

AUDITED FINANCIAL STATEMENTS
THE NORTHERN MICHIGAN UNIVERSITY
FOUNDATION

Marquette, Michigan

June 30, 2022

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Independent Auditor's Report

To the Board of Directors
The Northern Michigan University Foundation

Opinion

We have audited the financial statements of The Northern Michigan University Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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.

To the Board of Directors
The Northern Michigan University Foundation

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 the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 2, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

September 13, 2022

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
(with comparative totals as of June 30, 2022)

	June 30, 2022			June 30, 2021
	Without Donor	With Donor	Total	
	Restrictions	Restrictions		
ASSETS:				
Cash - Note B	\$ 773,449	\$ -	\$ 773,449	\$ 629,823
Pledges receivable - Note D	-	1,222,108	1,222,108	1,666,034
Investments - Note E	3,240,251	41,047,184	44,287,435	51,521,358
Beneficial interest in Trusts - Note F	-	3,072,407	3,072,407	1,564,117
Other assets	457,048	331,032	788,080	383,448
Capital assets, net - Note G	1,428,679	-	1,428,679	1,425,981
TOTAL ASSETS	\$ 5,899,427	\$ 45,672,731	\$ 51,572,158	\$ 57,190,761
LIABILITIES AND NET ASSETS:				
Liabilities:				
Due to NMU	\$ 74,310	\$ 280,376	\$ 354,686	\$ 401,333
Accounts payable	47,904	-	47,904	77,619
Annuities payable - Note F	-	367,099	367,099	413,375
TOTAL LIABILITIES	122,214	647,475	769,689	892,327
Net assets (Note I):				
Without donor restrictions	5,777,213	-	5,777,213	6,342,535
With donor restrictions	-	45,025,256	45,025,256	49,955,899
TOTAL NET ASSETS	5,777,213	45,025,256	50,802,469	56,298,434
TOTAL LIABILITIES AND NET ASSETS	\$ 5,899,427	\$ 45,672,731	\$ 51,572,158	\$ 57,190,761

See notes to financial statements.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES
(with comparative totals as of June 30, 2022)

	Year Ended June 30, 2022			Year Ended
	Without Donor	With Donor	Total	June 30, 2021
	Restrictions	Restrictions		Total
SUPPORT, REVENUE, AND GAINS (LOSSES):				
Contributions	\$ 1,423,333	\$ 3,752,641	\$ 5,175,974	\$ 4,014,554
Contributions from NMU	779,710	-	779,710	786,258
Gifts in kind	200,000	37,998	237,998	70,028
Gifts in kind - Services and materials received				
from NMU	60,622	-	60,622	65,278
Investment income (loss) - Note E	(1,282,732)	(5,485,146)	(6,767,878)	11,826,001
Gain on extinguishment of debt	-	-	-	110,000
Miscellaneous income	-	-	-	100
Net assets released from restrictions:				
Satisfaction of program restrictions	3,236,136	(3,236,136)	-	-
TOTAL SUPPORT, REVENUE, AND GAINS (LOSSES)	4,417,069	(4,930,643)	(513,574)	16,872,219
EXPENSES:				
Program services:				
Public television	429,136	-	429,136	393,569
Public radio	426,702	-	426,702	400,539
Athletic programs	660,255	-	660,255	287,198
Scholarships	885,942	-	885,942	814,333
Other departments and programs	1,087,524	-	1,087,524	679,433
TOTAL PROGRAM SERVICES	3,489,559	-	3,489,559	2,575,072
Supporting services:				
Management and general	736,253	-	736,253	826,771
Fundraising	756,579	-	756,579	1,041,161
TOTAL SUPPORTING SERVICES	1,492,832	-	1,492,832	1,867,932
TOTAL EXPENSES	4,982,391	-	4,982,391	4,443,004
(DECREASE) INCREASE IN NET ASSETS	(565,322)	(4,930,643)	(5,495,965)	12,429,215
Net assets, beginning of year	6,342,535	49,955,899	56,298,434	43,869,219
NET ASSETS, END OF YEAR	\$ 5,777,213	\$ 45,025,256	\$ 50,802,469	\$ 56,298,434

