Kalamazoo
Foundation for
Excellence

Agenda
FFE Audit Subcommittee

Monday, April 1, 2024 2:00 PM

Kalamazoo City Hall – 241 West South Street

A. CALL TO ORDER

1. Welcome Guests: Aaron Stevens, CPA, CGFM, Principal, Director , Maner Costerisan

B. APPROVAL OF MINUTES

1. Approval of December 11, 2023, Minutes.

C. REPORTS AND COMMUNICATIONS

1. Receive and Review the Draft Fiscal Year 2023 Audit

D. REGULAR AGENDA

1. Recommend 2024 Audit Subcommittee Appointments

E. PUBLIC COMMENTS

F. BOARD MEMBER COMMENTS

G. ADJOURNMENT

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.

KALAMAZOO FOUNDATION OF EXCELLENCE

PUBLIC COMMENT RULES

1. Persons attending a regular or special meeting of the Board of Directors of the Kalamazoo Foundation for Excellence shall be permitted to address the Board in conformity with this rule and the Michigan Open Meetings Act.

2. An individual wishing to address the Board shall wait to be recognized by the presiding officer.

3. A person addressing the Board shall provide their name and whether they are a resident of the City.

4. Remarks by a speaker shall be confined to matters within the purview of the Board and KFFE.

5. The chairperson of the meeting or a majority of the Board in attendance may permit individuals to speak once, for up to four (4) minutes, on specific matters being considered on the meeting agenda of the Board, except no comment is permitted on secondary or procedural motions to a main motion.

6. A speaker is permitted to address the Board once during the Public Comment portion of the meeting for up to four (4) minutes.

7. A speaker is not permitted to yield any unused portion of speaking time to other speakers.

8. A speaker may be ruled out of order for conduct that interrupts or disrupts the meeting.

Updated October 23, 2023

KALAMAZOO FOUNDATION FOR EXCELLENCE
BOARD OF DIRECTORS
AUDIT SUBCOMMITTEE

MINUTES

Meeting of December 11, 2023

A. Call to Order
    1. The meeting of the Kalamazoo Foundation for Excellence (KFFE) Audit Subcommittee was called to order at 2:30 p.m. in the Community Room of City Hall by President Calderon-Huezo. Treasurer Carrel, Directors Bostrom, and Balkema were present. A quorum was present.
B. Approval of Minutes
    1. The minutes of the April 10, 2023, meeting were moved for approval by Director Balkema and seconded by Director Bostrom. The motion was approved by unanimous vote.
C. Reports and Communications
D. Regular Agenda
E. The annual audit procedure was reviewed by staff and discussed. The FFE policy suggestion to open the bidding process for FFE's annual independent auditor every five years. This does not align with the City's policy and cadence, which would cause issues with staff time having to support and help two separate auditors. A motion was made by Director Balkema and seconded by Director Bostrom to wave the FFE's adopted Financial Accountability tactic to "Encourage the lead and/or review partner to rotate every five years" for the 2023 FY independent audit and to engage Maner Costerisan as the FFE's auditor. The motion was approved by unanimous voice vote.
F. No public comments.
G. No board comments.
H. President Calderon-Huezo adjourned the meeting at 2:44 p.m.

The next meeting is scheduled for Monday, April 1, 2024, at 2 p.m.

Minutes Drafted: December 11, 2023.

Minutes Approved: _________

Steve Brown, Recording Secretary

FFE Audit Subcommittee Staff Report

Kalamazoo Foundation for Excellence

TO: Foundation for Excellence Audit Subcommittee

FROM: Steve Brown, Foundation for Excellence Executive Director

DATE: April 1, 2024

SUBJECT: Receive and Review the Draft Fiscal Year 2023 Audit

RECOMMENDATION:

Receive and Review the Draft Fiscal Year 2023 Audit

BACKGROUND:

