenses, and changes in net position as investment income. During the year ended June 30, 2025, the College recognized \$981,520 of unrealized gains on investments and \$414,160 during the year ended June 30, 2024. The Foundation recognized unrealized gains of \$5,334,962 during the year ended June 30, 2025 and \$4,812,388 during the year ended June 30, 2024.

Restricted Cash and Cash Equivalents and Investments

The proceeds of the 2016 Community College Facilities Bonds and the 2024 Community College Facilities Bonds are held in cash and short-term investments and are restricted for capital projects.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense when necessary and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Capital Assets

Capital assets are recorded at cost or, if donated, the acquisition value at the time of donation. Expenses for maintenance and repairs are charged to current expenses as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land and the art collection. Expenses for major renewals and betterments that extend the useful lives of the assets are capitalized. Interest incurred during the construction of capital assets of business-type activities is expensed as incurred. Management reviews capital assets for impairment annually.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvement	30-40 years
Land improvements and infrastructure	15 years
Furniture, fixtures, and equipment	4-10 years
Docks	10 years

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The College reports deferred outflows of resources for certain pension-related and OPEB-related amounts, such as change in expected and actual experience, changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 8.

Unearned Revenue and Deposits

Revenue received prior to year end that is related to the next fiscal period is recorded as unearned revenue or deposits.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Unearned Revenue and Deposits (continued)

As of June 30, 2025, the unearned revenue balance consists of approximately \$1,019,000 for the 2025 summer semester and approximately \$202,000 for the 2025 fall semester. As of June 30, 2024, the balance consists of approximately \$939,000 for the 2024 summer semester and approximately \$142,000 for the 2024 fall semester. Grants received prior to qualifying expenses of approximately \$518,000 as of June 30, 2025 are also included in unearned revenue and approximately \$847,000 as of June 30, 2024. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Deposits include approximately \$1,892,000 as of June 30, 2025 (and \$2,256,000 as of June 30, 2024) related to the Michigan New Job Training Program (MNJTP). Under MNJTP, local employers may enter into training agreements with the College, then divert to the College any state withholding generated by the wages earned by their new employees. The diverted state taxes are held by the College and reimbursed back to the employer once the agreed-upon training has been delivered and paid for. The remaining balance of deposits consists of flight fees paid in advance, agency funds for student organizations, and miscellaneous other deposits.

Net Pension Liability

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as an expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Other Postemployment Benefit Costs

For the purpose of measuring the net other postemployment benefit (OPEB) asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of MPERS and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, MPERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Other Postemployment Benefit Costs (continued)

investments and participating interest-earning investment contracts that have a maturity of one year or less at the time of purchase, which are reported at cost.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue or expense reduction) until that time. The College reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments. More detailed information can be found in Note 8. The Foundation has deferred inflows of resources related to future revenue streams related to charitable gift annuities.

Net Position

Net position is classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the board, including amounts that the board has agreed to set aside under contractual agreements with third parties. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available. Unrestricted net position represents net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt.

Student Tuition and Fees

The academic programs are offered in traditional fall and spring semesters. Revenue from student tuition and fees is recognized during the academic term. Revenue from the summer semester, which commences in May and ends in August, is split and recognized proportionally to the number of days of the semester within the fiscal year. Tuition revenue is reported at established rates net of institutional financial aid and discounts provided by the College to the students.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Scholarship Discounts and Allowances

Student tuition, fee revenue, and certain other revenue from students are reported net of scholarship discounts and allowances in the statement of revenue, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell Grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenue in the College's financial statements. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Grants and Contributions

The College is often awarded grants from the federal government, the State of Michigan, and other agencies. Revenue from grants is recognized when all eligibility requirements, including time requirements, are met. Grants may be restricted for specific operating or capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Federal Financial Assistance Programs

The College participates in federally funded Pell Grants, Federal Supplemental Educational Opportunity Grants (SEOG) grants, Federal Work-Study, and Federal Direct Lending programs. Federal programs are audited in accordance with Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *Compliance Supplement*.

During the year ended June 30, 2025, the College distributed \$5,215,363 for direct lending through the U.S. Department of Education and \$5,354,956 during the year ended June 30, 2024. These amounts are not included as revenue and expenditures on the accompanying financial statements.

Sales and Services of Auxiliary Activities

Auxiliary activities primarily represent revenue generated from housing, dining, conferences, and various other departmental activities that provide services to the student body, faculty, staff, and general public.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

1. Basis of Presentation and Significant Accounting Policies (continued)

Compensated Absences

It is the College's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued in the financial statements when it is earned. The College does not have a policy to pay any accumulated sick time amounts when employees separate from service with the College; therefore, the College estimates how much of the accumulated leave is more likely than not to be used as paid leave. Based on this calculation, the College has not reported a liability related to accumulated unused sick benefits.

Voluntary Separation Plan

The College offered a voluntary separation plan to certain employees. The liability and expense are recognized when the employee accepts the offer and the amounts can be estimated.

Operating and Nonoperating Revenue and Expenses

Revenue and expense transactions are normally classified as operating revenue and expenses when such transactions are generated by the College's principal ongoing operations. However, revenue that is considered to be nonexchange, such as property tax revenue, state appropriations, support from component unit, investment income, and Pell Grants, is classified as nonoperating revenue.

Internal Service Activities

Revenue and expenses related to internal service activities, including conference services, postage, and telecommunications, have been eliminated.

Reclassifications

Certain 2024 amounts have been reclassified to conform to the 2025 presentation.

Subsequent Event

On August 18, 2025, the College's Board of Trustees approved the issuance of the 2025 College Facilities Bonds (General Obligation - Limited Tax) not to exceed \$20 million.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

2. Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied. Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships and cities within the College's taxing district, are collected through February 28. Uncollected real property taxes of the College are turned over to the county in which the district is located for subsequent collection. The College is subsequently paid all of the delinquent real property taxes through the county's tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the year ended June 30, 2025, the College's taxing district levied 2.0331 mills of tax per \$1,000 of taxable property value for general operating purposes and 2.0574 mills during the year ended June 30, 2024. Total operating property tax revenue was \$14,890,963 for the year ended June 30, 2025 and \$13,771,898 for the year ended June 30, 2024.

The College's property tax revenue is affected by tax abatements entered into by other governments. The College's property tax revenue was reduced as follows for the years ended June 30:

	2025	2024
City of Traverse City	\$ 199,686	\$ 176,569
Blair Township	18,670	8,980
East Bay Township	-	1,716
Fife Lake Township	1,180	1,140
Garfield Township	110,445	100,946
Green Lake Township	1,095	1,086
Acme Township	407	411
Paradise Township	1,592	1,473
Long Lake Township	3,292	3,173
Peninsula Township	1,076	1,089
	\$ 337,443	\$ 296,583

3. Cash, Cash Equivalents, and Investments

State statutes and the College's investment policy authorize the College to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The College is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, state obligations, commercial paper rated prime at the time of purchase, mutual funds, and investment pools that are composed of

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

3. Cash, Cash Equivalents, and Investments (continued)

authorized investment vehicles. The College's deposits are in accordance with statutory authority. The College has designated Huntington Bank and Chase Bank for the deposit of its funds.