See notes to financial statements.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOWS
(with comparative totals as of June 30, 2022)

	Year Ended	
	June 30, 2022	June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (5,495,965)	\$ 12,429,215
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	22,168	20,542
Net decrease (increase) in fair value of investments	9,110,924	(9,488,780)
Net loss (gain) on sale of investments	(556,986)	(1,398,636)
Noncash contributions	(2,076,225)	(316,516)
Contributed capital assets	-	(5,097)
Contributions restricted for permanent investment	(246,368)	(553,400)
Gain on extinguishment of debt	-	(110,000)
Changes in operating assets and liabilities which provided (used) cash:		
Pledges receivable	443,926	(652,182)
Other assets	(456,593)	1,204
Due to NMU	(46,647)	117,603
Annuities payable	(46,276)	103,285
Accounts payable	(29,715)	47,112
NET CASH PROVIDED BY OPERATING ACTIVITIES	622,243	194,350
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	7,739,356	27,353,928
Purchases of investments	(8,439,476)	(28,144,767)
Purchases of fixed assets	(24,865)	
NET CASH USED BY INVESTING ACTIVITIES	(724,985)	(790,839)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions	246,368	553,400
NET CASH PROVIDED BY FINANCING ACTIVITIES	246,368	553,400
NET INCREASE (DECREASE) IN CASH	143,626	(43,089)
CASH, BEGINNING OF YEAR	629,823	672,912
CASH, END OF YEAR	\$ 773,449	\$ 629,823
NON-CASH ITEMS:		
Gifts in kind	\$ 237,998	\$ 70,028
Gifts in kind - Services and materials received from NMU	60,622	65,278
TOTAL NON-CASH ITEMS	\$ 298,620	\$ 135,306
Supplemental Cash Flow Information - Cash paid for interest	\$ 59,167	\$ 31,611

See notes to financial statements.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Michigan University Foundation (Foundation) is a nonprofit corporation organized under the provisions of the Michigan General Corporation Act (Act 327 P.A. of 1931), as amended, for the purpose of receiving funds for the sole benefit of Northern Michigan University (NMU). The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, as an organization other than a private foundation. Contributions to the Foundation qualify as charitable contributions under the Internal Revenue Code.

The Foundation is governed by a Board of Trustees. Additional trustees may be elected by the board at any time. Included as ex officio trustees are at least two, but no more than four members of the NMU Board of Trustees, as designated by the Chairperson of the Board of Trustees; the NMU President; the NMU Vice President for Finance and Administration; the Chief Executive Officer; the President of the NMU Alumni Association; two members of the faculty or staff of NMU designated by the President of the Foundation Board of Trustees in consultation with the President of NMU; and, if not otherwise elected a member of the Board of Trustees, the immediate past President of the Foundation Board of Trustees.

Display of Net Assets by Class

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the FASB Accounting Standards Codification (ASC) Topic 958. Accordingly, the net assets are reported in the following classes:

Net Assets Without Donor Restrictions – Net assets without donor restrictions are those amounts not subject to usage restrictions based on donor-imposed requirements. Board-designated and appropriated amounts are reported here. All funds not classified as net assets with donor restrictions are recorded as net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets with donor restrictions are those amounts subject to usage restrictions based on donor-imposed requirements. Donor-imposed requirements may either be temporary or permanent, or based on a specific use. They consist of scholarship funds, department and program funds and the unexpended income from endowments.

Method of Accounting

The Foundation maintains its accounting records on the accrual basis of accounting.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Life Insurance Cash Surrender Value

The Foundation is the owner of certain life insurance policies on various donors lives who have named the Foundation as beneficiary. The cash surrender value of the life insurance policies at June 30, 2022 is \$331,032 and is included in other assets. The death benefit value of the life insurance policies at June 30, 2022 is \$940,773.

Cash and Cash Equivalents

The Foundation considers all short-term investments with an original maturity of three months or less to be cash. Certificates of deposit and other securities with original maturities over 90 days are classified as investments. Cash equivalents are stated at cost, which approximates market value.

