

Northwestern
Michigan
College
Foundation



Years Ended
June 30, 2016
and 2015

Financial
Statements

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

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NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

2016 NMC FOUNDATION BOARD OF DIRECTORS

As of June 1, 2016

Bill F. Marsh, Jr., *Chair*
Al Zelinski, *First Vice-Chair*
Timothy J. Nelson, *Second Vice-Chair*
Kennard R. Weaver, *Trustee*
Wendy H. Steele, *Secretary*
Stephen M. Fisher, *Treasurer*
Mark A. Lundmark, *Immediate Past Chair*
Rebecca Teahen, *Executive Director*

Bonnie S. Alfonso
Suzanne Allen
Michael A. Ascione
Barbara S. Benson
Douglas S. Bishop
Chris M. Bott
Christopher E. Branson
Bruce L. Byl
J. Kermit Campbell
Melvin R. Cooke, Jr.
William Donberg
Francis J. Gingras
Don A. Good
Kim Hagerty
Sara N. Harding
James W. Hook
Randy J. Kiessel
Craig S. LaFave
Terence S. Malone
Paul W. Maurer
Diana Milock
Jayne H. Mohr
Harlan W. Peterson
Kevin S. Schlueter
Juliette A. Schultz
Susan K. Sheldon
Martha A. Watts
James R. Weigand
Timothy F. Young

FACULTY REPRESENTATIVES

Steven H. Rice
Sonja K. Olshove

STUDENT REPRESENTATIVE

Caleb Kase

INDEPENDENT AUDITORS' REPORT

October 24, 2016

Finance and Audit Committee
Northwestern Michigan College Foundation
Traverse City, Michigan

We have audited the accompanying financial statements of **Northwestern Michigan College Foundation** (the "Foundation"), a Michigan nonprofit corporation and a discretely presented component unit of Northwestern Michigan College, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Independent Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30	
	2016	2015
Cash and cash equivalents	\$ 1,146,628	\$ 1,216,624
Pledges receivable, net (Note 2)	2,761,024	147,778
Prepaid expenses and other	8,833	27,252
Cash surrender value of life insurance	352,571	332,067
Investments (Note 3)	34,047,791	35,008,839
Total assets	\$ 38,316,847	\$ 36,732,560
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 30,743	\$ 35,578
Payable to Northwestern Michigan College (Note 4)	801,472	1,127,139
Deferred revenue	47,319	41,026
Split-interest agreements payable (Note 5)	43,092	49,253
Total liabilities	922,626	1,252,996
Net assets (Notes 6 and 7)		
Unrestricted	3,591,694	3,976,036
Temporarily restricted	22,014,630	20,047,673
Permanently restricted	11,787,897	11,455,855
Total net assets	37,394,221	35,479,564
Total liabilities and net assets	\$ 38,316,847	\$ 36,732,560

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and gains								
Contributions	\$ 231,111	\$ 3,567,583	\$ 431,292	\$ 4,229,986	\$ 202,055	\$ 818,510	\$ 425,171	\$ 1,445,736
Personnel services received from Northwestern Michigan College	253,380	-	-	253,380	158,042	-	-	158,042
Special events, net	-	295,085	-	295,085	-	243,884	-	243,884
Dividend and interest income, net	144,241	613,730	-	757,971	181,505	767,240	-	948,745
Change in value of split-interest agreements	-	4,230	-	4,230	-	(5,063)	-	(5,063)
Net realized and unrealized loss on investments	(130,916)	(629,745)	-	(760,661)	(87,772)	(371,736)	-	(459,508)
Net assets released from restrictions	1,974,251	(1,974,251)	-	-	2,483,314	(2,483,314)	-	-
Total support and gains	2,472,067	1,876,632	431,292	4,779,991	2,937,144	(1,030,479)	425,171	2,331,836
Expenses								
Program expenses - distributions to College	1,871,577	-	-	1,871,577	2,205,696	-	-	2,205,696
Management and general	302,523	-	-	302,523	489,463	-	-	489,463
Personnel services received from Northwestern Michigan College	253,380	-	-	253,380	158,042	-	-	158,042
Fundraising	437,854	-	-	437,854	416,368	-	-	416,368
Total expenses	2,865,334	-	-	2,865,334	3,269,569	-	-	3,269,569
Net assets transferred (Note 6)	8,925	90,325	(99,250)	-	(76,970)	56,970	20,000	-
Change in net assets	(384,342)	1,966,957	332,042	1,914,657	(409,395)	(973,509)	445,171	(937,733)
Net assets beginning of year	3,976,036	20,047,673	11,455,855	35,479,564	4,385,431	21,021,182	11,010,684	36,417,297
Net assets end of year	\$ 3,591,694	\$ 22,014,630	\$ 11,787,897	\$ 37,394,221	\$ 3,976,036	\$ 20,047,673	\$ 11,455,855	\$ 35,479,564