Deposits and investments of the College and Foundation are reported in the financial statements as follows:

	College		Foundation	
	2025	2024	2025	2024
Cash and cash equivalents	\$ 4,561,212	\$ 8,216,793	\$ 1,806,338	\$ 3,278,274
Restricted cash and cash equivalents	8,525,316	31,800	-	-
Short-term investments	12,172,572	2,500,872	-	-
Restricted short-term investments	-	1,359,646	-	-
Long-term Investments	16,603,518	21,826,229	67,113,710	59,500,269
	\$ 41,862,618	\$ 33,935,340	\$ 68,920,048	\$ 62,778,543

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. The College's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk be used for the College's deposits. The College thoroughly examines the banks with which it chooses to deposit funds for the following qualifications: federally chartered, State of Michigan qualified depository, Federal Reserve System, FDIC member, compliance with Community Reinvestment Act, Bauer bank rating of adequate to good, and Bankrate rating of sound to performing. As of June 30, 2025, the College's deposit balances in checking and savings accounts of \$1,964,853 had bank deposits of \$1,464,853 that was uninsured and uncollateralized. As of June 30, 2024, the College's deposit balances in checking and savings accounts of \$5,481,363 had bank deposits of \$4,981,363 that was uninsured and uncollateralized.

The Foundation had deposit accounts held at banks with balances of \$1,821,194 as of June 30, 2025, and \$4,448,322 as of June 30, 2024. The Foundation had \$1,508,834 exposed to custodial credit risk because the deposits were uninsured or uncollateralized as of June 30, 2025 and \$4,010,031 as of June 30, 2024.

The College and the Foundation believe that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

3. Cash, Cash Equivalents, 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 College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the College will do business using the criteria established in the investment policy. All investment securities that are uninsured and unregistered are held by counterparties.

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 College's and the Foundation's policies minimize 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.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. State law limits investments in commercial paper to prime ratings issued by nationally recognized statistical rating organizations. The College's investment policy does not further limit its investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of the potential losses from any one type of security or issuer will be minimized.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

3. Cash, Cash Equivalents, and Investments (continued)

Concentration of Credit Risk (continued)

At year end, the College had the following cash equivalents and investments subject to credit risk:

	Carrying Value	Less than 1 Year	1 to 5 Years	6 to 10 Years
2025				
Commercial paper	\$ 8,368,660	\$ 8,368,660	\$ -	\$ -
U.S. government agency securities	20,573,068	4,969,550	10,739,942	4,863,576
Certificates of deposit	274,189	274,189	-	-
Total	<u>\$ 29,215,917</u>	<u>\$ 13,612,399</u>	<u>\$ 10,739,942</u>	<u>\$ 4,863,576</u>
2024				
Commercial paper	\$ 4,368,635	\$ 4,368,635	\$ -	\$ -
U.S. government agency securities	21,826,229	-	12,998,453	8,827,776
Certificates of deposit	261,575	261,575	-	-
Total	<u>\$ 26,456,439</u>	<u>\$ 4,630,210</u>	<u>\$ 12,998,453</u>	<u>\$ 8,827,776</u>

The nationally recognized statistical rating organization utilized by the College is primarily Standard & Poor's Rating Services. The College's investments subject to credit risk (interest rate fluctuations) and related ratings consisted of the following as of June 30:

	AAA	AA+	A1+	A1
2025				
U.S. government agency securities	\$ -	\$ 20,573,068	\$ -	\$ -
Commercial paper	-	-	-	8,368,660
	<u>\$ -</u>	<u>\$ 20,573,068</u>	<u>\$ -</u>	<u>\$ 8,368,660</u>
2024				
U.S. government agency securities	\$ -	\$ 21,826,229	\$ -	\$ -
Commercial paper	-	-	741,514	3,627,121
	<u>\$ -</u>	<u>\$ 21,826,229</u>	<u>\$ 741,514</u>	<u>\$ 3,627,121</u>

The Foundation invests in fixed-income mutual funds with a long-term growth objective and due to the nature of mutual funds, do not have maturities for consideration with credit risk. Additionally, these funds are not rated by the rating agencies.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

3. Cash, Cash Equivalents, and Investments (continued)

Concentration of Credit Risk (continued)

More than 5% of the College's investments as of June 30 were invested as follows:

	2025	2024
Federal National Mortgage Association bonds	48.00 %	51.00 %
Federal Home Loan Mortgage Corporation term notes	18.00	12.00
Federal Home Loan Consolidated	5.00	11.00
Mackinac Funding Co LLC commercial paper	5.00	-
Lexington Parker Capital Co LLC commercial paper	5.00	-
Federal Farm CR BKS Cons Systemwide bonds	-	11.00
Suncorp-Metway LTD commercial paper	-	6.00
Britannia Funding Co LLC commercial paper	-	5.00
	81.00%	96.00%

More than 5% of the Foundation's investments as of June 30 were invested as follows:

	2025	2024
Vanguard Institutional Index	33.00%	36.00%
Vanguard Total International Stock Index	12.00	10.00
Vanguard Total Bond Market Index	6.00	6.00
iShares Russell 250 ETF	6.00	6.00
	57.00%	58.00%

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 College's and Foundation's foreign investments as of June 30, 2025 and 2024 are valued in U.S. dollars; therefore, they are not subject to foreign currency risk.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

4. Fair Value Measurements

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 College'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 following tables present information about the College's assets measured at fair value on a recurring basis as of June 30:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2025				
U.S. government agency securities	\$ 20,573,068	\$ -	\$ -	\$ 20,573,068
Joint venture	-	-	1,000,000	1,000,000
Total	\$ 20,573,068	\$ -	\$ 1,000,000	\$ 21,573,068
2024				
U.S. government agency securities	\$ 21,826,229	\$ -	\$ -	\$ 21,826,229
Total	\$ 21,826,229	\$ -	\$ -	\$ 21,826,229

The remaining funds held by the College are either cash or cash equivalents/investments that are valued at amortized cost. These funds are not subject to fair value measurements and consisted of the following as of June 30:

	2025	2024
Cash	\$ 1,498,573	\$ 2,684,387
Money market mutual funds	10,148,128	4,794,514
Commercial paper	8,368,660	4,368,635
Certificates of deposit	274,189	261,575
	<u>\$ 20,289,550</u>	<u>\$ 12,109,111</u>

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

4. Fair Value Measurements (continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis as of June 30:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2025				
Mutual funds:				
Domestic equity	\$ 28,507,266	\$ -	\$ -	\$ 28,507,266
International equity	16,186,733	-	-	16,186,733
Fixed income	13,607,484	-	-	13,607,484
Real estate	1,254,304	-	-	1,254,304
Total	<u>\$ 59,555,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,555,787</u>
Investments measured at NAV:				
Private equity funds				4,899,936
Real estate funds				1,618,349
Multistrategy hedge funds				1,039,638
Total investments measured at NAV				<u>7,557,923</u>
Total				<u>\$ 67,113,710</u>
2024				
Mutual funds:				
Domestic equity	\$ 27,353,973	\$ -	\$ -	\$ 27,353,973
International equity	12,164,625	-	-	12,164,625
Fixed income	11,681,747	-	-	11,681,747
Real estate	1,523,586	-	-	1,523,586
Total	<u>\$ 52,723,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,723,931</u>
Investments measured at NAV:				
Private equity funds				4,715,127
Real estate funds				998,142
Multistrategy hedge funds				1,063,069
Total investments measured at NAV				<u>6,776,338</u>
Total				<u>\$ 59,500,269</u>

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

4. Fair Value Measurements (continued)

The College and Foundation's debt and equity securities are classified as Level 1 and are valued using prices quoted in active markets for those securities.