Annuities Payable

The Foundation has recognized as cash and investments amounts received under charitable remainder annuity trust agreements, whereby the Foundation is named as the trustee and designated remainder beneficiary. Under these agreements, the amounts donated and the earnings thereon will be used to provide payments of predetermined amounts of money to the donors for their remaining lives. The present values of future annuity payments, based upon the life expectancy of the grantors, are recorded as an annuity liability.

The excess of the trust assets over this liability is recorded as net assets with donor restrictions. In subsequent years, adjustments to the annuity liability to reflect changes in life expectancy and other actuarial assumptions are recognized in the statement of activities as present value adjustments to annuities payable. The investment of funds and payments to donors under these agreements are being administered in a fiduciary capacity.

Gifts in Kind

Included as support, revenue, and gains in the Statement of Activities are gifts in kind. These gifts represent donations of personal property to NMU and are recognized as support, revenue, and gains and as program services expenses of the Foundation. These gifts are recognized as program services expenses of the Foundation, since this property is not kept by the Foundation but is provided to various NMU departments for their use. The gifts in kind are recorded at the estimated fair market values as indicated by the donors or at estimated fair market value based on manufacturer or dealer quotes.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed professional services are recognized if the services received **a)** create or enhance non-financial assets or **b)** require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. These services are recognized as program revenue and expense and are valued at the estimated fair market value for the services as provided by the donor.

Periodic services of volunteers in concentrated fundraising drives or program activities do not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Contributions

Unconditional promises to give cash and other assets to the Foundation are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing program services and other activities have been summarized on a functional basis in Note M. Based on estimates made by the Foundation's management, certain costs have been allocated among the program and supporting services benefited. Salaries and related expenses are allocated on the basis of time and effort. Although methods of allocation are applied consistently and are considered appropriate, other methods could be used that would produce different amounts.

Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Administration Fees

The Foundation charges an administration fee up to 1.75 percent of the endowment assets annually for managing the endowment funds. A one-time fee up to 1.5 percent is charged on expendable gifts. These fees are utilized to cover certain operating expenses of the Foundation.

Fair Value Option

The Foundation has adopted a standard permitting them to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to a portion of instruments. The Foundation has elected the fair value option with respect to liabilities on annuity contracts and trusts.

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.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of a New Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires contributed nonfinancial assets be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also adds disclosure requirements for contributed nonfinancial assets including qualitative information such as whether the contribution was monetized or utilized, how it was utilized (if applicable), the Foundation’s policy for monetizing vs. utilizing, a description of donor-imposed restrictions, and a description of how the fair value was determined. This standard was adopted for the year ended June 30, 2022.

Subsequent Events

Management has evaluated events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements and are disclosing the following information.

On September 28, 2021, the Foundation entered into a contract with DLP Marquette General Hospital, LLC to purchase the former Marquette General Hospital site for \$1. DLP Marquette General Hospital, LLC and the site are owned by LifePoint Health (LifePoint). The former Marquette General Hospital site is a 23-acre property adjacent to NMU’s campus. It includes approximately 812,000 square feet of functionally obsolete structures. The Foundation’s efforts through its agreement with LifePoint have been focused on aligning resources through a public-private partnership for demolishing blighted and obsolete structures, which is a critical barrier for redevelopment.

The contract includes an evaluation period which allowed the Foundation to conduct due diligence with respect to the proposed project, including environmental due diligence, economic feasibility of demolition and redevelopment, securing a qualified master developer partner, and securing funding for demolition and site preparation. As of June 30, 2022, the Foundation has recognized \$456,287 as other assets on the Statement of Financial Position related to its due diligence concerning the proposed project.

The original contract was amended several times to extend the evaluation period to allow the Foundation to continue conducting due diligence and to reach contract terms agreeable to both parties with the latest agreement signed on August 29, 2022.

