

Audited Financial Statements

Northwestern Michigan College Foundation

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

Northwestern Michigan College Foundation

Audited Financial Statements

Years Ended June 30, 2025 and 2024

Contents

Board of Directors and Officers.....1

Management’s Discussion and Analysis2

Financial Statements

Report of Independent Auditors.....8

Statements of Net Position.....11

Statements of Revenue, Expenses, and Changes in Net Position12

Statements of Cash Flows.....13

Notes to Financial Statements.....14

Northwestern Michigan College Foundation

Audited Financial Statements

Years Ended June 30, 2025 and 2024

Board of Directors and Officers June 30, 2025

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

Lorraine Beers
Barb Benson
Chris Branson
Jeff Caviston
Don Coe
Matt Desmond
Bill Donberg
Steve Fisher
Pam Horne (Trustee)
Peg Jonkhoff
Mike Lipp
Eleanor Lynn
Laura Oblinger (Trustee)
Mary Pelcher
Andrew Robrtshek (Trustee)
Dave Shooltz
Timothy Young
Al Zelinski
Nancy Zimmer

Faculty Representative

Cheryl Bloomquist
Steve Rice

Staff Representative

Linda Berlin

Student Representative

Madison Houy

Management's Discussion and Analysis

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

Purpose of the Northwestern Michigan College Foundation

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

Financial Reporting Overview

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

- (i) Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
- (ii) The potential for unilateral dissolution by a government with the net assets reverting to a government; or
- (iii) The power to enact and enforce a tax levy

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

This set of audited financial statements contains a management's discussion and analysis section, the basic financial statements which include the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows, and notes to the financial statements. The statements of net position include all of the Foundation's assets, liabilities, net position, and deferred outflows and inflows of resources. The statements of revenues, expenses

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

and changes in net position account for all of the current year's revenues when earned, and expenses when incurred, as defined by GASB standards.

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

Financial Statement Highlights: Statements of Net Position

	2025	2024	2023
Assets			
Current assets	\$ 3,016,694	\$ 4,261,502	\$ 12,517,161
Noncurrent assets	68,447,659	60,723,771	46,860,173
Total assets	71,464,353	64,985,273	59,377,334
Liabilities			
Current liabilities	2,158,319	2,296,048	1,794,315
Noncurrent liabilities	36,755	28,084	32,825
Total liabilities	2,195,074	2,324,132	1,827,140
Deferred inflows	82,305	48,637	22,091
Net position			
Restricted:			
Nonexpendable - endowment corpus	19,624,436	18,787,351	18,679,064
Expendable - College programs and student scholarships	43,583,220	38,290,135	34,528,641
Unrestricted	5,979,318	5,535,018	4,320,398
Total net position	\$ 69,186,974	\$ 62,612,504	\$ 57,528,103

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

Changes from 2024 to 2025

Total assets increased by \$6.5 million, or 10%, driven by net investment income of \$7.6 million and current year contributions and special events revenue and additions to permanent endowments of \$4.7 million, partially offset by \$4.9 million in grants to the College for student scholarships and College programs in fulfillment of donor intentions. The \$1.2 million decrease in current assets is due in part to certain cash distributions to the College for capital projects, as well as timing of investment purchases.

Total liabilities decreased by approximately \$129,000, or 6% from 2024 to 2025 due to a reduction in the Foundation's committed operating and capital support for the Dennon Museum at year-end offset by the timing of one-time grants from the Foundation to the College at year-end.

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

Total net position increased by \$6.6 million, or 11%. The increases in restricted and unrestricted net position were each driven by net investment income and contributions in excess of grants to the College and other operating expenses.

Changes from 2023 to 2024

Total assets increased by \$5.6 million, or 9%, driven by net investment income of \$7.0 million and current year contributions and special events revenue and additions to permanent endowments of \$3.4 million, partially offset by \$4.7 million in grants to the College for student scholarships and College programs in fulfillment of donor intentions. The decrease in current assets is due to cash outflows for investment purchases, which shifted cash to investments and largely drove the \$13.9 million increase in noncurrent assets as of June 30, 2024.