During the year ended June 30, 2025, the College entered into an agreement for a joint venture. Under the agreement's payment schedule, the College invested the initial \$1,000,000 commitment of a total \$3,000,000 commitment that will be fully funded by December 2026 into the Freshwater Center. With this investment, the College has 50% ownership. Due to the unique nature of this investment, it is classified as Level 3 and valuation is based on the initial cost of the investment, adjusted for the earnings and return of investment under the equity method of accounting.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented in a subsequent 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. The fair value, unfunded commitments, and redemption rules of those investments are as follows as of June 30:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
2025				
Private equity funds	\$ 4,899,936	\$ 172,148	Quarterly	Quarterly
Real estate funds	1,618,349	-	Monthly	Monthly
Multistrategy hedge funds	1,039,638	-	Semiannual	Quarterly
Total investments measured at NAV	<u>\$ 7,557,923</u>	<u>\$ 172,148</u>		
2024				
Private equity funds	\$ 4,715,127	\$ 180,741	Monthly or quarterly	Quarterly
Real estate funds	998,142	-	Monthly	Monthly
Multistrategy hedge funds	1,063,069	-	Monthly	Semiannual
Total investments measured at NAV	<u>\$ 6,776,338</u>	<u>\$ 180,741</u>		

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

4. Fair Value Measurements (continued)

Investments in Entities that Calculate Net Asset Value per Share (continued)

The private equity funds class includes several private equity funds that invest in a diverse portfolio of companies. The real estate fund invests directly into a diverse portfolio of private real estate. The multistrategy hedge funds class invests in funds that pursue multiple strategies to diversify risks and reduce volatility.

5. Accounts and Contributions Receivable

The following is the detail of accounts and contributions receivable:

	College		Foundation	
	2025	2024	2025	2024
Student	\$ 2,603,891	\$ 2,548,395	\$ -	\$ -
Grants and contracts	928,717	957,513	-	-
State appropriations	2,457,733	2,622,548	-	-
Foundation	2,074,515	2,191,843	-	-
Third party and other	1,059,344	613,731	-	-
Contributions	-	-	1,961,932	1,636,799
Employee Retention Credit	8,413,537	8,037,442	-	-
Gross accounts receivable	17,537,737	16,971,472	1,961,932	1,636,799
Allowance for doubtful accounts	(781,505)	(730,098)	(55,000)	(40,000)
Allowance for net present value discount	-	-	(67,999)	(57,157)
Total accounts receivable, net	\$ 16,756,232	\$ 16,241,374	\$ 1,838,933	\$ 1,539,642

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all eligibility criteria to be entitled to the funding.

Management has determined that the eligibility criteria that must be overcome for entitlement to the ERC funding are qualifying for the credit based on meeting the threshold for gross receipts decline in 2021 compared to 2019 and incurring eligible payroll expenses, and the College filed for the credit on January 31, 2024. For the year ended June 30, 2024, the College determined these eligibility criteria have been met and recognized \$8,037,442 of ERC revenue within Employee Retention Credit grant on the statement of revenue, expenses, and changes in net position, along with a corresponding receivable within accounts receivable on the statement of net position.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

5. Accounts and Contributions Receivable (continued)

The College's ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If after payment by the IRS, a portion or all of the ERC is determined to be ineligible upon IRS review, the College would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes. The College is accruing annual interest on the open receivable balance.

Future maturities of the Foundation's contributions receivable were as follows as of June 30:

	2025	2024
Current receivables due within 1 year	\$ 1,208,089	\$ 983,228
Noncurrent receivables due within 2-5 years	630,844	556,414
Total	<u>\$ 1,838,933</u>	<u>\$ 1,539,642</u>

6. Capital Assets

Capital asset activity was as follows for the year ended June 30, 2025:

	July 1, 2024	Additions	Disposals	Transfers	June 30, 2025
Capital assets not being depreciated:					
Land	\$ 4,626,042	\$ -	\$ -	\$ -	\$ 4,626,042
Construction in progress	515,299	6,318,949	-	(448,405)	6,385,843
Art collection	1,877,006	701	-	-	1,877,707
	<u>7,018,347</u>	<u>6,319,650</u>	<u>-</u>	<u>(448,405)</u>	<u>12,889,592</u>
Capital assets being depreciated:					
Infrastructure	7,943,394	-	-	-	7,943,394
Buildings and improvements	125,391,726	927,584	-	-	126,319,310
Docks	2,359,401	-	-	-	2,359,401
Furniture, fixtures, and equipment	34,070,028	5,568,475	-	-	39,638,503
Land improvements	6,204,060	45,541	-	-	6,249,601
	<u>175,968,609</u>	<u>6,541,600</u>	<u>-</u>	<u>-</u>	<u>182,510,209</u>
Accumulated depreciation:					
Infrastructure	7,491,005	89,001	-	-	7,580,006
Buildings and improvements	60,682,972	3,264,341	-	-	63,947,313
Docks	2,126,710	51,709	-	-	2,178,419
Furniture, fixtures, and equipment	28,888,830	2,099,462	-	-	30,988,292
Land improvements	5,459,486	93,039	-	-	5,552,525
	<u>104,649,003</u>	<u>5,597,552</u>	<u>-</u>	<u>-</u>	<u>110,246,555</u>
Net capital assets being depreciated	<u>71,319,606</u>	<u>944,048</u>	<u>-</u>	<u>-</u>	<u>72,263,654</u>
Capital assets, net	<u>\$ 78,337,953</u>	<u>\$ 7,263,698</u>	<u>\$ -</u>	<u>\$ (448,405)</u>	<u>\$ 85,153,246</u>

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

6. Capital Assets (continued)

Capital asset activity was as follows for the year ended June 30, 2024:

	July 1, 2023	Additions	Disposals	Transfers	June 30, 2024
Capital assets not being depreciated:					
Land	\$ 4,626,042	\$ -	\$ -	\$ -	\$ 4,626,042
Construction in progress	323,540	515,299	(1,530)	(322,010)	515,299
Art collection	1,863,541	13,465	-	-	1,877,006
	6,813,123	528,764	(1,530)	(322,010)	7,018,347
Capital assets being depreciated:					
Infrastructure	7,943,394	-	-	-	7,943,394
Buildings and improvements	121,199,559	4,192,167	-	-	125,391,726
Docks	2,359,401	-	-	-	2,359,401
Furniture, fixtures, and equipment	31,654,558	2,415,470	-	-	34,070,028
Land improvements	5,917,160	286,900	-	-	6,204,060
	169,074,072	6,894,537	-	-	175,968,609
Accumulated depreciation:					
Infrastructure	7,390,155	100,850	-	-	7,491,005
Buildings and improvements	57,489,210	3,193,762	-	-	60,682,972
Docks	2,075,001	51,709	-	-	2,126,710
Furniture, fixtures, and equipment	27,452,290	1,436,540	-	-	28,888,830
Land improvements	5,373,119	86,367	-	-	5,459,486
	99,779,775	4,869,228	-	-	104,649,003
Net capital assets being depreciated	69,294,297	2,025,309	-	-	71,319,606
Capital assets, net	\$ 76,107,420	\$ 2,554,073	\$ (1,530)	\$ (322,010)	\$ 78,337,953

7. Long-term Obligations

Long-term debt activity for the year ended June 30, 2025 was as follows:

	July 1, 2024	Additions	Reductions	June 30, 2025	Current Portion
Bonds payable:					
2016 Community College Facilities Bonds	\$ 15,705,000	\$ -	\$ (900,000)	\$ 14,805,000	\$ 935,000
2018 Community College Facilities Bonds	5,615,000	-	(315,000)	5,300,000	330,000
2024 Community College Facilities Bonds	-	8,190,000	-	8,190,000	420,000
Total principal outstanding	21,320,000	8,190,000	(1,215,000)	28,295,000	1,685,000
Unamortized bond premiums	416,379	799,594	(67,426)	1,148,547	85,703
Total bonds payable	21,736,379	8,989,594	(1,282,426)	29,443,547	1,770,703
Accrued vacation and sick leave	1,525,681	1,487,627	(1,342,336)	1,670,972	1,486,000
Voluntary separation plan	120,356	81,844	(161,278)	40,922	40,922
Total long-term obligations	\$ 23,382,416	\$ 10,559,065	\$ (2,786,040)	\$ 31,155,441	\$ 3,297,625

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

7. Long-term Obligations (continued)

Long-term debt activity for the year ended June 30, 2024 was as follows:

	July 1, 2023	Additions	Reductions	June 30, 2024	Current Portion
Bonds payable:					
2016 Community College Facilities Bonds	\$ 16,575,000	\$ -	\$ (870,000)	\$ 15,705,000	\$ 900,000
2018 Community College Facilities Bonds	5,920,000	-	(305,000)	5,615,000	315,000
Total principal outstanding	22,495,000	-	(1,175,000)	21,320,000	1,215,000
Unamortized bond premiums	447,253	-	(30,874)	416,379	30,874
Total bonds payable	22,942,253	-	(1,205,874)	21,736,379	1,245,874
Accrued vacation and sick leave	1,592,510	1,359,652	(1,426,481)	1,525,681	1,321,000
Voluntary separation plan	20,800	240,712	(141,156)	120,356	120,356
Total long-term obligations	\$ 24,555,563	\$ 1,600,364	\$ (2,773,511)	\$ 23,382,416	\$ 2,687,230

The College has no direct borrowings.

Community College Facilities Bonds, 2016

The College issued \$20,890,000 in Limited Tax General Obligation Bonds with an interest rate of 2.78%. The 2016 bonds are payable from operating revenue of the College in installments ranging from \$405,000 to \$1,405,000 and mature at varying amounts through 2038. The net proceeds of \$20,788,154 (after payment of \$101,846 in underwriting fees and other issuance cost) were used to construct residence housing, renovations to the museum, a new library, and various other campus infrastructure projects.

Community College Facilities Bonds, 2018

The College issued \$7,300,000 in Limited Tax General Obligation Bonds with an interest rate of 3.25% to 3.50%. The 2018 bonds are payable from operating revenue of the College in installments ranging from \$260,000 to \$495,000 and mature at varying amounts through 2038. The net proceeds of \$7,130,750 (after payment of \$169,250 in underwriting fees and other issuance cost) were used to finance the West Hall Innovation Center renovation.

Community College Facilities Bonds, 2024

The College issued \$8,190,000 in Limited Tax General Obligation Bonds with an interest rate of 4.00% to 5.00%. The 2024 bonds are payable from operating revenue of the College in installments ranging from \$420,000 to \$780,000 and mature at varying amounts through 2039. The net proceeds of \$8,018,378 (after payment of \$171,622 in underwriting fees and other issuance cost) are being used to finance the expansion and renovation of its existing aircraft hangar and purchase of additional aircraft.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

7. Long-term Obligations (continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds obligations are as follows for years ending June 30:

	Principal	Interest	Total
2026	\$ 1,685,000	\$ 1,016,375	\$ 2,701,375
2027	1,750,000	956,600	2,706,600
2028	1,820,000	894,450	2,714,450
2029	1,895,000	829,775	2,724,775
2030	1,970,000	762,313	2,732,313
2031-2035	11,115,000	2,695,650	13,810,650
2036-2039	8,060,000	631,550	8,691,550
Total	<u>\$ 28,295,000</u>	<u>\$ 7,786,713</u>	<u>\$ 36,081,713</u>

8. Retirement Plans

Plan Description

The College participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the College. Certain College employees also receive defined contribution retirement and health care benefits through MPSERS. MPSERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. MPSERS also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

MPSERS, and all assumptions therein, is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment health care plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended,

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Benefits Provided (continued)

establishes eligibility and benefit provisions for the defined benefit pension plan and the postemployment health care plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25% to 1.50%. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced by 0.50% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100% of the participant's final average compensation, with an increase of 2% each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3%. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years in which investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree health care recipient. Depending on the member's date of hire, this subsidized portion ranges from 80% to the maximum allowed by the statute.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Contributions

Public Act 300 of 1980, as amended, required the College to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10%, or 20% for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to the retiree health care and keeping the premium subsidy benefit described above or choosing not to pay the 3% contribution and, instead, opting out of the subsidy benefit and becoming participants in the Personal Healthcare Fund (PHF), a portable tax-deferred fund that can be used to pay health care expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 accounts as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stopped paying the 3% contribution to retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) accounts.

The College's contributions are determined based on employee elections. There are multiple pension and health care benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The ranges of rates are as follows:

	Pension	OPEB
October 1, 2022 – September 30, 2023	13.75% – 20.16%	7.21% – 8.07%
October 1, 2023 – September 30, 2024	13.90% – 23.03%	7.06% – 8.31%
October 1, 2024 – September 30, 2025	20.96% – 30.11%	0.00% – 1.25%

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Contributions (continued)

Depending on the plan selected, member pension contributions range from 0% up to 7.0% of gross wages. For certain plan members, a 4% employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3% employer match is provided to the defined contribution pension plan.