LifePoint staff occupies approximately 35,000 square feet of space on the former hospital site. LifePoint is negotiating a long-term lease for commercial property to serve as a new facility for its staff that currently occupy the former hospital site. LifePoint anticipates needing to make improvements to the identified commercial property for it to be suitable for relocation. The contract, as amended, includes a space lease provision that allows LifePoint to continue to occupy space on the former hospital site until they can relocate to the new facility. The space lease term is not to exceed 18 months. LifePoint is to pay

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events (Continued)

the Foundation a one-time, lump sum payment of \$4 million, which is deemed to be prepaid base rent under the space lease.

LifePoint and the Foundation anticipate that closing shall occur by September 30, 2022.

Subsequent events have been evaluated through the date of the accompanying independent auditor's report, September 8, 2022, which is the date the financial statements were available to be issued.

NOTE B - CASH

The Foundation maintains its primary cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2022, the Foundation's cash balances are as follows:

Insured (FDIC)	\$ 250,000
Uninsured	<u>522,164</u>
Total deposits per bank	772,164
Plus net reconciling items	<u>1,285</u>
Total carrying amount	<u><u>\$ 773,449</u></u>

NOTE C - AVAILABILITY AND LIQUIDITY

The Foundation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 773,449
Accounts and interest receivable	762
Contributions receivable	970
Short-term investments	<u>373,869</u>
	<u><u>\$ 1,149,050</u></u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to implied time restrictions, but the amount reported above is expected to be collected within one year.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE C - AVAILABILITY AND LIQUIDITY (Continued)

The Foundation's endowment funds consist of donor-restricted endowments and quasi-endowments. Income from donor-restricted endowments is restricted for specific purposes, and, therefore, is not available for general expenditure. As described in Note E, the quasi-endowments have a spending rate of 3.85 percent. \$23,922 of appropriations from the quasi-endowments will be available for use within the next 12 months.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term and long-term investments. Although the Foundation does not intend to spend from its quasi-endowments other than amounts appropriated for NMU support, amounts from its quasi-endowments could be made available, if necessary. However, both the quasi-endowments and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note E for disclosures about investments). The Foundation also realizes there could be unanticipated liquidity needs.

NOTE D - PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are booked at fair market value as of the date of the gift and are discounted to present value using a blended rate of 1.94 percent. The discount at June 30, 2022 was \$46,189. The allowance for uncollectible pledges was determined by management using historical trends for collections.

Unconditional promises are expected to be realized in the following periods:

In one year or less	\$ 542,117
Between one year and five years	<u>730,226</u>
Total pledges receivable	1,272,343
Allowance for uncollectible pledges	<u>(50,235)</u>
Net pledges receivable	<u>\$ 1,222,108</u>

Pledges receivable at June 30, 2022 have the following restrictions:

Scholarship funds	446,973
Public radio and television	143,205
Departmental programs and activities	547,720
Capital projects	83,472
Club programs and activities	<u>738</u>
Net pledges receivable	<u>\$ 1,222,108</u>

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE D - PLEDGES RECEIVABLE (Continued)

As of June 30, 2022, the Foundation had also received conditional promises to give totaling \$17,015,623. The conditional promises received consist of bequests which, if received, would generally be restricted for specific purposes stipulated by the donors, including scholarships, faculty support, or general operating support for a particular department or division of NMU. Because these promises are considered conditional, they are not included in the financial statement amounts.

NOTE E - INVESTMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at quoted fair value. Both realized and unrealized gains and losses are included in investment income on the statement of activities. Investments acquired by gift or bequest are recorded at the market value on the date of donation and thereafter carried in accordance with the above provision.

Investment income for the year ended June 30, 2022 consists of the following:

Realized gain on sale of investments	\$ 556,986
Unrealized loss on investments	(9,110,924)
Interest and dividends	1,895,458
Management fee	<u>(109,398)</u>
Total investment income (loss)	<u>\$ (6,767,878)</u>

Resources from the net assets with and without donor restrictions have been pooled and invested through a national financial institution. Investment guidelines are established for each manager, consistent with their investment style, and the Foundation's return, risk, and liquidity objectives. Performance standards are developed as a means of independently determining whether investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk, and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter.