Total liabilities increased by approximately \$500,000, or 27% from fiscal year 2023 to 2024 due to a larger distribution payable from the Foundation to the College at year-end compared to fiscal year 2023 that related to operational support provided for the College's Dennon Museum Center.

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

Total net position increased by \$5.1 million, or 9%. The increases in restricted and unrestricted net position were both driven by investment gains.

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

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

	2025	2024	2023
Operating Expenses			
Grants to Northwestern Michigan College	\$ 4,894,864	\$ 4,729,229	\$ 4,298,421
Other operating expenses	815,884	592,071	592,809
Total operating expenses	<u>5,710,748</u>	<u>5,321,300</u>	<u>4,891,230</u>
Operating Loss	(5,710,748)	(5,321,300)	(4,891,230)
Nonoperating Revenue (Expense)			
Contributions and special events revenue	3,799,570	3,206,707	1,843,428
Net investment income and gains	7,619,518	6,992,262	4,982,578
Total nonoperating revenues	<u>11,419,088</u>	<u>10,198,969</u>	<u>6,826,006</u>
Additions to Permanent Endowments	<u>866,130</u>	<u>206,732</u>	<u>1,083,011</u>
Change in net position	6,574,470	5,084,401	3,017,787
Net Position - Beginning of Year	<u>62,612,504</u>	<u>57,528,103</u>	<u>54,510,316</u>
Net Position - End of Year	<u><u>\$ 69,186,974</u></u>	<u><u>\$ 62,612,504</u></u>	<u><u>\$ 57,528,103</u></u>

Changes from 2024 to 2025

Grants to Northwestern Michigan College increased by \$166,000, or 4%, due to increased program and scholarship support provided to the College. Other operating expenses increased by \$224,000 in fiscal year 2025 due to increased support for Foundation staffing.

Contributions and special events revenue increased by \$593,000, or 18%, due to several major gifts, including the gift-in-kind donation of a tugboat from the U.S. Dept of Transportation to the Northwestern Michigan College's Great Lakes Maritime Academy valued at \$300,000.

Gifts to the Foundation's permanent endowment are recognized when received. Endowment gifts received in 2025 increased \$659,000 compared to 2024 due to the Foundation securing and collecting payment on several major gifts during the year supporting programs and scholarships.

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

Changes from 2023 to 2024

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

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

Gifts to the Foundation's permanent endowment are recognized when received. Endowment gifts received in 2024 decreased \$876,000 compared to 2023 due to successful collection in previous years of endowed pledges remaining from the *Be What's Possible Campaign*. That campaign generated a large volume of endowed pledge gifts in 2018, many of which were collectible over five years.

Financial Statement Highlights: Statement of Cash Flows

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

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

A summary of the Foundation's cash flows for the years ended June 30, 2025, 2024, and 2023 is as follows:

	2025	2024	2023
CASH FLOWS FROM			
Operating activities	\$ (5,850,544)	\$ (4,819,917)	\$ (6,432,642)
Noncapital financing activities	3,496,699	3,332,247	3,051,493
Capital and related financing activities	866,130	206,732	1,083,011
Investment activities	15,779	(7,192,611)	7,009,233
Net change in cash and cash equivalents	(1,471,936)	(8,473,549)	4,801,095
Cash and cash equivalents, beginning of year	3,278,274	11,751,823	6,950,728
Cash and cash equivalents, end of year	\$ 1,806,338	\$ 3,278,274	\$ 11,751,823

Northwestern Michigan College Foundation

Management's Discussion and Analysis

June 30, 2025

There are no cash inflows from operating activities due to the nature of the Foundation's revenue sources, since contributions and investment income are classified as nonoperating revenues under GASB. As a result, the only cash flow operating activities for the Foundation are outflows for payments to the College for scholarships, programs, and reimbursement of operating expenses. Operating outflows vary from year to year based on the support approved and transferred to the College during the fiscal year.