The College's required and actual pension contributions to the plan for the year ended June 30, 2025 were \$6,145,467 and \$5,923,033 for June 30, 2024, which include the College's contributions required for those members with a defined contribution benefit. The College's required and actual pension contributions include an allocation of \$1,922,016 for the year ended June 30, 2025 and \$2,785,787 for the year ended June 30, 2024 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate.

The College's required and actual OPEB contributions to the plan for the year ended June 30, 2025 were \$563,497 and \$1,298,151 for the year ended June 30, 2024, which include the College's contributions required for those members with a defined contribution benefit.

Net Pension Liability

As of June 30, 2025, the College reported a liability of \$33,796,611 for its proportionate share of the net pension liability and \$46,671,580 as of June 30, 2024. The net pension liability was measured as of September 30, 2024 and 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023 and 2022, which used update procedures to roll forward the estimated liability to September 30, 2024 and 2023. The College's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. As of September 30, 2024, the College's proportion was 0.138047%, 0.144199% as of September 30, 2023, and 0.150104% as of September 30, 2022, representing a change of (4.266326)% between fiscal years 2023 to 2024 and (3.933933)% between fiscal years 2022 to 2023.

Net OPEB Asset

As of June 30, 2025, the College reported an asset of \$5,892,039 and \$824,683 as of June 30, 2024, for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of September 30, 2024 and 2023, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of September 30, 2023 and 2022, which used update

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Net OPEB Asset (continued)

procedures to roll forward the estimated liability to September 30, 2024 and 2023. The College's proportion of the net OPEB asset liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. As of September 30, 2024, the College's proportion was 0.136884%, 0.145781% as of September 30, 2023, and 0.150930% as of September 30, 2022, representing a change of (6.102990)% between fiscal years 2023 to 2024 and (3.411515)% between fiscal years 2022 to 2023.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2025, the College recognized pension expense of \$640,665 and \$3,637,568 for June 30, 2024, inclusive of payments to fund the MPSERS UAAL stabilization rate.

The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30:

	2025		2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 916,926	\$ (367,205)	\$ 1,473,279	\$ (71,493)
Changes in assumptions	3,523,497	(2,476,223)	6,324,211	(3,646,397)
Net difference between projected and actual earnings on pension plan investments	-	(6,449,826)	-	(955,052)
Changes in proportion and differences between the College's contributions and proportionate share of contributions	36,650	(3,627,199)	51,705	(3,859,605)
The College's contributions to the plan subsequent to the measurement date	5,098,921	-	5,017,407	-
Total	\$ 9,575,994	\$ (12,920,453)	\$ 12,866,602	\$ (8,532,547)

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2025, \$1,922,016 is reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment and was recognized as state appropriations revenue, and \$2,785,787 for the year ended June 30, 2024.

Amounts reported as deferred outflows of resources and (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2026	\$ (2,709,631)
2027	(878,225)
2028	(2,982,355)
2029	<u>(1,873,169)</u>
Total	<u>\$ (8,443,380)</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the College recognized OPEB recovery of \$2,537,329 and \$1,919,237 for the year ended June 30, 2024. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of June 30:

	2025		2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (6,243,762)	\$ -	\$ (6,231,730)
Changes in assumptions	1,286,906	(147,919)	1,835,889	(221,076)
Net difference between projected and actual earnings on OPEB plan investments	-	(1,115,431)	2,514	-
Changes in proportion and differences between the College's contributions	32,868	(787,780)	9,433	(971,587)
The College's contributions to the plan subsequent to the measurement date	112,338	-	872,697	-
Total	<u>\$ 1,432,112</u>	<u>\$ (8,294,892)</u>	<u>\$ 2,720,533</u>	<u>\$ (7,424,393)</u>

Amounts reported as deferred outflows of resources and (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows, reduced by employer contributions subsequent to the measurement date:

Year Ending June 30	Amount
2026	\$ (2,336,469)
2027	(1,390,765)
2028	(1,323,904)
2029	(1,162,231)
2030	(640,813)
Thereafter	(120,936)
Total	<u>\$ (6,975,118)</u>

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Actuarial Assumptions

The total pension and OPEB liabilities as of September 30, 2024 and 2023 are based on the results of an actuarial valuation as of September 30, 2023 and 2022, respectively, and rolled forward. The total liabilities were determined using the following actuarial assumptions:

	2025	2024
Actuarial cost method	Entry age, normal	Entry age, normal
Investment rate of return:		
Pension	6.00%, net of investment expenses based on the groups	6.00%, net of investment expenses based on the groups
OPEB	6.00%, net of investment expenses based on the groups	6.00%, net of investment expenses based on the groups
Salary increases	2.75%-11.55% (including wage inflation of 2.75%)	2.75%-11.55% (including wage inflation of 2.75%)
Healthcare cost trend rate	Pre 65: 7.25% (year 1 graded to 3.5% year 15) Post 65: 6.50% Year 1 graded to 3.50% Year 15	Pre 65: 6.25%-7.50% (year 1 graded to 3.5% year 15) Post 65: 6.50% Year 1 graded to 3.50% Year 15
Mortality	PubT-2010 Male and Female Employee Mortality Tables, scaled 100% (retirees: 116% for males and 116% for females) and adjusted for mortality improvements using projection scale MP-2021 from 2010	PubT-2010 Male and Female Employee Mortality Tables, scaled 100% (retirees: 116% for males and 116% for females) and adjusted for mortality improvements using projection scale MP-2021 from 2010
Cost of living pension adjustments	3.00% (Annual noncompounded for MIP members)	3.00% (Annual noncompounded for MIP members)

Assumption changes as a result of an experience study for the periods from 2017 to 2022 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2023 valuation. The total pension and OPEB liabilities as of September 30, 2024, are based on the results of an actuarial valuation date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4612 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.2834 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5.0000 years.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability and OPEB (asset)/liability was 6.00% as of September 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that College contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB asset.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	2025		2024	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00%	5.30%	25.00%	5.80%
Private equity pools	16.00	9.00	16.00	9.60
International equity pools	15.00	6.50	15.00	6.80
Fixed-income pools	13.00	2.20	13.00	1.30
Real estate and infrastructure pools	10.00	7.10	10.00	6.40
Absolute return pools	9.00	5.20	9.00	4.80
Real return/Opportunistic pools	10.00	6.90	10.00	7.30
Short-term investment pools	2.00	1.40	2.00	0.30

Long-term rates of return are net of administrative expense and inflation of 2.30% for September 30, 2024 and 2.70% for September 30, 2023.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the College, calculated using the discount rate depending on the plan option. The following also reflects what the College's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1.00 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1.00 Percentage Point Increase (7.00%)
2025			
Net pension liability of the College	\$ 49,546,195	\$ 33,796,611	\$ 20,682,052
2024			
Net pension liability of the College	\$ 63,053,167	\$ 46,671,580	\$ 33,033,315

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the College, calculated using the current discount rate. It also reflects what the College's net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1.00 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1.00 Percentage Point Increase (7.00%)
2025			
Net OPEB asset of the College	\$ (4,553,416)	\$ (5,892,039)	\$ (7,049,420)
2024			
Net OPEB (asset) liability of the College	\$ 854,949	\$ (824,683)	\$ (2,268,162)

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

8. Retirement Plans (continued)

Sensitivity of the Net OPEB Asset to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB asset of the College, calculated using the current health care cost trend rate. It also reflects what the College's net OPEB asset would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1.00 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1.00 Percentage Point Increase (7.00%)
2025			
Net OPEB asset of the College	\$ (7,049,432)	\$ (5,892,039)	\$ (4,650,741)
2024			
Net OPEB (asset) liability of the College	\$ (2,271,761)	\$ (824,683)	\$ 741,529

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

As of June 30, 2025, the College reported a payable of \$566,212 for the outstanding amount of contributions to the pension plan and \$9,907 to the OPEB plan. As of June 30, 2024, the College reported a payable of \$690,290 for the outstanding amount of contributions to the pension plan and \$71,871 to the OPEB plan.