The primary objective of the investments for the Unendowed Fund will be to provide stability of principal along with a total return that maintains the purchasing power of the assets. The funds need to be available on demand while focusing on a total return that keeps pace with inflation.

The primary objective of the investments for the Endowment Fund will be to provide for long-term growth of principal without undue exposure risk through capital appreciation, income, donor development, and gifts.

The purpose of the Foundation's policy is to provide a disciplined approach to moving money from the endowment to fulfill donor intentions on a timely, predictable, and consistent basis while preserving intergenerational equity.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE E - INVESTMENTS (Continued)

The Foundation is committed to administering and investing endowment funds in compliance with all relevant Foundation bylaws, organizational concerns, industry standards, and federal and state laws and regulations, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Gains and losses, as well as investment interest earned on endowment funds, have been allocated based on the net asset balance percentage participation less an operating fee. The net asset balance percentage participation is recalculated on a monthly basis with investment earnings, gains, and losses allocated to the respective endowment funds.

The Foundation will calculate funds available for spending on funds that reach endowed status as of June 30 of the previous year. Endowed status is defined as \$25,000 for discretionary accounts, \$50,000 for scholarship accounts, and \$500,000 for professorship accounts.

The annual distribution is currently 3.85 percent of a 20 quarter rolling average of the endowment's market value (MV), but only to the extent that such distribution does not cause the value of the endowment fund to fall below 95 percent of the historic gift value (HGV) of the fund on the annual valuation date. No distributions will be made from an endowment whose MV on the annual valuation date is less than 85 percent of the HGV.

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Foundation investment policy does not limit exposure to credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation investment policy does not limit exposure to fair value loss by limiting investments by maturity.

Concentration of Credit Risk

The current asset allocation policy was established to meet the Foundation's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward and risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Foundation's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The NMU Foundation Finance Committee (Committee) established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Committee selected the target allocation for each asset class based on the Foundation's current investments and present market conditions.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE E - INVESTMENTS (Continued)

The Committee intends to review these allocation targets at least annually, focusing on changes in the Fund's financial needs, investment objectives, and asset class performance.

Short-Term Unendowed Pool Asset Allocation Targets
Target 40% of Total Unendowed Assets

<u>Asset Class</u>	<u>Allocation Range</u>	<u>Target</u>
U.S. equities	+/- 20%	9%
Non-U.S. equities	+/- 15%	11%
Equities subtotal	0-50%	20%
U.S. income	+/- 15%	59%
Non-U.S. income	+/- 15%	2%
Income subtotal	50-100%	61%
Cash equivalents	0-50%	19%
		<u>100%</u>

Intermediate-Term Unendowed Pool Asset Allocation Targets
Target 60% of Total Unendowed Assets

<u>Asset Class</u>	<u>Allocation Range</u>	<u>Target</u>
U.S. equities	+/- 20%	26%
Non-U.S. equities	+/- 15%	26%
Equities subtotal	40-80%	52%
U.S. income	+/- 5%	18%
Non-U.S. income	+/- 3%	1%
Income subtotal	5-35%	19%
Liquid alternative investments (a)	10-40%	24%
Cash equivalents	0-10%	5%
		<u>100%</u>

(a) Includes but not limited to: Global/Flexible Managers, Real Estate, Commodities, Managed Futures, etc. The Committee acknowledges that other alternative asset classes are available and is not limited to just these investment opportunities. It intends to periodically evaluate the merits of adding new asset classes. The Committee also recognizes the benefits of diversifying manager roles within a given asset class, and intends to periodically evaluate this decision as well as the active versus passive manager decision.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE E - INVESTMENTS (Continued)

Endowment Pool Asset Allocation Targets

<u>Asset Class</u>	<u>Allocation Range</u>	<u>Target</u>
U.S. equities	+/- 40%	24%
Non-U.S. equities	+/- 40%	24%
Equities subtotal	40-80%	48%
U.S. income	+/- 10%	14%
Non-U.S. income	+/- 5%	1%
Income subtotal	5-30%	15%
Alternative investments (b)	10-40%	33%
Cash equivalents	0-10%	4%
		<u>100%</u>

(b) Includes but not limited to: Hedge Funds, Global/Flexible Managers, Real Estate, Commodities, Managed Futures, Private Equity, etc. The Committee acknowledges that other alternative asset classes are available and is not limited to just these investment opportunities. It intends to periodically evaluate the merits of adding new asset classes. The Committee also recognizes the benefits of diversifying manager roles within a given asset class, and intends to periodically evaluate this decision as well as the active versus passive manager decision.

