Agenda
FFE Board of Directors – Finance Committee

Kalamazoo Foundation for Excellence

Monday, December 12, 2022 2:00 PM

City Hall – Community Room, Second Floor - 241 West South Street

A. CALL TO ORDER

B. APPROVAL OF MINUTES

1. Approve October 10, 2022, Minutes.

C. REPORTS AND COMMUNICATIONS

1. Approve FFE Investment Subcommittee Report - Q3 2022

2. Review Audit Subcommittee Description

D. REGULAR AGENDA

E. PUBLIC COMMENTS

F. BOARD MEMBER COMMENTS

G. ADJOURNMENT

KALAMAZOO FOUNDATION OF EXCELLENCE

PUBLIC COMMENT RULES

General information about the Foundation for Excellence (FFE) including board meeting schedules, meeting agendas and minutes, bylaws, and much more can be accessed at: https://www.kalamazoocity.org/ffe.

Agendas and previous minutes and video streams for FFE meetings are available directly at: https://kalamazoomi.civicclerk.com/.

Questions regarding agenda items may be answered prior to the meeting by contacting the FFE Manager at 269.337.8047 or ffe@kalamazoocity.org.

Meetings are held in person in the Community Room on the second floor of City Hall at 241 W. South St. 49007. They are also streamed live and archived on the City's Facebook page (https://www.facebook.com/KalamazooCity/) and YouTube Channel (www.kalamazoocity.org/youtube).

Persons attending a regular or special meeting of the Board of Directors of the Kalamazoo Foundation for Excellence are permitted to address the Board at the noted time on the Agenda and in conformity with this rule and the Michigan Open Meetings Act.

An individual wishing to address the Board shall wait to be recognized by the presiding officer. A person addressing the Board shall provide their name and whether they are a resident of the City. Remarks by a speaker shall be confined to matters within the purview of the Board and FFE. An individual may comment once for up to three (3) minutes. No comment is permitted on secondary or procedural motions to a main motion. A speaker is not permitted to yield any unused portion of speaking time to other speakers. A speaker may be ruled out of order for conduct that interrupts or disrupts the meeting.

Individuals also have the option to provide public comments over the phone at 888.382.9556 during the public comment period announced by staff during the meeting. Callers will enter a queue and be prompted to offer comments in turn. Callers will be given three minutes to comment live.

Updated April 5, 2022.

KALAMAZOO FOUNDATION FOR EXCELLENCE
BOARD OF DIRECTORS
FINANCE COMMITTEE

MINUTES

Meeting of October 10, 2022

The meeting of the Kalamazoo Foundation for Excellence (KFFE) Finance Committee was called to order at 2:06 p.m. in the Community Room of City Hall by President Calderon-Huezo; Treasurer Carrel, Vice President Ritsema, Directors Balkema and Washington, and Chief Financial Officer Vicenzi were present. None were absent.

A quorum was present.

The draft minutes of the August 29, 2022, meeting were moved for approval by Director Balkema and seconded by Vice President Ritsema. The motion was approved by unanimous voice vote.

Manager Brown and CFO Vicenzi presented the updated Investment Consulting Agreement with Zhang Financial of Portage, Michigan, to continue the same service at the same cost as the prior contract after purchasing the former contract holder, Merion Capital. Vice President Ritsema moved, and Treasurer Carrel seconded, a motion to approve the contract. The motion was approved by unanimous voice vote.

Manager Brown presented the amended 2022 schedule to include an Audit Subcommittee meeting at 2:30 pm on December 12, 2022. Director Balkema moved, and CFO Vicenzi seconded, a motion to approve the amendments. The motion was approved by unanimous voice vote.

Manager Brown and CFO Vicenzi presented the updated Draft 2023 FFE-City Budget. CFO Vicenzi moved, and Treasurer Carrel seconded, a motion to approve the budget for the Board to recommend to the City Commission for adoption with the City budget, including correction of Marion (Merion) to Zhang and reduction of the budget line for investment consulting fees from $185,000 to $180,000. The motion was approved by unanimous voice vote.

The next meeting is scheduled for Monday, December 12, 2022, at 2 p.m.