Defined Contribution Pension Plan

Full-time faculty, administrators, and other employees providing professional services in the discharge of the educational and administrative functions of the College may elect to participate in an optional retirement program (ORP) in lieu of participating in the MPSERS plan. The ORP is a qualified defined contribution plan under IRC Section 401(a) administered by the Teachers' Insurance and Annuity Association (TIAA). The College has elected to contribute 11.50% of the participant's compensation for the years ended June 30, 2025 and 2024. The College's contributions to the plan was \$1,342,914 for the year ended June 30, 2025 and \$1,259,774 for the year ended June 30, 2024.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

9. Unrestricted New Deficit

The College, through application of the board-approved resources guidelines, reserved the use of unrestricted net deficit as follows as of June 30:

	2025	2024
Reserved for General Operating Fund	\$ 15,163,935	\$ 12,801,665
Reserved for maintenance and replacement after bond commitments	3,323,575	6,097,267
Reserved for auxiliary expenses	8,249,018	8,135,936
Reserved for Great Lakes Maritime Academy equipment and vessel	343,389	512,401
Reserved for transformation	1,422,755	1,255,255
Reserved for strategic projects	1,585,764	1,015,481
Reserved for wellness initiatives	364,114	364,114
Employee retention credit (Note 5)	8,413,537	8,037,442
Total reserves before pension and OPEB activity	38,866,087	38,219,561
Reserved for OPEB fund deficit	(6,862,780)	(4,703,860)
Reserved for pension fund deficit	(39,063,336)	(45,123,312)
Total	\$ (7,060,029)	\$ (11,607,611)

10. Risk Management

The College is exposed to various risks of loss related to property loss, torts, errors, omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The College participates in risk management pools for claims relating to auto, property, workers' compensation, errors, omissions, and liability.

Risk-sharing Programs

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk management pool for auto, property, and liability claims and in the SET-SEG risk management pool for workers' compensation claims, errors, and omissions coverage. Both programs operate as claims servicing pools for amounts up to member retention limits and operate as common risk-sharing management programs for losses in excess of member retention amounts. Although premiums are paid annually to the pools, which the pools use to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

10. Risk Management (continued)

Self-insurance

The College is self-insured for unemployment compensation and health benefits. The College estimates the liability for self-insured claims that have been incurred through the end of the fiscal year, including both those claims that have been reported and those that have not yet been reported. The estimated liabilities for unemployment compensation for the fiscal years ended June 30, 2025 and 2024 were insignificant. Changes in the estimated liability for health benefits were as follows for the fiscal years ended June 30:

	2025	2024	2023
Unpaid claims – beginning of year	\$ 234,956	\$ 158,329	\$ 129,486
Incurred claims, including claims incurred but not reported	4,305,167	3,968,316	3,367,391
Claim payments	(4,327,876)	(3,891,689)	(3,338,548)
Unpaid claims – end of year	\$ 212,247	\$ 234,956	\$ 158,329

11. Contingent Liabilities and Commitments

The College is subject to various legal proceedings and claims that arise in the ordinary course of its activities. The College believes that the amount, if any, of ultimate liability with respect to legal actions will be insignificant or will be covered by insurance.

In June 2024, the College made a \$3 million commitment to the development of The Freshwater Center, a not-for-profit joint venture. As of June 30, 2025, \$1 million of the commitment had been paid.

In June 2025, the College committed to a construction project for an aviation hangar, of which \$2,250,322 of work will be completed after June 30, 2025.

Northwestern Michigan College

Notes to Financial Statements

June 30, 2025

12. Dennos Museum Center

Dennos Museum Center operates as an auxiliary function of the College. Revenue and expenses for Dennos Museum Center were as follows for the years ended June 30:

	2025	2024
Revenue:		
Sales and services	\$ 420,973	\$ 368,387
Federal grants and contracts	1,000	-
State grants and contracts	1,800	10,200
Support from component unit	825,765	1,016,367
Other sources	65,039	36,870
Total revenue	1,314,577	1,431,824
Operating and capital expenses:		
Public service	1,123,617	1,248,941
Operations and maintenance of plant	76,189	84,598
Total operating and capital expenses	1,199,806	1,333,539
Change in net position before nonoperating revenue and transfers	114,771	98,285
Nonoperating revenue - private gifts, grants, and contracts	-	10,000
Transfers out	(116,055)	(122,076)
Change in net position	(1,284)	(13,791)
Net position - beginning of year	6,675	20,466
Net position - end of year	\$ 5,391	\$ 6,675

13. Risks and Uncertainties

The College is subject to various risks and uncertainties related to Federal, State, and local economic factors. The Federal and State government funding has a significant impact on the College's operations. There is heightened uncertainty at the Federal level due to an ongoing government shutdown as well as a variety of proposed policy and Agency oversight changes. Due to this uncertainty, it is at least reasonably possible an impact in the near term could materially affect the operations of the College and the amounts reported in the financial statements.

Required Supplementary Information

Northwestern Michigan College

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Proportionate Share of the Net Pension Liability

	Years Ended June 30									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
College's proportion of the net pension liability	0.13805%	0.14420%	0.15010%	0.16061%	0.16534%	0.17481%	0.18127%	0.18535%	0.18849%	0.18036%
College's proportionate share of the net pension liability	\$ 33,796,611	\$ 46,671,580	\$ 56,452,154	\$ 38,026,148	\$ 56,797,390	\$ 57,892,016	\$ 54,492,788	\$ 48,031,699	\$ 47,027,079	\$ 44,052,461
College's covered payroll	\$ 14,770,047	\$ 14,813,238	\$ 14,902,492	\$ 14,371,428	\$ 14,416,413	\$ 15,079,019	\$ 15,354,013	\$ 15,460,385	\$ 16,077,647	\$ 15,446,667
College's proportionate share of the net pension liability as a percentage of its covered payroll	228.82%	315.07%	378.81%	264.60%	393.98%	383.92%	354.91%	310.68%	292.50%	285.19%
Plan fiduciary net position as a percentage of the total pension liability	74.44%	65.91%	60.77%	72.32%	59.49%	60.08%	62.12%	63.96%	63.01%	63.17%

The amounts presented for the fiscal year were determined as of September 30 of the preceding year.

