

Northwestern Michigan College Foundation

Financial Report
June 30, 2009

Northwestern Michigan College Foundation

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NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

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June 30, 2009

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Independent Auditor's Report

To the Board of Directors
Northwestern Michigan College Foundation

We have audited the accompanying balance sheet of Northwestern Michigan College Foundation as of June 30, 2009 and 2008 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College Foundation at June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 22, 2009

Northwestern Michigan College Foundation

Balance Sheet

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets		
Cash and cash equivalents	\$ 2,286,075	\$ 3,810,746
Investments held by trustees (Note 2)	19,565,785	23,221,712
Bequest receivable (Note 3)	204,825	-
Pledges receivable (Note 4)	477,296	473,031
Prepaid expenses and other	48,197	15,780
Cash surrender value of life insurance	199,591	173,371
Land held for investment (Note 5)	40,500	40,500
Total assets	<u>\$ 22,822,269</u>	<u>\$ 27,735,140</u>
Liabilities and Net Assets		
Liabilities		
Payable to Northwestern Michigan College (Note 9)	\$ 264,302	\$ 236,449
Deferred revenue	66,840	69,921
Split-interest agreements payable (Note 6)	86,235	91,817
Total liabilities	417,377	398,187
Net Assets		
Unrestricted (Note 8)	2,246,481	3,865,922
Temporarily restricted (Note 8)	10,898,745	14,395,076
Permanently restricted (Note 8)	9,259,666	9,075,955
Total net assets	<u>22,404,892</u>	<u>27,336,953</u>
Total liabilities and net assets	<u>\$ 22,822,269</u>	<u>\$ 27,735,140</u>

Northwestern Michigan College Foundation

Statement of Activities and Changes in Net Assets

	Year Ended							
	June 30, 2009				June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Contributions	\$ 165,502	\$ 1,179,907	\$ 146,981	\$ 1,492,390	\$ 157,038	\$ 2,146,308	\$ 159,198	\$ 2,462,544
Write-off of prior year pledges	-	-	-	-	-	(19,081)	-	(19,081)
Change in fair value of pledges receivable	-	(41,025)	(1,000)	(42,025)	-	-	-	-
Special events	-	205,441	-	205,441	-	261,013	-	261,013
Dividend and interest income	193,183	641,511	-	834,694	366,807	1,022,083	-	1,388,890
Change in value of split-interest agreements (Note 6)	-	(54,184)	-	(54,184)	317,538	(25,698)	-	291,840
Net realized and unrealized losses on investments	(2,147,245)	(2,993,933)	-	(5,141,178)	(673,685)	(1,929,754)	-	(2,603,439)
Miscellaneous income	209	-	-	209	11,823	-	-	11,823
Net assets released from restrictions	2,581,689	(2,581,689)	-	-	1,769,964	(1,769,964)	-	-
Total revenue, gains, and other support	793,338	(3,643,972)	145,981	(2,704,653)	1,949,485	(315,093)	159,198	1,793,590
Expenses								
Program expenses	1,888,787	-	-	1,888,787	1,578,227	-	-	1,578,227
Management and general	93,028	-	-	93,028	132,646	-	-	132,646
Fund-raising - Special events	245,593	-	-	245,593	238,372	-	-	238,372
Total expenses	2,227,408	-	-	2,227,408	1,949,245	-	-	1,949,245
Net Asset Transfers (Note 7)	(185,371)	147,641	37,730	-	(106,760)	80,816	25,944	-
Increase (Decrease) in Net Assets	(1,619,441)	(3,496,331)	183,711	(4,932,061)	(106,520)	(234,277)	185,142	(155,655)
Net Assets - Beginning of year	3,865,922	14,395,076	9,075,955	27,336,953	3,972,442	14,629,353	8,890,813	27,492,608
Net Assets - End of year	\$ 2,246,481	\$ 10,898,745	\$ 9,259,666	\$ 22,404,892	\$ 3,865,922	\$ 14,395,076	\$ 9,075,955	\$ 27,336,953