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

Cash inflows from capital and related financing activities result from additions to permanent endowments from donors. Changes in such inflows depend on the timing and volume of donor payments on outstanding endowment pledges.

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

Economic Factors Impacting the Future

The Foundation relies on contributions, investment growth, and certain operational support from the College to carry out its mission, which is "to mobilize generosity to advance learning for a global community." While the Foundation has historically demonstrated stable giving and investment returns, social, political, and economic events could, individually or as a whole, positively or negatively impact the Foundation's donor support and investment income in the short or long-term depending on severity and duration. Broad changes to Federal or State tax policy could have a positive or negative impact on charitable giving. Additionally, Federal or State policy changes that impact the College or its students (e.g. changes in State operational support or financial aid programs) could change the type and amount of support needed from the Foundation for the College and its students.

Thanks to the generosity of our alumni and community members, the Foundation is recognized nationally as a leading community college foundation. In fiscal year 2023, the Foundation initiated its *NMC Foundation Forward: Mobilizing Generosity* strategic plan, a 10-year plan spanning through 2033 with three strategic goals including engaging donors, expanding partnerships, and resourcing innovation. The plan's objectives all focus on creating an inspiring, meaningful, and sustained donor experience.

Northwestern Michigan College, established in 1951, is approaching its 75th anniversary in calendar 2026. The Foundation seeks to celebrate the College's 75th anniversary by embarking on a comprehensive fundraising campaign, and is in process of assessing the scope and feasibility of such a campaign as of the date of this report.

Financial Statements

Report of Independent Auditors

Board of Directors
Northwestern Michigan College Foundation
Traverse City, Michigan

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College Foundation as of June 30, 2025, and the respective changes in financial position and cash flows for the years 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), 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 Foundation 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 Foundation 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 Foundation'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 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, 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 Northwestern Michigan College Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwestern Michigan College Foundation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 GAAS, 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 Information

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

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
October 15, 2025

Northwestern Michigan College Foundation

Statements of Net Position

	June 30	
	2025	2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,806,338	\$ 3,278,274
Current portion of receivables - net of allowances	1,208,089	983,228
Prepaid expenses and other assets	2,267	-
Total current assets	3,016,694	4,261,502
Noncurrent assets:		
Receivables - net of current portion and discount	630,844	556,414
Long-term investments	67,113,710	59,500,269
Cash surrender value - life insurance	703,105	667,088
Total noncurrent assets	68,447,659	60,723,771
Total assets	71,464,353	64,985,273
Liabilities		
Current liabilities:		
Accounts payable	80,224	100,425
Due to Northwestern Michigan College	2,074,515	2,191,843
Current portion of annuity obligations	3,580	3,780
Total current liabilities	2,158,319	2,296,048
Annuity obligations - net of current portion and discount	36,755	28,084
Total liabilities	2,195,074	2,324,132
Deferred Inflows of Resources	82,305	48,637
Net Position		
Restricted:		
Nonexpendable - with donor restrictions	19,624,436	18,787,351
Expendable - college programs and student scholarships	43,583,220	38,290,135
Unrestricted	5,979,318	5,535,018
Total net position	\$ 69,186,974	\$ 62,612,504

Northwestern Michigan College Foundation

Statements of Revenue, Expenses, and Changes in Net Position

	Years Ended June 30	
	2025	2024
Operating revenue	\$ -	\$ -
Operating expenses		
Grants to Northwestern Michigan College	4,894,864	4,729,229
Institutional administration	38,959	34,203
Fundraising	776,925	557,868
Total operating expenses	5,710,748	5,321,300
Operating loss	(5,710,748)	(5,321,300)
Nonoperating revenue		
Contributions	3,618,863	2,979,745
Special event revenue	180,707	226,962
Investment income - net	2,278,882	1,694,155
Realized and unrealized gains on investments	5,340,636	5,298,107
Total nonoperating revenue	11,419,088	10,198,969
Additions to permanent endowments	866,130	206,732
Change in net position	6,574,470	5,084,401
Net position - beginning of year	62,612,504	57,528,103
Net position - end of year	<u>\$ 69,186,974</u>	<u>\$ 62,612,504</u>