Northwestern Michigan College

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Pension Contributions

	Years Ended June 30									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contributions	\$ 5,892,922	\$ 5,685,980	\$ 6,711,860	\$ 5,070,861	\$ 4,818,835	\$ 4,571,582	\$ 4,688,968	\$ 4,683,462	\$ 4,397,619	\$ 4,112,085
Contributions in relation to the statutorily required contributions	(5,892,922)	(5,685,980)	(6,711,860)	(5,070,861)	(4,818,835)	(4,571,582)	(4,688,968)	(4,683,462)	(4,397,619)	(4,112,085)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered payroll	\$ 14,978,336	\$ 14,664,103	\$ 15,286,828	\$ 14,879,380	\$ 14,250,782	\$ 14,429,193	\$ 15,279,724	\$ 15,376,191	\$ 15,454,034	\$ 15,593,732
Contributions as a percentage of covered payroll	39.34%	38.77%	43.91%	34.08%	33.81%	31.68%	30.69%	30.46%	28.46%	26.37%

Northwestern Michigan College
MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Proportionate Share of the Net Other Postemployment Benefits Liability

	Years Ended June 30					
	2025	2024	2023	2022	2021	2020
College's proportion of the net OPEB liability	0.13688%	0.14578%	0.15093%	0.15665%	0.16096%	0.17119%
College's proportionate share of the net OPEB liability	\$ (5,892,039)	\$ (824,683)	\$ 3,196,794	\$ 2,390,998	\$ 8,622,821	\$ 12,287,488
College's covered payroll	\$ 14,770,047	\$ 14,813,238	\$ 14,902,492	\$ 14,371,428	\$ 14,416,413	\$ 15,079,019
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	-39.89%	-5.57%	21.45%	16.64%	59.81%	81.49%
Plan fiduciary net position as a percentage of the total OPEB liability	143.08%	105.04%	83.09%	88.87%	59.76%	48.67%
						43.10%
						36.53%

The amounts presented for the fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Northwestern Michigan College

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the College's Other Postemployment Benefits Contributions

	Years Ended June 30							
	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions	\$ 414,151	\$ 1,159,087	\$ 1,181,825	\$ 1,178,001	\$ 1,164,378	\$ 1,148,856	\$ 1,192,398	\$ 1,109,834
Contributions in relation to the statutorily required contributions	(414,151)	(1,159,087)	(1,181,825)	(1,178,001)	(1,164,378)	(1,148,856)	(1,192,398)	(1,109,834)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered payroll	\$ 14,978,336	\$ 14,664,103	\$ 15,286,828	\$ 14,879,380	\$ 14,250,782	\$ 14,429,193	\$ 15,279,724	\$ 15,376,191
Contributions as a percentage of covered payroll	2.77%	7.90%	7.73%	7.92%	8.17%	7.96%	7.80%	7.22%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Northwestern Michigan College

Notes to Required Supplementary Information

June 30, 2025

Pension Information

GASB 68 was implemented in fiscal year 2015.

The amounts presented in the schedule of the College's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

Significant changes in assumptions were as follows for the years ended June 30:

- 2024 – The discount rate used in the September 30, 2022 actuarial valuation decreased to 6.00% for the MIP and Basic Plans and the Pension Plus Plan for the September 30, 2023 actuarial valuation.
- 2020 – The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic Plans and the Pension Plus Plan for the September 30, 2019 actuarial valuation.
- 2019 – The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic Plans, 7.00% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan for the September 30, 2018 actuarial valuation.
- 2018 – The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic Plans and 7.00% for the Pension Plus Plan for the September 30, 2017 actuarial valuation.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedules of the College's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

Significant changes in assumptions were as follows for the years ended June 30:

- 2024 – The discount rate used in the September 30, 2022 actuarial valuation decreased to 6.00% for the September 30, 2023 actuarial valuation.
- 2020 – The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95% for the September 30, 2019 actuarial valuation.
- 2019 – The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15% for the September 30, 2018 actuarial valuation.

Other Supplementary Information

Northwestern Michigan College

Combining Statement of Net Position

Year Ended June 30, 2025

(With Comparative Totals for June 30, 2024)

	Current Funds					Pension & OPEB				
	General Fund	Board Designated Fund	Auxiliary Fund	Liabilities Fund	Restricted Fund	Plant Fund	Loan Fund	Agency Fund	June 30, 2025	June 30, 2024
Assets										
Current assets:										
Cash and cash equivalents	\$ 4,556,386	\$ -	\$ 4,626	\$ -	\$ 200	\$ -	\$ -	\$ -	\$ 4,561,212	\$ 8,216,793
Receivables, current	6,462,289	8,749,497	266,886	-	919,539	-	340,698	17,323	16,756,232	16,241,374
Short-term investments	12,172,572	-	-	-	-	-	-	-	12,172,572	2,500,872
Prepaid expenses and other assets	1,315,761	-	1,283,020	-	104,092	93,496	-	-	2,796,369	3,210,113
Due (to) from other funds	(20,546,232)	3,589,943	7,911,536	(250)	2,404,305	4,928,048	(335,500)	2,048,150	-	-
Total current assets	3,960,776	12,339,440	9,466,068	(250)	3,428,136	5,021,544	5,198	2,065,473	36,286,385	30,169,152
Noncurrent assets:										
Restricted cash and cash equivalents, unspent bond proceeds	-	-	-	-	-	8,525,316	-	-	8,525,316	31,800
Restricted short term investments, unspent bond proceeds	-	-	-	-	-	-	-	-	-	1,359,646
Long-term investments	15,603,518	1,000,000	-	-	-	-	-	-	16,603,518	21,826,229
Net OPEB asset	-	-	-	5,892,039	-	-	-	-	5,892,039	824,683
Capital assets, net	-	-	-	-	-	85,153,246	-	-	85,153,246	78,337,953
Total noncurrent assets	15,603,518	1,000,000	-	5,892,039	-	93,678,562	-	-	116,174,119	102,380,311
Total assets	19,564,294	13,339,440	9,466,068	5,891,789	3,428,136	98,700,106	5,198	2,065,473	152,460,504	132,549,463
Deferred outflows of resources	-	-	-	11,008,106	-	-	-	-	11,008,106	15,587,135

Northwestern Michigan College

Combining Statement of Net Position

Year Ended June 30, 2025
(With Comparative Totals for June 30, 2024)