No public comments.

No Board comments.

President Calderon-Huezo adjourned the meeting at 2:35 p.m.

Minutes Drafted: October 11, 2022.

Minutes Approved: _________

____
Steve Brown, Recording Secretary

Date: **12/12/2022**
FFE
Item: **C.1.**

Foundation for Excellence Agenda Report

Kalamazoo Foundation for Excellence

TO: Foundation for Excellence Board of Directors

FROM: Prepared by: Steve Brown, FFE Manager

DATE: December 12, 2022

SUBJECT:

Approve FFE Investment Subcommittee Report - Q3 2022

RECOMMENDATION:

Approve the attached quarterly endowment reports for presentation in the Finance Committee's Report at the next Board meeting.

BACKGROUND:

The most recent Investment Reports of the FFE Investment Subcommittee (FFEIS) for the third quarter of 2022 ending September 30, 2022, is attached for review.

STRATEGIC VISION ALIGNMENT:

Good Governance- Ensuring the City organization has the capacity and resources to effectively implement the community's Strategic Vision in a way that is sustainable over the long term.

FISCAL IMPACT:

Kalamazoo Foundation for Excellence

September 30, 2022

Report to the

Investment Subcommittee

Wednesday, November 30, 2022
11:00 am
2cnd Floor Conference Room
Kalamazoo City Hall

REPORT TO THE RETIREMENT INVESTMENT COMMITTEE

Performance of the

Kalamazoo Foundation for Excellence

September 30, 2022

The market value of portfolio assets decreased from $160.4 to $151.9 million to million during the third quarter of 2022, a decrease of $8.50 million or -5.30%. During the quarter there were no contributions, and withdrawals amounted to $17,798.38. Interest and dividend income for the quarter amounted to $190,782.34.

The portfolio weighted average return for the quarter, net of manager fees, was -5.22%. The 1-year return, net of manager fees, was -15.33%. The return since May 1, 2020, net of manager fees, through the end of the quarter has been 2.80%.

Equities comprised 68.9% of the Kalamazoo Foundation for Excellence portfolio at the end of the third quarter. The equity portion of the portfolio returned -4.89% for the quarter, -23.87% year-to-date, and -15.48% over the last year.

Fixed income comprised 26.3% of the Kalamazoo Foundation for Excellence portfolio at the end of the third quarter. The fixed income portion of the portfolio returned -5.01% for the quarter, -14.44% year-to-date, and -14.73% over the last year.

Real Estate comprised 4.7% of the Kalamazoo Foundation for Excellence portfolio at the end of the third quarter. The real estate portion of the portfolio returned -11.01% for the quarter and -29.49% year-to-date.

Cash and equivalents totaled $84,950; 0.1% of the total assets.

The portfolio finished the quarter with 68.9% in equities, 26.3% in fixed income, 4.7% in real estate, and 0.1% in cash. The portfolio target allocation approved by the investment committee on August 25, 2021 is 70% equities, 25% fixed income, 5% real estate, and 0% cash.

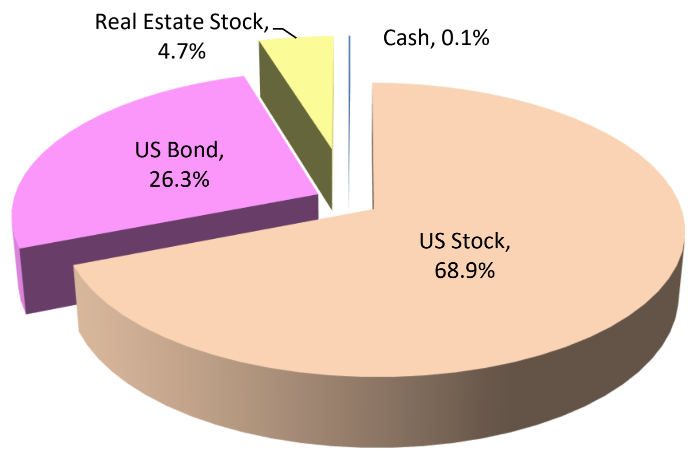
The inflation-adjusted, or real return, for the quarter was -5.39% as the inflation rate for the quarter was 0.17%. With a year-on-year inflation rate of 8.20%, the one-year real return was -23.53%. Since May 1, 2020, the return on the portfolio, net of manager fees, has been 2.80% nominal and -3.48% real with a since-inception inflation rate of 6.28%.