Northwestern Michigan College Foundation

Statement of Cash Flows

	Year Ended	
	June 30, 2009	June 30, 2008
Cash Flows from Operating Activities		
Decrease in net assets	\$ (4,932,061)	\$ (155,655)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Noncash gifts received	(121,295)	(124,478)
Change in value of split-interest agreement	54,184	(291,840)
Uncollectible pledges	-	19,919
Change in value of pledges receivable	42,025	-
Change in cash value of life insurance	(26,220)	(17,431)
Net realized and unrealized losses on investments	5,141,178	2,603,439
Changes in operating assets and liabilities which provided (used) cash:		
Pledges receivable	75,005	146,653
Bequest receivable	(204,825)	-
Prepaid expenses and other	(32,417)	(15,780)
Payable to Northwestern Michigan College	27,853	(389,508)
Deferred revenue	(3,081)	(29,229)
Contributions restricted for long-term investment	(146,980)	(159,198)
Net cash (used in) provided by operating activities	(126,634)	1,586,892
Cash Flows from Investing Activities		
Proceeds from disposition of land held for sale	-	650,000
Purchases of investments	(929,765)	(1,438,857)
Proceeds from sales and maturities of investments	152,761	1,919,771
Reinvested investment income - Net of administration fees	(746,543)	(1,292,272)
Net cash used in investing activities	(1,523,547)	(161,358)
Cash Flows from Financing Activities		
Cash donations for endowments	146,980	159,198
Payments to beneficiaries	(21,470)	(44,210)
Net cash provided by financing activities	125,510	114,988
Net (Decrease) Increase in Cash and Cash Equivalents	(1,524,671)	1,540,522
Cash and Cash Equivalents - Beginning of year	3,810,746	2,270,224
Cash and Cash Equivalents - End of year	\$ 2,286,075	\$ 3,810,746

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies

Northwestern Michigan College Foundation (the "Foundation") was incorporated on July 8, 1981. The Foundation was organized to provide support exclusively for the objectives and purposes of Northwestern Michigan College (the "College") and to augment the facilities of the College in such a manner as may be designated by its board of directors. All distributions made out of the Foundation, other than normal operating expenses, are to be made to or for the benefit of the College. Substantially all administrative and general costs incurred by the Foundation since its inception, other than commissions and trust administrative fees, have been paid and expensed by the College. Upon dissolution of the Foundation, its remaining assets will be distributed to the College.

Method of Accounting and Basis of Reporting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments - Investments are stated at fair value based upon quoted market value. Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on investments sold are determined using the specific identification method. Commission and administrative fees related to investment management totaled approximately \$91,000 and \$84,000 for the years ended June 30, 2009 and 2008, respectively.

Risks and Uncertainties - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Classification of Net Assets - The Foundation reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets contain amounts not restricted by donors, those on which the donor-imposed restrictions have expired, and board designations.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Foundation. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified purposes. Investment earnings available for distribution are recorded in temporarily or unrestricted net assets.

Functional Allocation of Expenses - Total expenses consisted of expenses relating to program services, management and general, and fund-raising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes - The Foundation operates as a nonprofit corporation and has been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of disclosures in the financial statements. Actual results could differ from those estimates.

Fair Value Option - As of July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to portions of instruments. The Foundation has elected the fair value option election with respect to pledges receivable effective for the year ended June 30, 2009.

Management made the election for the fair value option in order for the Foundation to provide an accurate portrayal in regard to the pledges receivable, which would result in these balances to be shown net of both an allowance for uncollectibles and a discount, due to the length of time involved with some of the pledges.

The fair value of pledges receivable is estimated by discounting expected cash inflows and outflows to their present value using appropriate rates with the risk of realizing such cash inflows and outflows. The fair value of pledges receivable is \$477,296 as of June 30, 2009.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Investments Held by Trustees

The Foundation has entered into trust agreements with Huntington Bank, J.P. Morgan Trust Department, Fifth Third Bank, National City Bank, and Northwestern Bank, whereby the financial institutions provide trust investment and custodial services for funds of the Foundation transferred into trust accounts at the financial institutions. Earnings on invested amounts are retained in the trust funds for reinvestment until such time as the Foundation authorizes delivery of all or part of the trust funds to or for the benefit of the College.

Trust investments at June 30, 2009 and 2008 are presented in the financial statements at fair market value and are comprised of the following:

	<u>2009</u>	<u>2008</u>
Corporate bond mutual funds	\$ 7,108,033	\$ 7,180,212
Stock and stock mutual funds	<u>12,457,752</u>	<u>16,041,500</u>
Total	<u>\$ 19,565,785</u>	<u>\$ 23,221,712</u>

Note 3 - Bequest Receivable

The bequest receivable consists of an unconditional promise to give from one individual who has passed away and left a gift in a trust to be distributed to the Foundation. The bequest receivable at June 30, 2009 totals \$204,825 and is expected to be collected in less than one year. There was not a bequest receivable at June 30, 2008.