Northwestern Michigan College Foundation

Statements of Cash Flows

	Years Ended June 30	
	2025	2024
Cash flows from operating activities		
Payments to Northwestern Michigan College	\$ (5,012,192)	\$ (4,276,200)
Payments for other operating expenses	(838,352)	(543,717)
Net cash and cash equivalents from operating activities	<u>(5,850,544)</u>	<u>(4,819,917)</u>
Cash flows from noncapital financing activities		
Contributions for other than endowment or capital purposes	3,319,572	3,108,865
Payment to annuitants	(3,580)	(3,580)
Other receipts	180,707	226,962
Net cash and cash equivalents from noncapital financing activities	<u>3,496,699</u>	<u>3,332,247</u>
Cash flows from capital and related financing activities		
Contributions for endowments	866,130	206,732
Cash flows from investing activities		
Proceeds from sales of investments	2,607,480	9,065,187
Income on investments - net of fees paid	2,288,584	1,722,263
Purchase of investments	(4,880,285)	(17,980,061)
Net cash and cash equivalents from investing activities	<u>15,779</u>	<u>(7,192,611)</u>
Net change in cash and cash equivalents	(1,471,936)	(8,473,549)
Cash and cash equivalents - beginning of year	3,278,274	11,751,823
Cash and cash equivalents - end of year	<u><u>\$ 1,806,338</u></u>	<u><u>\$ 3,278,274</u></u>
Reconciliation of operating loss to net cash and cash equivalents from operating activities		
Operating loss	\$ (5,710,748)	\$ (5,321,300)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Prepaid and other assets	(2,267)	(350)
Accounts payable	(20,201)	48,704
Due (from) to Northwestern Michigan College	(117,328)	453,029
Total adjustments	<u>(139,796)</u>	<u>501,383</u>
Net cash and cash equivalents used in operating activities	<u><u>\$ (5,850,544)</u></u>	<u><u>\$ (4,819,917)</u></u>

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

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

Accounting and Reporting Principles

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

Basis of Accounting

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

1. Organization and Summary of Significant Accounting Policies (continued)

Report Presentation

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

Net Position

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

- **Restricted for Nonexpendable Purposes:** Net position from gifts and other inflows of assets that represent permanent endowments. Use of these gifts is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation.
- **Restricted Expendable Purposes:** Net position whose use is subject to externally imposed stipulations that can be fulfilled by action of the Foundation pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of restricted and nonexpendable endowment funds and funds designated for student financial aid and other College programs.
- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Foundation's board of directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

1. Organization and Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition

Investments in marketable securities are carried at quoted market value whenever possible. Hedge funds' fair values are based on information provided by the administrators of each underlying fund. Private equity and real estate funds that do not have readily determinable market values as of June 30 are valued using net asset value as a practical expedient. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity and real estate funds' estimated values may differ materially from the values that would have been used if a ready market for the securities existed. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for further discussion of fair value measurements.

Investment income includes dividends and interest income, net of commission and administrative fees related to investment management totaling \$87,949 for the year ended June 30, 2025 and \$80,068 for the year ended June 30, 2024. Realized and unrealized gains include \$5,334,962 of recognized unrealized gains during the year ended June 30, 2025 and \$4,812,388 during the year ended June 30, 2024. Realized gains or losses on investments sold are determined using the specific identification method.

Risks and Uncertainties

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

Use of Estimates

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

Deferred Inflows of Resources

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable

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

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

Gifts in Kind

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

2. Cash, Cash Equivalents, and Investments

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk for bank deposits is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned. Deposits were reflected in the accounts of the banks 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.