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,914,657	\$ (937,733)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Proceeds from sale of donated stock	120,031	24,488
Proceeds from sale of gifted property	-	70,014
Gift of property held for sale	-	(1,227)
Noncash gifts received	(7,485)	-
Change in value of split-interest agreements	(4,230)	5,063
Increase in cash surrender value of life insurance	(20,504)	(23,242)
Net realized and unrealized loss on investments	760,661	459,508
Contributions restricted for long-term investment	(273,293)	(292,866)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts payable	(4,835)	35,578
Contributions receivable from remainder trusts	-	418,178
Pledges receivable	(2,613,246)	29,210
Prepaid expenses and other	18,419	(25)
Payable to Northwestern Michigan College	(325,667)	278,325
Deferred revenue	6,293	(2,486)
Net cash (used in) provided by operating activities	(429,199)	62,785
Cash flows from investing activities		
Proceeds from sale of investments	638,830	8,665,044
Purchases of investments	(5,326)	(8,305,713)
Reinvested investment income, net	(540,874)	(862,721)
Net cash provided by (used in) investing activities	92,630	(503,390)
Cash flows from financing activities		
Cash contributions for endowments	273,293	292,866
Payments to beneficiaries	(6,720)	(7,470)
Net cash provided by financing activities	266,573	285,396
Net decrease in cash and cash equivalents	(69,996)	(155,209)
Cash and cash equivalents, beginning of year	1,216,624	1,371,833
Cash and cash equivalents, end of year	\$ 1,146,628	\$ 1,216,624

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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. 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. A majority of the 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.

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.
- 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 on these funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Cash and Cash Equivalents

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

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Based upon management's assessment of the donors outstanding balances and current relationships with them, they have concluded that realization losses on balances outstanding at year end will not be significant. The carrying value of pledges receivable is determined by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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).

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 3 to the financial statements.

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). Gifts of securities are recorded at their fair value based on quoted price of stock transactions at the date of the gift or, if sold immediately after receipt, at the amount of sales proceeds received. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets. Investment income or loss and unrealized gains and losses are included in the statement of activities as increases or decreases in unrestricted net assets unless income or loss is restricted by donor or law. Any unrealized losses on amounts invested for donor-restricted endowments are recorded as temporarily restricted to the extent of unexpended earnings of the respective endowment fund. Realized gains or losses on investments sold are determined using the specific identification method. Commission and administrative fees related to investment management totaled approximately \$123,000 and \$132,000 for the years ended June 30, 2016 and 2015, 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 statement of financial position and statement of activities and changes in net assets.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Concentration of Credit Risk Arising From Deposit Accounts

The Foundation maintains cash at three banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation had \$888,188 and \$978,969 in uninsured deposits as of June 30, 2016 and 2015, respectively.

Contributions

Contributions, including unconditional promises to give in the future, are reported as unrestricted revenue when received unless use of the related assets is limited by donor-imposed restrictions. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Expirations of temporary restrictions on net assets (e.g., the donor-stipulated purpose has been fulfilled) are reported as reclassifications between the applicable classes of net assets. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Deferred Revenue

Deferred revenue represents advance receipts for the Foundation's annual fundraiser in August.

Gains and Losses

Investment income including gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Functional Allocation of Expenses

Total expenses consisted of expenses relating to program services, management and general, and fundraising. 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. Although the Foundation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income."

The Foundation analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years (2013 through 2016) in these jurisdictions. Interest and penalties attributable to income taxes, to the extent they arise, are reflected as a component of its management and general expenses.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Subsequent Events

In preparing these financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2016, the most recent statement of financial position presented herein, through October 24, 2016, the date these financial statements were available to be issued. No such significant events or transactions were identified.

2. 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 of the pledges based on expected collections over the next five years at a risk-adjusted rate of 2.75% and 2.05% for the years ended June 30, 2016 and 2015, respectively.