	Current Funds						Plant Fund	Loan Fund	Agency Fund	June 30, 2025	June 30, 2024
	General Fund	Board Designated Fund	Auxiliary Fund	OPEB Liabilities Fund	Restricted Fund						
Liabilities											
Current liabilities:											
Accounts payable	\$ 1,249,173	\$ -	\$ 825,316	\$ -	\$ 468,331	\$ 1,530,404	\$ 5,198	\$ 40,511	\$ 4,118,933	\$ 2,612,670	
Accrued liabilities and other:											
Accrued wages and benefits	1,230,156	-	-	-	-	-	-	1,480,979	2,711,135	2,327,424	
Accrued interest payable	295	-	-	-	-	167,565	-	-	167,860	110,598	
Unearned revenue	1,074,284	-	146,803	-	517,804	-	-	30	1,738,921	1,927,847	
Long-term obligations, current	1,526,922	-	-	-	-	1,770,703	-	-	3,297,625	2,687,230	
Total current liabilities	5,080,830	-	972,119	-	986,135	3,468,672	5,198	1,521,520	12,034,474	9,665,769	
Noncurrent liabilities:											
Net pension liability	-	-	-	33,796,611	-	-	-	-	33,796,611	46,671,580	
Long-term obligations, net of current portion	184,972	-	-	-	-	27,672,844	-	-	27,857,816	20,695,186	
Deposits	344,438	-	244,931	-	1,891,998	-	-	543,953	3,025,320	3,403,837	
Total noncurrent liabilities	529,410	-	244,931	33,796,611	1,891,998	27,672,844	-	543,953	64,679,747	70,770,603	
Total liabilities	5,610,240	-	1,217,050	33,796,611	2,878,133	31,141,516	5,198	2,065,473	76,714,221	80,436,372	
Deferred inflows of resources											
	-	-	-	23,137,361	-	-	-	-	23,137,361	18,742,727	
Net position											
Net investment in capital assets	-	-	-	-	-	64,235,015	-	-	64,235,015	58,023,894	
Restricted:											
Expendable - Capital projects	-	-	-	-	550,003	-	-	-	550,003	1,716,533	
Expendable - Net OPEB asset	-	-	-	5,892,039	-	-	-	-	5,892,039	824,683	
Unrestricted (deficit)	13,954,054	13,339,440	8,249,018	(45,926,116)	-	3,323,575	-	-	(7,060,029)	(11,607,611)	
Total net position (deficit)	\$ 13,954,054	\$ 13,339,440	\$ 8,249,018	\$ (40,034,077)	\$ 550,003	\$ 67,558,590	\$ -	\$ -	\$ 63,617,028	\$ 48,957,499	

Northwestern Michigan College

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2025
(With Comparative Totals for June 30, 2024)

	Current Funds						Eliminations	June 30, 2025	June 30, 2024
	General Fund	Board Designated Fund	Auxiliary Fund	Pension & OPEB Liabilities Fund	Restricted Fund	Plant Fund			
Operating revenues									
Student tuition and fees	\$ 25,184,473	\$ 335,960	\$ 41,335	\$ -	\$ -	\$ -	\$ (9,626,122)	\$ 15,935,646	\$ 21,052,412
Federal grants and contributions	9,200	-	1,000	-	4,466,837	-	-	4,477,037	3,810,821
State grants and contributions	5,250	-	1,800	-	2,979,750	-	-	2,986,800	1,248,741
Private gifts, grants, and contracts	54,520	-	-	-	474,186	-	-	528,706	570,408
Expended for plant facilities	-	-	-	-	-	6,542,301	(6,542,301)	-	-
Other sources	796,688	-	1,193,142	-	-	134,000	-	2,123,830	2,015,743
Sales and services of auxiliary activities	8,244	-	5,319,654	-	-	-	(348,775)	4,979,123	4,954,677
Total operating revenues	26,058,375	335,960	6,556,931	-	7,920,773	6,676,301	(16,517,198)	31,031,142	33,652,802
Operating expenses									
Instruction	21,832,772	38,992	-	(3,549,367)	1,713,919	3,432,934	(4,936,228)	18,533,022	19,777,517
Public service	256,854	2,965	2,418,355	-	216,083	-	(229,827)	2,376,738	2,213,967
Academic support	7,931,468	21,579	-	(1,295,336)	126,220	69,475	(69,475)	6,783,931	7,264,303
Student services	5,398,344	986	4,109,205	(989,549)	12,337,836	-	(10,450,858)	10,405,964	14,013,335
Institutional administration	8,210,029	225,516	298,962	(869,608)	146,422	331,238	(84,212)	8,258,347	8,144,853
Operation and maintenance of plant	5,582,977	-	355,535	(715,387)	3,428	795,959	(569,975)	5,452,537	4,853,685
Depreciation	254,453	-	-	-	-	5,597,552	-	5,852,005	5,232,320
Information technology	4,271,392	876	72	(397,702)	333	613,966	(176,623)	4,312,314	3,801,263
Total operating expenses	53,738,289	290,914	7,182,129	(8,104,641)	14,544,241	10,841,124	(16,517,198)	61,974,858	65,301,243
Operating income (loss)	(27,679,914)	45,046	(625,198)	8,104,641	(6,623,468)	(4,164,823)	-	(30,943,716)	(31,648,441)
Nonoperating revenues (expenses)									
State appropriations	14,833,189	-	-	863,771	3,428	-	-	15,700,388	17,005,917
Federal Pell Grants	-	-	-	-	5,895,107	-	-	5,895,107	4,109,210
Employee Retention Credit (ERC)	-	-	-	-	-	-	-	-	8,037,442
Property taxes	14,890,963	-	-	-	-	-	-	14,890,963	13,771,898
Support from component unit	1,995,606	-	1,021,885	-	2,049,474	540,110	-	5,607,075	5,264,761
Investment income	1,905,701	-	-	-	-	296,852	-	2,202,553	1,640,189
Interest income from ERC	-	376,095	-	-	-	-	-	376,095	-
Bond issuance and amortization costs	-	-	-	-	-	(19,343)	-	(19,343)	29,874
Interest expense on capital-related debt	(8,135)	-	-	-	-	(916,458)	-	(924,593)	(703,735)
Total nonoperating revenues (expenses)	33,617,324	376,095	1,021,885	863,771	7,948,009	(98,839)	-	43,728,245	49,155,556
Income (loss) before other revenues	5,937,410	421,141	396,687	8,968,412	1,324,541	(4,263,662)	-	12,784,529	17,507,115
Other revenues (expenses)									
Capital grants and gifts	-	-	-	-	1,875,000	-	-	1,875,000	1,875,000
Transfers (out) in	(3,575,138)	523,723	(283,605)	-	(4,366,071)	7,701,091	-	-	-
Total other revenues (expenses)	(3,575,138)	523,723	(283,605)	-	(2,491,071)	7,701,091	-	1,875,000	1,875,000
Change in net position									
Net position (deficit), beginning of year	2,362,272	944,864	113,082	8,968,412	(1,166,530)	3,437,429	-	14,659,529	19,382,115
Net position (deficit), end of year	11,591,782	12,394,576	8,135,936	(49,002,489)	1,716,533	64,121,161	-	48,957,499	29,575,384
Net position (deficit), end of year	\$ 13,954,054	\$ 13,339,440	\$ 8,249,018	\$ (40,034,077)	\$ 550,003	\$ 67,538,590	\$ -	\$ 63,617,028	\$ 48,957,499