Respectfully submitted,
November 30, 2022

Kalamazoo Foundation for Excellence

Asset Allocation

September 30, 2022



Market Value $ 151,908,981

Since-Inception (5/1/2020)
Return 2.80

PORTFOLIO EXPOSURE

Geographic Exposure

U.S	100.0%
Foreign	0.0%
	100.0%

Currency (Direct Exposure)

USD	100.0%
Non-USD	0.0%
	100.0%

Asset Classes	ACTUAL %	Policy%	+/-
Equity	68.9%	70.0%	-1.1%
Fixed	26.3%	25.0%	1.3%
Real Estate	4.7%	5.0%	-0.3%
Cash	0.1%	0.0%	0.1%
	100.0%	100.0%	0.0%

Liquidity-Daily	100.0%
Liquidity> 1 day & < 90 days	0.0%
Liquidity> 91 days & < 2 years	0.0%
Liquidity> 2 years	0.0%
Total	100.0%

Fixed Income Risk	Jennison	Bloomberg US Agg Bond TR USD
Coupon	3.21%	2.58%
Yield	5.13%	4.73%
Effective Duration (yrs)	6.16%	6.18
Convexity	0.44	0.55
Maturity (yrs)	9.00	8.60
Quality	AAA	AAA

Sector Allocation	Jennison	Bloomberg US Agg Bond TR USD	+/-
Treasury	27.6	41.0	(13.4)
Agency	0.3	1.3	(1.0)
Finance	11.8	8.0	3.9
Industrial	13.2	13.9	(0.7)
Utility	3.2	2.0	1.2
Non-Corporate	0.5	4.0	(3.5)
Mortgage	27.9	27.6	0.3
CMO	4.2	0.0	4.2
Asset Backed	7.2	0.4	6.8
CMBS	3.8	1.9	1.9
Cash	0.3	0.0	0.3
Total	100.0	100.0	0.0

Performance Attribution(1)