Custodial Credit Risk of Investments

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Foundation's policy minimizes interest rate risk by structuring its fixed-income portfolio with securities that balance qualities and maturities consistent with current market conditions. The Foundation's policy also requires that no fixed income security from one issuer shall exceed 5% of its fixed income portfolio unless backed by the full faith and credit of the U.S. government.

Credit Risk

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

Concentration of Credit Risk

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

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

Concentration of Credit Risk (continued)

The following investments comprise more than 5 percent of the total investments as of June 30:

	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 2500 ETF	6.00	6.00
Total	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 Foundation's foreign investments at June 30, 2025 and 2024 are valued in U.S. dollars; therefore, the Foundation is not subject to foreign currency risk.

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

3. Fair Value Measurements (continued)

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. The Foundation has the following recurring fair value measurements as of June 30:

	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 Foundation

Notes to Financial Statements

June 30, 2025

3. Fair Value Measurements (continued)

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

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. As of June 30, 2025 and 2024, 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>		

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.

4. Receivables

Receivables consist of contributions receivable from donors which may be restricted by donors for scholarships and fellowships, property and equipment, or designated departments of the College. Contributions receivable have been reported at their discounted, net realizable values based on a rate of approximately 4.00% at the date of the gift.

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

4. Receivables (continued)

The following table shows the components of the contributions receivable balance to be collected by the Foundation as of June 30:

	2025	2024
Gross contributions receivable	\$ 1,961,932	\$ 1,636,799
Allowance for uncollectible contributions	(55,000)	(40,000)
Net present value discount	(67,999)	(57,157)
Contributions receivable, net	<u>\$ 1,838,933</u>	<u>\$ 1,539,642</u>
Further classified as:		
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>

5. Cash Surrender Value of Life Insurance

The Foundation is the owner and beneficiary of life insurance policies with death benefit values of approximately \$1,900,000 as of June 30, 2025 and \$1,400,000 as of June 30, 2024. The assignments of these policies were received as gifts for various college programs, student scholarships, and other designations.

6. Split-interest Agreements

The Foundation is party to split-interest agreements with certain donors. Under the agreements, the donor contributed funds to the Foundation. Investments related to these gift annuities were \$65,155 as of June 30, 2025 and \$59,526 as of June 30, 2024. As a condition of accepting the gift, the Foundation is required to pay a specified amount each year to the donors or a designated beneficiary until his or her death. Payments to beneficiaries were \$3,580 in 2025 and 2024. Upon the death of the beneficiaries, the remaining funds become the property of the Foundation. Obligations under the split-interest agreements represent the present value of future payments required to be paid to beneficiaries under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries using discount rates ranging from 1.8% to 7.0%.

7. Related Party Transactions

Northwestern Michigan College is a public higher education institution offering a broad array of programs. During the years ended June 30, 2025, the Foundation made payments to the College in the amount of \$4,530,435 and \$4,700,912 during the year ended June 30, 2024, primarily for scholarships and college programs. In addition to the payments, the Foundation also provided gifts in kind of \$364,429 during the year ended June 30, 2025 and \$28,317 during the year ended June 30, 2024.

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

7. Related Party Transactions (continued)

The Foundation also reimbursed the College for operating expenses totaling \$776,925 for the year ended June 30, 2025 and \$557,868 for the year ended June 30, 2024. Amounts payable to the College were \$2,074,515 as of June 30, 2025 and \$2,191,843 as of June 30, 2024.

During the year ended June 30, 2025, the Foundation received approximately \$223,000 of donations from College employees, board members, or companies owned or managed by board members, and approximately \$266,000 during the year ended June 30, 2024.