Note 4 - Pledges Receivable

Pledges receivable consist of unconditional promises to give toward the Great Lakes Campus and various scholarships and programs. The Foundation calculated the fair value for 2009 and present value for 2008 of the pledges based on expected collections over the next 10 years at an imputed interest rate of 3.48 percent and 3.08 percent for the years ended June 30, 2009 and 2008, respectively. The interest rate is based on the Foundation's borrowing rate and U.S. Treasury bill rate for the years ended June 30, 2009 and 2008, respectively. The allowance for uncollectible contributions is a general valuation based on the percentage of prior year pledge write-offs. Specific pledges deemed uncollectible are charged against the allowance for uncollectible pledges in the period in which the determination is made. Both the general allowance and the specific write-offs are reported as a write-off of pledges receivable in the statement of activities and changes in net assets for the year ended June 30, 2008. The Foundation elected the fair value option of reporting pledges receivable for the year ended June 30, 2009, therefore all changes as a result of new pledges, write-offs of uncollectible pledges of \$25,000, and changes in the discount factor used are reported as changes in fair value of pledges receivable on the statement of activities and changes in net assets for the year ended June 30, 2009.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Pledges Receivable (Continued)

	2009	2008
Receivable in less than one year	\$ 35,824	\$ 275,115
Receivable in one to five years	441,472	252,987
Receivable in five years and after	-	500
Gross unconditional promises to give	477,296	528,602
Less allowance for uncollectible pledges	-	(25,000)
Less discount to present value	-	(30,571)
Net unconditional promises to give	\$ 477,296	\$ 473,031

Note 5 - Land Held for Investment

During 2008, a parcel of land was donated to the Foundation with an estimated market value of \$40,500 and is classified as land held for investment at June 30, 2009 and 2008.

Note 6 - Liability for Split-interest Agreements

The Foundation is party to split-interest agreements with certain donors. These agreements include contracts entered into with certain donors from which the Foundation benefits. Under the agreement, the donor has contributed funds to be held in trust, with the Foundation as the beneficiary. As a condition of accepting the gift, the Foundation is required to pay a specified amount each year to the donor or a designated beneficiary until his or her death. Payments to beneficiaries were \$21,470 and \$44,210 at June 30, 2009 and 2008, respectively. Upon the death of the beneficiaries, the remaining funds become the property of the Foundation. In 2008, two split-interest agreements were terminated resulting in approximately \$318,000 recognized in unrestricted revenue. The beneficial interests (market value of the assets) related to these agreements totaled \$156,288 and \$216,054 at June 30, 2009 and 2008, respectively, and are included in investments held by trustees.

There were no new split-interest agreements during the fiscal years ended June 30, 2009 and 2008.

Obligations under the split-interest agreements represent the present value of future payments required to be paid to beneficiaries under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries, using discount rates ranging from 4.4 percent to 7.0 percent.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 7 - Net Asset Transfers

During the years ended June 30, 2009 and 2008, net assets of \$185,371 and \$106,760, respectively, were transferred between net asset classes as a result of further analysis of documents and donor clarifications on contributions received by Northwestern Michigan College Foundation in prior years and expected in future years.

Note 8 - Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are designated as follows:

	2009	2008
University Center	\$ 1,292,828	\$ 1,618,732
Programs and scholarships	7,306,053	9,437,968
Dennos Museum Center	1,870,183	2,901,537
Great Lakes Campus	429,681	436,839
Total	<u>\$ 10,898,745</u>	<u>\$ 14,395,076</u>

Permanently restricted net assets at June 30, 2009 and 2008 are restricted as follows:

	2009	2008
Endowed programs and scholarships	\$ 5,382,779	\$ 5,219,087
Dennos Museum Center	3,876,887	3,856,868
Total	<u>\$ 9,259,666</u>	<u>\$ 9,075,955</u>

Unrestricted net assets at June 30, 2009 and 2008 are designated as follows:

	2009	2008
Quasi endowment	\$ 594,885	\$ 700,145
Deficit from endowment fund	(711,841)	-
Undesignated	2,363,437	3,165,777
Total	<u>\$ 2,246,481</u>	<u>\$ 3,865,922</u>

Note 9 - Related Party Transactions

Northwestern Michigan College is a public institution offering a broad array of programs. During the years ended June 30, 2009 and 2008, the Foundation authorized distributions to the College in the amount of \$1,749,318 and \$1,609,427, respectively, primarily for scholarships, Foundation expenses, and College programs. Due to the timing of these disbursements, the amount payable to the College is \$264,302 and \$236,449 at June 30, 2009 and 2008, respectively.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 10 - Fair Value