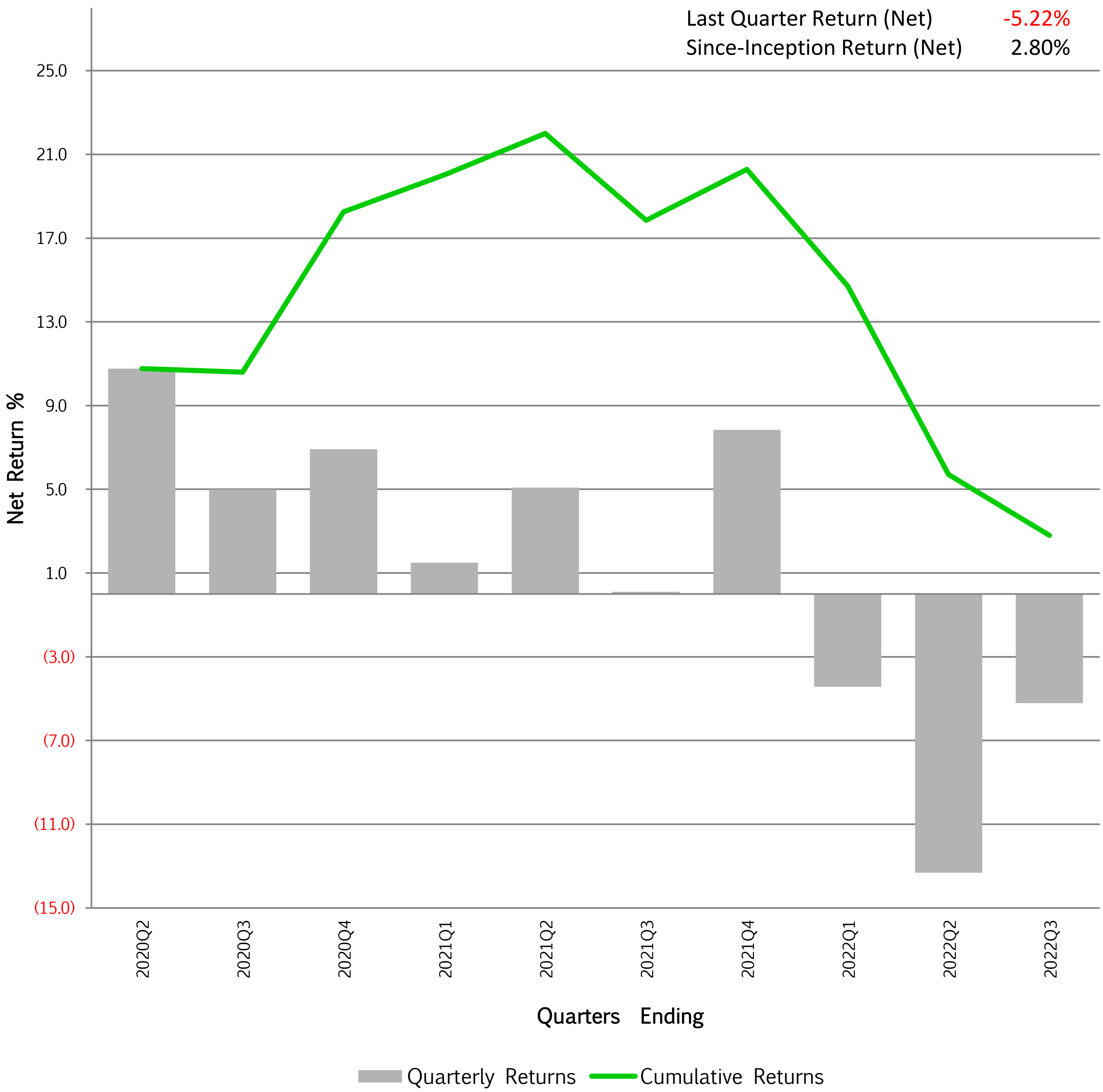
Gross of Fees and versus the BBgBarc US Agg Bond TR USD

3 Months (bps)	
Yield Curve	(19)
Sector Allocation	4
Security Selection	5
Other	1
Total	(9)

(1) Performance attribution may differ from performance shown due to rounding and other factors, such as Paydowns and interest on non-supported cash instruments.