8. Functional Expenses

Expenses identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenses not directly attributable to a program or supporting service are allocated between service areas based on percentages formulated through ongoing time studies of professional staff time and usage of resources. The costs of providing program and other activities have been summarized on a functional basis below for the years ended June 30:

	Support to College	Institutional Administration	Fundraising	Total
2025				
Grants to the college	\$ 4,530,435	\$ -	\$ -	\$ 4,530,435
Gifts in kind	364,429	-	-	364,429
Contracted services	-	-	776,925	776,925
Professional development	-	4,107	-	4,107
Insurance premiums	-	32,356	-	32,356
Other	-	2,496	-	2,496
Total	<u>\$ 4,894,864</u>	<u>\$ 38,959</u>	<u>\$ 776,925</u>	<u>\$ 5,710,748</u>
2024				
Grants to the college	\$ 4,700,912	\$ -	\$ -	\$ 4,700,912
Gifts in kind	28,317	-	-	28,317
Contracted services	-	-	557,868	557,868
Professional development	-	346	-	346
Insurance premiums	-	32,775	-	32,775
Other	-	1,082	-	1,082
Total	<u>\$ 4,729,229</u>	<u>\$ 34,203</u>	<u>\$ 557,868</u>	<u>\$ 5,321,300</u>

9. Donor-Restricted and Board-Designated Endowments

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

9. Donor-restricted and Board-designated Endowments (continued)

Interpretation of Relevant Law

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

The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

As of June 30, 2025, the Foundation's endowment net position by type of fund was:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,608,559	\$ -	\$ 1,608,559
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	19,624,432	19,624,432
Accumulated investment gains	-	16,805,759	16,805,759
Total donor-restricted endowment funds	-	36,430,191	36,430,191
Total	\$ 1,608,559	\$ 36,430,191	\$38,038,750

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

9. Donor-restricted and Board-designated Endowments (continued)

As of June 30, 2024, the Foundation's endowment net position by type of fund was:

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

The changes in endowment fund net position was as follows for the years ended June 30:

	Without Donor Restrictions	With Donor Restrictions	Total
2025			
Endowment net position – Beginning of year	\$ 1,590,025	\$ 32,136,498	\$ 33,726,523
Investment return:			
Investment income	5,940	1,322,859	1,328,799
Realized and unrealized gains on investments	18,351	3,030,139	3,048,490
Total investment return	24,291	4,352,998	4,377,289
Contributions	-	866,130	866,130
Appropriation of endowment assets for expenditure	(169)	(892,340)	(892,509)
Other change – transfers	(5,588)	(33,095)	(38,683)
Endowment net position – End of year	\$ 1,608,559	\$ 36,430,191	\$ 38,038,750
2024			
Endowment net position – Beginning of year	\$ 1,532,201	\$ 28,978,735	\$ 30,510,936
Investment return:			
Investment income	4,354	979,446	983,800
Realized and unrealized gains on investments	52,837	2,917,913	2,970,750
Total investment return	57,191	3,897,359	3,954,550
Contributions	5,719	206,732	212,451
Appropriation of endowment assets for expenditure	-	(877,238)	(877,238)
Other change – transfers	(5,086)	(69,090)	(74,176)
Endowment net position – End of year	\$ 1,590,025	\$ 32,136,498	\$ 33,726,523

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

9. Donor-restricted and Board-designated Endowments (continued)

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2025, deficiencies of this nature existed in 4 donor-restricted endowment funds, which together have an original gift value of \$189,053, a current fair value of \$119,862, and a deficiency of \$69,191. As of June 30, 2024, deficiencies of this nature existed in 17 donor-restricted endowment funds, which together have an original gift value of \$279,117, a current fair value of \$213,080, and a deficiency of \$66,037. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs was deemed prudent by the Foundation's board of directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent, net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. Actual return in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Northwestern Michigan College Foundation

Notes to Financial Statements

June 30, 2025

9. Donor-restricted and Board-designated Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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

The Foundation's Board has approved a maximum annual distribution of 4.25% for the years ended June 30, 2025 and 2024. An exception was approved to allow up to 4.50% for the year ending June 30, 2026.