The investments shall be reviewed quarterly to ensure the endowment assets are within these ranges. The manager may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio in the outstanding securities of one issuer.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end 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. At June 30, 2022, the Foundation's assets are held in combination of mutual funds and exchange traded funds (ETFs), hedge funds, and private equity programs.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE F - FAIR VALUE

The Foundation groups its investments, contributions receivable from remainder trusts, annuity payment liabilities, and split-interest agreements at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds.

- 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 estimates that market participants would use in pricing the asset or liability.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE F - FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2022 are as follows:

	Balance at June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Mutual and ETF funds:				
Index funds	\$ 10,401,754	\$ 10,401,754	\$ -	\$ -
Balanced funds	5,147,018	5,147,018	-	-
Growth funds	15,633,996	15,633,996	-	-
Fixed income funds	<u>7,838,086</u>	<u>7,838,086</u>	-	-
Total mutual and ETF funds	39,020,854	39,020,854	-	-
Alternative investments measured at net asset value:				
Private equity funds (a)	2,881,797	-	-	-
Hedge funds (b)	<u>1,115,214</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total alternative investments measured at net asset value	3,997,011	-	-	-
Cash equivalents	1,269,550	1,269,550	-	-
Held by third party	<u>3,072,407</u>	<u>-</u>	<u>-</u>	<u>3,072,407</u>
Total assets	<u>\$ 47,359,822</u>	<u>\$ 40,290,404</u>	<u>\$ -</u>	<u>\$ 3,072,407</u>
Liabilities - Liabilities on annuity contracts and trusts	<u>\$ 367,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367,099</u>

(a) Private equity funds - The purpose is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which, in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment. The partnerships may also invest in operating companies as direct investments or co-investment opportunities.

(b) Hedge funds - This category includes investments in hedge funds that invest primarily in other hedge funds, limited partnerships, and investment companies. Management of these funds employs a variety of strategies and has the ability to shift investments based on market, economic, political, and government-driven events. The fair values of the investments in this category have been estimated using net asset value per share of the investments. These investments can be redeemed, and currently, there are no restrictions.

Held by third party assets categorized as Level 3 consists of a perpetual trust, in which the Foundation is the 100 percent beneficiary of future distributions, and two irrevocable charitable remainder trusts in which the Foundation will receive a remainder portion of the trust assets once there are no longer any individual beneficiaries and the trusts are liquidated. As of June 30, 2022, the Foundation estimates the value of the perpetual trust to be \$1,301,060 and the irrevocable charitable remainder trusts to be \$1,771,347.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE F - FAIR VALUE (Continued)

Liabilities on annuity contracts and trusts characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The agreements require payments during the life of the annuitant at various rates up to 8.8 percent of the principal amounts. The Foundation estimates the fair value of these contributions based on estimated rate of return, anticipated future payments to be made to donors during the donors' lives, the donors' life expectancies, and an assumed discount rate between .6 percent and 7.8 percent. Changes in the value of annuity obligations payable are reported in the Statement of Activities.