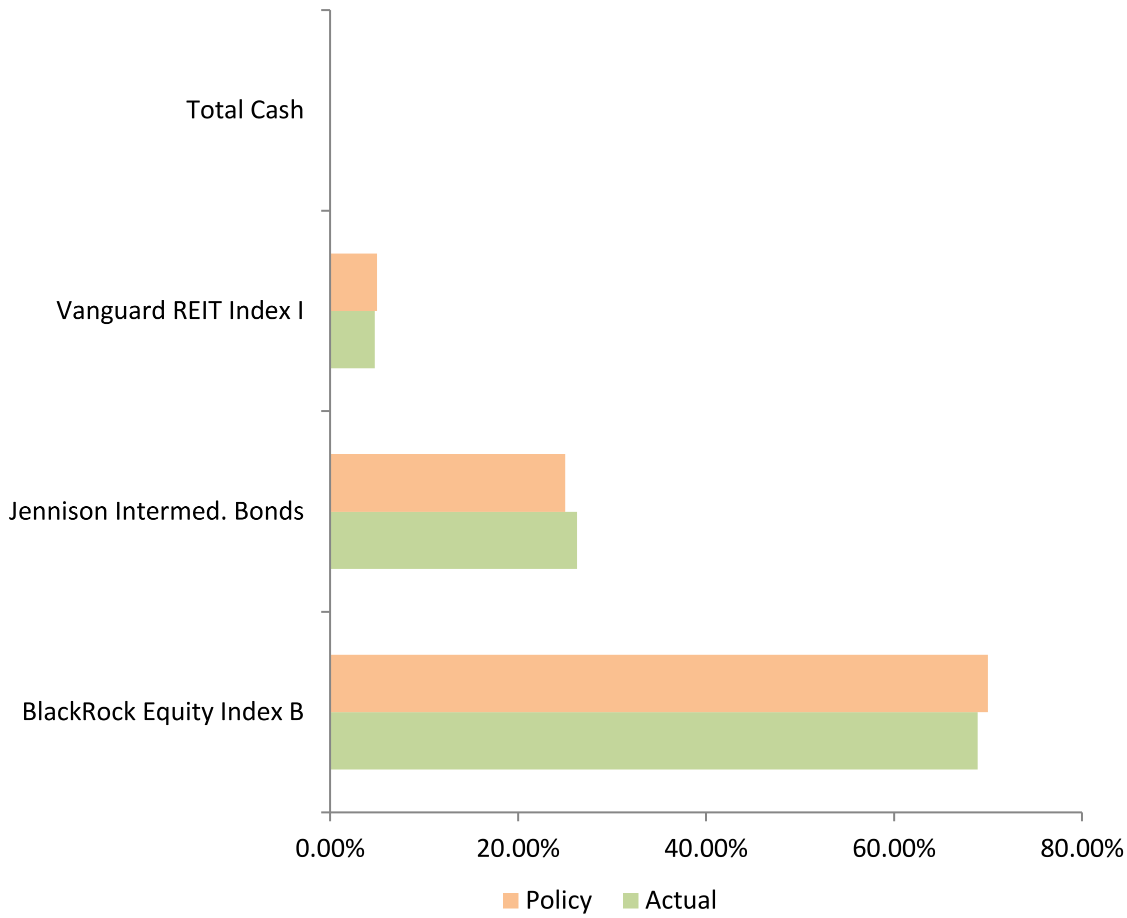
Some figures may not sum to 100% due to rounding.

Kalamazoo Foundation for Excellence
Quarterly vs Since-Inception (5.1.2020) Net Returns
September 30, 2022



State Street Portfolio was funded on 4/8/2020 when 465,000 shares of Stryker Stock were gifted to the Foundation.

Kalamazoo Foundation for Excellence
Policy Allocation vs. Actual
September 30, 2022



	Amount $	Actual	Policy	Variance %
BlackRock Equity Index B	104,679,919	68.9%	70.0%	-1.09%
Jennison Intermed. Bonds	39,932,233	26.3%	25.0%	1.29%
Vanguard REIT Index I	7,211,879	4.7%	5.0%	-0.25%
Total Cash	84,950	0.1%	0.0%	0.06%
	151,908,981	100.0%	100.0%	0.00%

The portfolio target allocation is 70% equities, 25% fixed income, 5% real estate, and 0% cash was approved on August 25th, 2021. Vanguard Real Estate was purchased on November 5th, 2021.