	2016	2015
Receivable in less than one year	\$ 410,028	\$ 37,713
Receivable in one to five years	2,518,042	153,342
Less:		
Allowance for uncollectible pledges	(15,000)	(25,000)
Present value discount	<u>(152,046)</u>	<u>(18,277)</u>
Pledges receivable, net	<u>\$ 2,761,024</u>	<u>\$ 147,778</u>

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation has entered into trust agreements with Huntington Bank, Fifth Third Bank, Chemical Bank, and Charles Schwab, 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.

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets recorded at fair value on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Common stocks: Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Mutual funds: Shares held in mutual funds are valued at quoted market prices that represent the net asset value (“NAV”) of shares held by the Foundation at year end and are classified as Level 1. The NAV is based on the value of the underlying assets owned by the fund, less its liabilities then divided by the number of shares outstanding. Mutual funds held by the Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

In instances where inputs used to measure fair value fall into different levels in the above 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 or liability.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Mutual funds				
Bond mutual fund	\$ 4,948,462	\$ -	\$ -	\$ 4,948,462
International large cap	4,104,897	-	-	4,104,897
Tactical allocation	1,494,013	-	-	1,494,013
Alternative	611,799	-	-	611,799
Large cap	7,874,680	-	-	7,874,680
Diversified emerging markets	801,588	-	-	801,588
Real estate	908,045	-	-	908,045
Small-Mid cap	1,588,191	-	-	1,588,191
Long-short equity	350,226	-	-	350,226
Allocation equity	325,376	-	-	325,376
Commodities	239,673	-	-	239,673
Total mutual funds	<u>23,246,950</u>	<u>-</u>	<u>-</u>	<u>23,246,950</u>
Bonds				
U.S. bonds	2,277,106	-	-	2,277,106
Corporate bonds	3,961,512	-	-	3,961,512
Total bonds	<u>6,238,618</u>	<u>-</u>	<u>-</u>	<u>6,238,618</u>
Total equity securities (common stocks)	<u>4,562,223</u>	<u>-</u>	<u>-</u>	<u>4,562,223</u>
Total investments	<u>\$ 34,047,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$34,047,791</u>

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Mutual funds				
Intermediate term bond	\$ 4,826,799	\$ -	\$ -	\$ 4,826,799
International large cap	4,084,230	-	-	4,084,230
World allocation	3,313,877	-	-	3,313,877
Alternative	3,165,702	-	-	3,165,702
Large growth	1,640,671	-	-	1,640,671
Diversified emerging markets	1,154,963	-	-	1,154,963
High yield bond	686,991	-	-	686,991
Midcap growth	<u>3,479,720</u>	<u>-</u>	<u>-</u>	<u>3,479,720</u>
Total mutual funds	<u>22,352,953</u>	<u>-</u>	<u>-</u>	<u>22,352,953</u>
Bonds				
U.S. bonds	1,432,145	-	-	1,432,145
Corporate bonds	<u>3,008,567</u>	<u>-</u>	<u>-</u>	<u>3,008,567</u>
Total bonds	<u>4,440,712</u>	<u>-</u>	<u>-</u>	<u>4,440,712</u>
Total equity securities (common stocks)	<u>8,215,174</u>	<u>-</u>	<u>-</u>	<u>8,215,174</u>
Total investments	<u>\$ 35,008,839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$35,008,839</u>

4. RELATED PARTY TRANSACTIONS

Northwestern Michigan College is a public higher education institution offering a broad array of programs. During the years ended June 30, 2016 and 2015, the Foundation made payments to the College in the amount of \$2,998,314 and \$2,768,436, respectively, primarily for scholarships, Foundation expenses, and College programs. Amounts payable to the College were \$801,472 and \$1,127,139 at June 30, 2016 and 2015, respectively. The College also provides personnel services to the Foundation. These personnel services are measured by the Foundation at the cost recognized by the College for the personnel providing those services. Amounts totaling approximately \$253,000 and \$160,000 for such services for supervisory and clerical staff provided by the College to the Foundation are included in both unrestricted contributions and management and general expenses for 2016 and 2015, respectively.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

5. LIABILITY FOR SPLIT-INTEREST AGREEMENTS

The Foundation is party to split-interest agreements with certain donors. Under the agreements, the donor 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 donors or a designated beneficiary until his or her death. Payments to beneficiaries were \$6,720 and \$7,470 in 2016 and 2015, respectively. 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 2.0 percent to 7.0 percent.

6. NET ASSETS TRANSFERS

Net assets of \$99,250 and \$76,790 were transferred between net assets classifications during the years ended June 30, 2016 and 2015, respectively, at the request of donors for contributions received by the Foundation in prior years.