Investments in Entities that Calculate Net Asset Value Per Share

The Foundation holds shares or interests in investment companies at year-end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

At year-end, the fair value and unfunded commitments totaled \$3,997,011 and \$625,538 respectively. The funds are ineligible for redemption resulting in no redemption notice period being required.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Land improvements	50 years
Equipment and furniture	7 years
Computer equipment and software	3 years

Depreciation expense for the year ended June 30, 2022 amounted to \$22,168.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE G - PROPERTY AND EQUIPMENT

The following table summarizes, by major class of asset, the recorded costs and accumulated depreciation of capital assets as of June 30, 2022:

Buildings	\$ 429,277
Land improvements	384,292
Equipment and furniture	146,642
Computer equipment	4,915
Software	<u>-</u>
Total cost	965,126
Less accumulated depreciation	<u>(364,797)</u>
Net carrying amount	600,329
Land (not depreciated)	<u>828,350</u>
Total capital assets	<u><u>\$1,428,679</u></u>

NOTE H - ENDOWMENT

The Foundation's endowment consists of donor-restricted endowment funds and funds designated by the Board of Trustees or management to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees or management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees 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.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H - ENDOWMENT

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation (depreciation) of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Following is a summary of the changes in the endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Net investment return	\$ (218,211)	\$ (6,147,115)	\$ (6,365,326)
Contributions and other revenue	-	1,395,914	1,395,914
Appropriation of endowment assets for expenditure	(13,391)	(1,144,406)	(1,157,797)
Transfers to create board-designated endowment funds	630,000	-	630,000
	<u>398,398</u>	<u>(5,895,607)</u>	<u>(5,497,209)</u>
Endowment net assets, beginning of year	<u>986,202</u>	<u>42,106,324</u>	<u>43,092,526</u>
Endowment net assets, end of year	<u>\$ 1,384,600</u>	<u>\$ 36,210,717</u>	<u>\$ 37,595,317</u>

Following is a summary of the make-up of endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,409,530	\$ -	\$ 1,409,530
Donor-restricted endowment funds:	-		
Original donor-restricted gift amount and amount required to be maintained in perpetuity by the donor	-	2,600,647	2,600,647
Term endowment	-	29,805,516	29,805,516
Accumulated investment (losses) gains	<u>(24,930)</u>	<u>3,804,554</u>	<u>3,779,624</u>
Total endowment net assets	<u>\$ 1,384,600</u>	<u>\$ 36,210,717</u>	<u>\$ 37,595,317</u>

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Fund's investment objective is to earn an average annual return of Consumer Price Index (CPI) plus 4 percent, over periods greater than five years. This corresponds to a 4 percent real rate of return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and Investment Objectives

The Foundation's current policy is to appropriate for distribution each year 3.85 percent of its endowment fund's average fair value over the prior 5 years through the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected rate of return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow an average of 4 percent annually. The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

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. Deficiencies of this nature that were reported in net assets with donor restriction as of June 30, 2022, amounted to \$45,681. The original gift value of these underwater endowments was \$1,150,172 and the fair value was \$1,046,982 as of June 30, 2022. These deficiencies are a result of unfavorable market fluctuations which management believes to be temporary in nature. There were no underwater endowments as of June 30, 2021.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE I - NOTES PAYABLE

On February 2, 2021, the Foundation entered into a loan agreement with mBank for \$5,000,000 with a fixed interest rate of 2.75%. The purpose of the loan was to secure the performance of the Foundation's obligations in connection with the development and construction of capital projects for the use and benefit of NMU and the furtherance of NMU's goals. In April 2021, the loan agreement was paid in full.

On February 4, 2021, the Foundation entered into a loan agreement with NMU for \$10,000,000 with a fixed interest rate of 3%. The purpose of the loan was to secure the performance of the Foundation's obligations in connection with the development and construction of capital projects for the use and benefit of NMU and the furtherance of NMU's goals. In April 2021, the Foundation paid the entire principal balance of the note. Interest of \$59,167 and \$0 was accrued and remains outstanding as of June 30, 2021 and 2022.

Interest expense for the year ended June 30, 2021 and 2022 was \$90,778 and \$0.