Kalamazoo Foundation for Excellence
2022 State Street Expense Report

Foundation for Excellence Expenses	1Q	2Q	3Q	4Q	Total
Audit Fees - Maner	**7,100**	**2,200**	**2,000**	**-**	**11,300**
FFE Audit 2021	7,100	2,200	-	-	9,300
FFE 990 form	-	-	2,000	-	2,000
Consulting Fees - Merion Capital	**-**	**45,000**	**45,000**	-	**90,000**
Consulting - 1Q2022	-	45,000	-	-	45,000
Consulting - 2Q2022	-	-	45,000	-	45,000
Custody Fees - State Street	**8,981**	**29,110**	**41,810**	**-**	**79,901**
Custody - Nov 2021	8,981	-	-	-	8,981
Custody - Dec 2021	-	8,409	-	-	8,409
Custody - Jan 2022	-	11,182	-	-	11,182
Custody - Feb 2022	-	9,520	-	-	9,520
Custody - Mar 2022	-	-	11,348	-	11,348
Custody - Apr 2022	-	-	10,542	-	10,542
Custody - May 2022	-	-	10,282	-	10,282
Custody - Jun 2022	-	-	9,638	-	9,638
Due Diligence	**-**	**2,179**	**-**	**-**	**2,179**
DD - BlackRock/DFA/Loomis Sayles - Ruppel	-	1,213	-	-	1,213
DD - DFA Conf - Eberts	-	443	-	-	443
DD - DFA Conf - Bergy	-	523	-	-	523
Total Operating Expenses	**16,081**	**78,489**	**88,810**	**-**	**183,380**
Fund Manager Fees - BlackRock	**5,233**	**5,413**	**5,819**	**-**	**16,465**
Fees - 4Q2021	5,233	-	-	-	5,233
Fees - 1Q2022	-	5,413	-	-	5,413
Fees - 2Q2022	-	-	5,819	-	5,819
Fund Manager Fees - Jennison	**20,924**	**25,034**	**24,920**	**-**	**70,877**
Fees - Dec 2021	7,058	-	-	-	7,058
Fees - Jan 2022	6,970	-	-	-	6,970
Fees - Feb 2022	6,896	-	-	-	6,896
Fees - Mar 2022	-	8,465	-	-	8,465
Fees - Apr 2022	-	8,279	-	-	8,279
Fees - May 2022	-	8,289	-	-	8,289
Fees - Jun 2022	-	-	8,206	-	8,206
Fees - Jul 2022	-	-	8,554	-	8,554
Fees - Aug 2022	-	-	8,160	-	8,160
Total Fund Manager Fees	**26,157**	**30,447**	**30,739**	**-**	**87,343**
Total Foundation For Excellence Expenses	**42,238**	**108,935**	**119,549**	**-**	**270,723**

Kalamazoo Foundation for Excellence
2022 State Street Cash Flow Report

	Q1	Q2	Q3	Q4	Total
Cash Beginning Balance	73,739	127,248	48,759	84,949	73,739
Receipts					
Donations	40,358,400	-	-	-	40,358,400
Realized Gain/Loss	658,191	-	-	-	658,191
Total Receipts	41,016,591	-	-	-	41,016,591
Disbursements					
Audit Fees (Maner)	7,100	2,200	2,000	-	11,300
Consulting Fees (Merion Cap)	-	45,000	45,000	-	90,000
Custody Fees (State Street)	8,981	29,110	41,810	-	79,901
Due Diligence/Conferences	-	2,179	-	-	2,179
Total Disbursements	16,081	78,489	88,810	-	183,380
Net Cashflow	41,000,509	(78,489)	(88,810)	-	40,833,211
Investment Transfer	(40,947,000)	-	125,000	-	(40,822,000)
Cash Ending Balance	127,248	48,759	84,949	84,949	84,949
Investments Beginning Balance	150,609,740	184,945,813	160,311,581	151,824,031	150,609,740
Dividends	51,208	50,886	82,015	-	184,110
Interest	197,151	271,490	309,474	-	778,116
Realized Gain/Loss	(782,758)	(807,207)	(488,216)	-	(2,078,181)
Unrealized Gain/Loss	(6,050,372)	(24,118,954)	(8,235,085)	-	(38,404,411)
Fund Manager Fees	(26,157)	(30,447)	(30,739)	-	(87,343)
Net Investment Activity	(6,610,927)	(24,634,232)	(8,362,550)	-	(39,607,709)
Investment Transfer	40,947,000	-	(125,000)	-	40,822,000
Investments Ending Balance	184,945,813	160,311,581	151,824,031	151,824,031	151,824,031
Total Foundation for Excellence Balance	185,073,061	160,360,341	151,908,981	151,908,981	151,908,981

Date: **12/12/2022**
FFE
Item: **C.2.**

Foundation for Excellence Agenda Report

Kalamazoo Foundation for Excellence

TO: Foundation for Excellence Board of Directors

FROM: Prepared by: Steve Brown, FFE Manager

DATE: December 12, 2022

SUBJECT:

Review Audit Subcommittee and Finance Committee Descriptions

RECOMMENDATION:

Review Audit Subcommittee and Finance Committee Descriptions to ensure complete service across all FFE needs, especially regarding the 2022 fiscal year
.