As of July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of July 1, 2008 did not have a material impact on the Foundation's financial statements.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2009, and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value. The Foundation has investments that are valued using Level 1 inputs, which are obtained directly from investment statements prepared by the institution holding the investments.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets or not active markets (markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which there is little information released to the public). An example of a Level 2 input would be a price quote from a brokered market. The Foundation does not have any assets or liabilities valued using Level 2 inputs.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. However, the fair value measurement objective remains the same as it would for Level 1 and 2 inputs, in that it is based on an exit price from the perspective of a market participant that holds the asset or liability. The Foundation has land held for investment valued using Level 3 inputs, which include management's assumption that the land will be sold in the current market at the amount it was appraised. In addition, the Foundation has pledges receivable valued using Level 3 inputs, including management's assumption on discounting and collectibility for the balance of outstanding pledges receivable.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 10 - Fair Value (Continued)

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

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

Fair Value Measurements at June 30, 2009

	Balance at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Assets - Investments			
Corporate bond mutual funds	\$ 7,108,033	\$ 7,108,033	\$ -
Stock and stock mutual funds	12,457,752	12,457,752	-
Land held for investment	40,500	-	40,500
Pledges receivable	477,296	-	477,296

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Land Held for Investment	Pledges Receivable
Balance at July 1, 2008	\$ 40,500	\$ 473,031
Total pledges received	-	388,165
Total payments received	-	(339,971)
Other adjustments	-	(43,929)
Balance at June 30, 2009	<u>\$ 40,500</u>	<u>\$ 477,296</u>

Other assets, including bank-owned life insurance, goodwill, intangible assets, and other assets acquired in business combinations, are also subject to periodic impairment assessments under other accounting principles generally accepted in the United States of America. These assets are not considered financial instruments. Effective February 12, 2008, the FASB issued a staff position, FSP FAS 157-2, which delayed the applicability of FAS 157 to nonfinancial instruments. Accordingly, these assets have been omitted from the above disclosures.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Donor and Board Restricted Endowments

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

Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets unless otherwise specified by the donor. In accordance with UMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The long-term and short-term needs of the Foundation in carrying out its charitable purpose
- (2) The present value and anticipated financial requirements of the Foundation
- (3) The expected total return on investments
- (4) Price level trends
- (5) General economic conditions

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (711,841)	\$ 575,159	\$ 9,259,666	\$ 9,122,984
Quasi endowment funds	594,885	-	-	594,885
Total funds	<u>\$ (116,956)</u>	<u>\$ 575,159</u>	<u>\$ 9,259,666</u>	<u>\$ 9,717,869</u>

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Donor and Board Restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ 700,145	\$ 1,946,968	\$ 9,075,955	\$ 11,723,068
Investment return:				
Investment loss	(24,285)	(363,023)	-	(387,308)
Net depreciation (realized and unrealized)	(790,574)	(583,317)	-	(1,373,891)
Total investment return	(814,859)	(946,340)	-	(1,761,199)
Contributions	-	11,833	145,981	157,814
Appropriation of endowment assets for expenditure	(2,242)	(400,135)	-	(402,377)
Other changes - Transfers to create board-designated endowment funds	-	(37,167)	37,730	563
Endowment net assets - End of year	<u>\$ (116,956)</u>	<u>\$ 575,159</u>	<u>\$ 9,259,666</u>	<u>\$ 9,717,869</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,946,968	\$ 9,075,955	\$ 11,022,923
Quasi endowment funds	700,145	-	-	700,145
Total funds	<u>\$ 700,145</u>	<u>\$ 1,946,968</u>	<u>\$ 9,075,955</u>	<u>\$ 11,723,068</u>

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Donor and Board Restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 730,671	\$ 2,728,811	\$ 8,890,813	\$ 12,350,295
Investment return:				
Investment income	56,979	880,593	-	937,572
Net depreciation (realized and unrealized)	(85,528)	(1,356,656)	-	(1,442,184)
Total investment return	(28,549)	(476,063)	-	(504,612)
Contributions	-	-	159,198	159,198
Appropriation of endowment assets for expenditure	(1,977)	(281,455)	-	(283,432)
Other changes - Transfers to create board-designated endowment funds	-	(24,325)	25,944	1,619
Endowment net assets - End of year	<u>\$ 700,145</u>	<u>\$ 1,946,968</u>	<u>\$ 9,075,955</u>	<u>\$ 11,723,068</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$711,841 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations which occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Foundation's board of directors. There were no such deficiencies as of June 30, 2008. Under UMIFA, the Foundation may appropriate for expenditure from the endowment fund only to the extent that the fund has accumulated net appreciation, realized and unrealized.

Northwestern Michigan College Foundation

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Donor and Board Restricted Endowments (Continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Standard & Poor's 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an absolute average rate of return of 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), current yield (interest and dividends), and current fund-raising. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior five years through the fiscal year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 12 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 22, 2009, which is the date the financial statements were issued.

On September 15, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the state of Michigan. The board of trustees is currently reviewing UPMIFA to determine their interpretation of the law and the impact on their policies. The impact is not yet known.