NOTE J - NET ASSETS

Net assets consist of the following for the year ended June 30, 2022:

Without donor restrictions:			
Foundation operations	\$	2,340,109	
Departmental programs and activities		1,819,127	
Board-designated		1,390,706	
Scholarship funds		<u>227,271</u>	
Total without donor restrictions			\$ 5,777,213
With donor restrictions:			
Scholarship funds	\$	28,480,338	
Departmental programs and activities		8,815,322	
Pledges receivable		1,222,108	
Charitable trust		3,071,453	
Beaumier Heritage Center		1,149,886	
DeVos Art Museum		1,123,043	
Professorships		1,089,233	
Public radio and television		<u>73,873</u>	
Total with donor restrictions			<u>45,025,256</u>
Total net assets			<u>\$ 50,802,469</u>

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE K - IN-KIND CONTRIBUTIONS

In-kind donations recognized by the The Foundation for the year ended June 30, 2022 are:

Professional and other services	\$	260,622
Building materials and supplies		<u>37,998</u>
Total in-kind contributions	\$	<u><u>298,620</u></u>

Professional and other services are valued at the estimated fair value based on current rates for similar services.

Building materials & supplies are those materials and supplies utilized primarily in the operations of the University or the Foundation. The Foundation values the materials based on appraisals or estimates of what would be recorded for purchasing similar materials.

The Foundation and NMU have a written agreement to document its continuing mutually beneficial relationship wherein NMU provides administrative, operational, and other services and materials for the Foundation in consideration of the funding and services provided by the Foundation. Foundation personnel are included in the services supported by NMU. These personnel are employees of NMU. A majority of these employees are covered by a union contract as employees of NMU. Employee salaries, wages, and all benefits (pension plan, compensated absences, etc.) are the responsibility of NMU. The costs of services are recorded as fundraising or management and general expenses, and are included under support, revenue, and gains as a contribution from NMU.

The following table summarizes the recorded costs for in-kind services and materials as of June 30, 2022:

	Management and General	Fundraising	Total
Administrative services	\$ 28,033	\$ -	\$ 28,033
Fundraising services	<u>-</u>	<u>32,589</u>	<u>32,589</u>
	<u>\$ 28,033</u>	<u>\$ 32,589</u>	<u>\$ 60,622</u>

Unless otherwise noted, contributed non-financial assets did not have donor-imposed restrictions.

THE NORTHERN MICHIGAN UNIVERSITY FOUNDATION
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NOTE L - RELATED PARTY TRANSACTIONS

Golf Course Lease

In December 2008, the Foundation received a gift of a golf course including the land and its land improvements; several maintenance buildings, a clubhouse, and a rental residence; and building contents of equipment and furniture. The appraised value at the time received was \$1,625,000. The Foundation has entered into a contract with NMU to lease it for a total fee of \$1 per year for 50 years. The property is currently open and operating as the NMU Golf Course. It is open to the public and will provide both education opportunities for the students of NMU and a local recreation area.

As of June 30, 2022, the contribution value is as follows:

Buildings	\$ 429,277
Land improvements	384,292
Equipment and furniture	110,370
Computer equipment	<u>4,915</u>
Total cost	928,854
Less accumulated depreciation	<u>(353,260)</u>
Net carrying amount	575,594
Land (not depreciated)	<u>828,350</u>
Total golf course capital assets	<u><u>\$ 1,403,944</u></u>

The estimated future lease payments are approximately \$1 a year. The lease has 36 years remaining. In addition, NMU or the Foundation may terminate the lease upon one year's advance notice with or without cause.

NOTE M - FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by natural classification for the year ended June 30, 2022 are summarized as follows:

	Supporting Services		Program Services		Total
	Management and General	Fundraising	Program Support	Scholarships	
Compensation and benefits	\$ 406,543	\$ 559,182	\$ -	\$ -	\$ 965,725
Professional services	83,536	87,539	-	-	171,075
IT and accounting	159,466	38,685	-	-	198,151
Travel	7,257	15,903	-	-	23,160
Office support	79,451	55,270	-	-	134,721
Interest expense	-	-	-	-	-
Program support	-	-	2,603,617	-	2,603,617
Scholarships	-	-	-	885,942	885,942
	<u>\$ 736,253</u>	<u>\$ 756,579</u>	<u>\$ 2,603,617</u>	<u>\$ 885,942</u>	<u>\$ 4,982,391</u>