BACKGROUND:

An Audit Subcommittee comprising of three or five members was constituted by the Finance Committee at their August 29, 2022, meeting. The existing Audit Subcommittee description (attached) was created in consultation with a formal governance facilitator including best practices for nonprofits and approved by the FFE Board in 2018 as part of its comprehensive policy work at that time. The Finance Committee's description (attached) was also approved at that time. With the creation of the Audit Subcommittee, time and attention are needed to ensure appropriate division of labor and completion of all needed work for the 2022 fiscal year. The relevant

Bylaws language is included here for review as well in the discussion:

<u>Section 6.02</u> <u>Finance.</u> A Finance Committee shall be established which shall include the Corporation's Treasurer, the City's Finance Director, or similar position (or a person appointed by the City's Finance Director), the City Manager and two (2) Stakeholder Directors. This committee shall: recommend short and long term financial goals for the Corporation; prepare on a timely basis and monitor an annual budget for the Corporation that is aligned with the Corporation's purpose and priorities; recommend financial policies and ensure compliance with

Kalamazoo City Manager's Office 241 W. South Street, Kalamazoo, MI 49007 269.337.8047
Fax: 269.337.8182

those financial policies adopted by the Board of Directors; make recommendations on the deposit and/or investment of the Corporation's funds; identify short-term and long-term financial challenges before they become urgent issues; review the performance of investments and make recommendations on changes in investments and investment advisors; recommend the selection of an auditor to prepare annual audited financial statements, 990s and other reports and tax filings and meet with the auditor to review and discuss these; meet prior to the September meeting of the Board of Directors to review the Corporation's finances and speak with representatives of the City of Kalamazoo to discuss its need for funding for the upcoming year and its plans for aspirational projects and make a recommendation to the Board of Directors on the amount of a grant that the Corporation shall make that year to the City of Kalamazoo based on any written agreement among the City, the Corporation and the major donors to the Corporation and any gift instruments under which donors have made donations to the Corporation. In addition to meeting prior to the September Board of Directors meeting the Finance and Grant Making Committee may meet at other times as it determines is necessary or as may be requested by the Board of Directors or the President.

If it believes it is necessary, the Finance Committee may create an investment subcommittee and an audit subcommittee and establish their mission and purpose and rules of operation and assign to them various duties concerning the investment and management of the Corporation's assets and the work with the Corporation's auditor.

STRATEGIC VISION ALIGNMENT:

Good Governance- Ensuring the City organization has the capacity and resources to effectively implement the community's Strategic Vision in a way that is sustainable over the long term.

FISCAL IMPACT:

Kalamazoo Foundation for Excellence
Board of Directors
Audit Subcommittee

Approved at the meeting of the Board of Directors on October 22, 2018.

STATUS: Optional Subcommittee

PURPOSE/FUNCTION: To assist Kalamazoo Foundation For Excellence (FFE) and its related entities with audit responsibilities and pertinent policy oversight.

1. Oversee the audit of annual financial statements in accordance with generally accepted accounting principles, and determine that financial controls are reasonable;
2. Participate in City's Purchasing Division process for bidding external auditing services;
3. Retain, compensate, and oversee the work of the FFE's external auditor;
    a. Review and provide input on external audit work plan,
    b. Review auditor's opinion and audited financial statements,
    c. Review auditor's report on all critical accounting policies and practices,
    d. Review and, where applicable, assure implementation of auditor's management letter and report results of same to the board of directors;

   Approve any non-audit related services, other than preparation of tax returns, that exceed 5% of audit fees;

6. Adopt internal accounting controls and practices recommended by City Administration to align with City that will facilitate the ability of the FFE Board and City Administration as the entity responsible for administering FFE accounting and financial reporting to certify FFE's financial statements;
7. Monitor and assure application of Conflict of Interest Policy, Record Retention Policy, Whistle Blower and other applicable policies;
8. Assess the relevancy of answers to any Form 990 questions addressing accounting practices and the veracity of information provided to the public;
9. Review and analyze other pertinent data brought by staff or the board of directors

DECISION-MAKING AUTHORITY: The subcommittee will formulate appropriate policies, procedures and make decisions as noted above.