7. NET ASSETS

Permanently restricted net assets at June 30 are restricted as follows:

	2016	2015
Endowment - programs and scholarships	\$ 7,666,397	\$ 7,356,707
Endowment - Dennon Museum Center	<u>4,121,500</u>	<u>4,099,148</u>
Total	<u>\$ 11,787,897</u>	<u>\$ 11,455,855</u>

Temporarily restricted net assets at June 30 are restricted as follows:

	2016	2015
University Center	\$ 1,632,835	\$ 1,718,888
Programs and scholarships	13,433,246	13,851,832
Dennon Museum Center	6,947,515	4,475,919
Great Lakes Campus	<u>1,034</u>	<u>1,034</u>
Total	<u>\$ 22,014,630</u>	<u>\$ 20,047,673</u>

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Unrestricted net assets at June 30 are as follows:

	2016	2015
Quasi endowment	\$ 1,007,905	\$ 965,349
Deficit from endowment fund	(23,645)	(23,754)
Undesignated	<u>2,607,434</u>	<u>3,034,441</u>
Total	<u>\$ 3,591,694</u>	<u>\$ 3,976,036</u>

8. DONOR-RESTRICTED AND BOARD-DESIGNATED 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, term endowments, and funds designated by the Board of Directors to function as endowments (quasi-endowment funds) 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 State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) 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. Any donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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
- 6) The investment policies of the Foundation

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Following is a summary of the Foundation's endowment and changes therein:

Endowment Net Asset Composition by Type of Fund as of June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (23,645)	\$ 4,880,250	\$ 11,787,897	\$ 16,644,502
Board-designated endowment funds	<u>1,007,905</u>	<u>-</u>	<u>-</u>	<u>1,007,905</u>
Total	<u>\$ 984,260</u>	<u>\$ 4,880,250</u>	<u>\$11,787,897</u>	<u>\$17,652,407</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets- Beginning of year	\$ 941,595	\$ 5,465,827	\$ 11,455,855	\$ 17,863,277
Investment return:				
Investment income and net realized gains	22,685	453,883	-	476,568
Net unrealized losses	<u>(32,644)</u>	<u>(510,333)</u>	<u>-</u>	<u>(542,977)</u>
Total investment return	(9,959)	(56,450)	-	(66,409)
Contributions	-	1,293	431,292	432,585
Appropriation of endowment assets for expenditure	-	(484,114)	-	(484,114)
Other changes - transfer for changes in donor intent	<u>52,624</u>	<u>(46,306)</u>	<u>(99,250)</u>	<u>(92,932)</u>
Total	<u>\$ 984,260</u>	<u>\$ 4,880,250</u>	<u>\$11,787,897</u>	<u>\$17,652,407</u>

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Endowment Net Asset Composition by Type of Fund as of June 30, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (23,754)	\$ 5,465,827	\$ 11,455,855	\$ 16,897,928
Board-designated endowment funds	<u>965,349</u>	<u>-</u>	<u>-</u>	<u>965,349</u>
Total	<u>\$ 941,595</u>	<u>\$ 5,465,827</u>	<u>\$ 11,455,855</u>	<u>\$ 17,863,277</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets- Beginning of year	\$ 933,981	\$ 5,719,791	\$ 11,010,684	\$ 17,664,456
Investment return:				
Investment income and net realized gains	116,572	1,806,345	-	1,922,917
Net unrealized losses	<u>(108,958)</u>	<u>(1,634,424)</u>	<u>-</u>	<u>(1,743,382)</u>
Total investment return	7,614	171,921	-	179,535
Contributions	-	6,025	425,171	431,196
Appropriation of endowment assets for expenditure	-	(488,130)	-	(488,130)
Other changes - transfer for changes in donor intent	<u>-</u>	<u>56,220</u>	<u>20,000</u>	<u>76,220</u>
Total	<u>\$ 941,595</u>	<u>\$ 5,465,827</u>	<u>\$ 11,455,855</u>	<u>\$ 17,863,277</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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$23,645 and \$23,754 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Foundation's Board of Directors.

NORTHWESTERN MICHIGAN COLLEGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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 in August 2016, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

In the absence of unique or special circumstances and subject to the determination of the Foundation Finance & Audit Committee, distributions from permanently restricted funds or any funds treated as permanently restricted funds (PRF) will be determined according to the following formula and will occur on a monthly or quarterly basis:

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

= Annual target spending

Additionally, the treatment and accounting of restricted versus unrestricted gifts 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.