QUORUM: The presence of a majority of the total number of committee members in office shall constitute a quorum for the transaction of business. A committee member may participate in a meeting by means of a conference call or similar communications equipment, by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence at the meeting. In the absence of a quorum, a majority of committee members present may choose to reschedule the meeting for a date certain or may choose to continue the meeting. If the committee chooses to continue the meeting without a quorum, the only action it may take is to make recommendations to the full board. Notice of a rescheduled meeting shall be given to each committee member.

MEMBERSHIP: The Committee shall consist of members of the board of directors.

a. Term of office: Term as Director
b. How appointed: Virtue of office

MEMBERSHIP CRITERIA: Member FFE board of directors

MEETING SCHEDULE: At least twice annually around the audit work plan and auditor's opinion and management letter, and as needed relative to other responsibilities.

MEMBERS:

Board Approval Date:

Kalamazoo Foundation For Excellence
Board of Directors
Finance Committee
Approved at the annual meeting of the Board of Directors on May 23, 2018.

STATUS: Board Standing Committee
PURPOSE/FUNCTION: To assist Kalamazoo Foundation For Excellence (FFE) with financial responsibilities, reporting, and policy oversight.

1. Recommend short and long term financial goals for FFE;
2. Prepare on a timely basis and monitor an annual budget for FFE that is aligned with its purpose and priorities;
3. Formulate and recommend financial policies and ensure compliance with those financial policies adopted by the board of directors, including a Gift Acceptance Policy;
4. Identify short-term and long-term financial challenges before they become urgent issues;
5. Meet prior to the April and September meetings of the board of directors to review the FFE's finances and speak with representatives of the City of Kalamazoo to discuss its need for funding for the upcoming year and its plans for aspirational projects.*
6. Make recommendation to the board of directors on the amount of a grant that FFE shall make that year to the City based on any written agreement among the City, FFE;
7. Work in conjunction with the board of directors, as requested, in the review of the Spending Policy.

DECISION-MAKING AUTHORITY: The Committee will formulate appropriate policies, procedures and recommendations for consideration by FFE's board of directors and make decisions and provide advice as noted above.

QUORUM: The presence of a majority of the total number of committee members in office shall constitute a quorum for the transaction of business. A committee member may participate in a meeting by means of a conference call or similar communications equipment, by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence at the meeting. In the absence of a quorum, a majority of committee members present may choose to reschedule the meeting for a date certain or may choose to continue the meeting. If the committee chooses to continue the meeting without a quorum, the only action it may take is to make recommendations to the full board. Notice of a rescheduled meeting shall be given to each committee member.

MEMBERSHIP: The Committee shall consist of FFE's Treasurer, the City's Finance Director, or similar position (or a person appointed by the City's Finance Director), the City Manager, and two (2) Stakeholder Directors.

a. Term of office: FFE board member term corresponds to their board term.
City's Finance Director (or appointee): one year, renewable
b. How appointed: Board of directors of the FFE

MEMBERSHIP CRITERIA: Members of the committee shall have significant knowledge and/or leadership experience in financial management. While past experience in the financial services industry can be desirable, members may not be a current principal or employee of a financial services company.

MEETING SCHEDULE: At least annually, prior to the September board of directors meeting on finance review and grant making matters, and as needed relative to other responsibilities and/or at the request of the board of directors or President.

***Timeline of Process**

- The Administration submits the City's updated operational + capital work plans, including aspirational project proposals for FFE funding, to the City Commission in April for Commission consideration.

- The City Commission approves FFE funding proposals in April and sends them on to the FFE Board for consideration.

- The FFE Board considers FFE Funding proposals in May/June and indicates support for the City to include these proposals in the City's Proposed Budget;

- The City Administration prepares directives for a Proposed Budget in July; the City prepares a Proposed Budget inclusive of the FFE funding requests in the Fall (no later than Dec. 1st according to City Charter).

- The City Commission considers the Proposed Budget inclusive of FFE Funding Requests and adopts an Adopted Budget by Feb 1st.

- Any changes to FFE Funding requests (as compared to what the FFE Board reviewed in May/June) would have to be brought back to the FFE Board for final consideration.