- **From the FFE Audit Subcommittee description adopted by the Board of Directors on October 22, 2018:**
- Purpose: To assist Kalamazoo Foundation for Excellence (FFE) and its related entities with audit responsibilities and pertinent policy oversight.
- Oversee the audit of annual financial statements in accordance with generally accepted accounting principles, and determine that financial controls are reasonable;
- Retain, compensate, and oversee the work of the FFE's external auditor:
  - Review and provide input on the external audit work plan
  - Review the auditor's opinion and audited financial statements
  - Review the auditor's report on all critical accounting policies and practices
  - Review and, where applicable, assure implementation of the auditor's management letter and report the results to the board of directors
  - Audit Subcommittee Independent Auditor Presentation of draft audit materials

The independent auditor is providing the following drafts for the subcommittee's review:

- 2023 Financial Statements
- Governance Letter

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;
4. Approve any non-audit related services, other than preparation of tax returns, that exceed 5% of audit fees;
5. 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;
6. Monitor and assure application of Conflict of Interest Policy, Record Retention Policy, Whistle Blower and other applicable policies;
7. Assess the relevancy of answers to any Form 990 questions addressing accounting practices and the veracity of information provided to the public;
8. 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:

Maner Costerisan

2425 E. Grand River Ave.,
Suite 1, Lansing, MI 48912
517.323.7500
517.323.6346

April 26, 2024

To the Board of Directors of
Kalamazoo Foundation For Excellence
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo Foundation For Excellence for the year ended December 31, 2023, and we will issue our report thereon dated April 26, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kalamazoo Foundation For Excellence are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2023. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the calculation of the allowance for doubtful accounts related to promise to give is based on using present value techniques incorporating risk-adjusted discount rates. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the calculation of the fair value of investments is based on daily closing prices and yields for comparable securities. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any misstatements during the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 26, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Kalamazoo Foundation For Excellence and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KALAMAZOO FOUNDATION FOR EXCELLENCE

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

Maner Costerisan

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Maner Costerisan

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kalamazoo Foundation For Excellence
Kalamazoo, Michigan

Opinion

We have audited the accompanying financial statements of Kalamazoo Foundation For Excellence (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Foundation For Excellence as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in conformity 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. 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 Kalamazoo Foundation For Excellence and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Kalamazoo Foundation For Excellence's ability to continue as a going concern within one year after the date that the financial statements are 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 generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Kalamazoo Foundation For Excellence'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 Kalamazoo Foundation For Excellence'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.

April 1, 2024

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023

ASSETS		
Current assets		
Cash and cash equivalents	$	2,153
Current portion of contributions receivable, net		37,793,597
Total current assets		37,795,750
Noncurrent assets		
Investments		220,340,643
Contributions receivable, net (less current portion)		212,338,000
Total noncurrent assets		432,678,643
TOTAL ASSETS	$	470,474,393
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	49,690
Due to City of Kalamazoo		183,850
TOTAL LIABILITIES		233,540
NET ASSETS		
Without donor restrictions		220,109,853
With donor restrictions		
Time-restricted for future periods		250,131,000
TOTAL NET ASSETS		470,240,853
TOTAL LIABILITIES AND NET ASSETS	$	470,474,393

See accompanying notes to financial statements.

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 4,005,169	$ -	$ 4,005,169
Investment return, net	35,982,623	-	35,982,623
Net assets released from restrictions	38,515,000	(38,515,000)	-
TOTAL SUPPORT AND REVENUE	78,502,792	(38,515,000)	39,987,792
EXPENSES			
Program services			
Operational assistance	18,500,872	-	18,500,872
Supporting services			
General and administrative	434,313	-	434,313
Fundraising	75,180	-	75,180
Total supporting services	509,493	-	509,493
TOTAL EXPENSES	19,010,365	-	19,010,365
CHANGE IN NET ASSETS	59,492,427	(38,515,000)	20,977,427
Net assets, beginning of year	160,617,426	288,646,000	449,263,426
Net assets, end of year	$ 220,109,853	$ 250,131,000	$ 470,240,853

See accompanying notes to financial statements.

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023

	Program Services	Supporting Services			
	Operational Assistance	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and benefits	$ -	$ 135,287	$ 33,821	$ 169,108	$ 169,108
Bank fees	-	640	-	640	640
Professional fees	-	279,376	-	279,376	279,376
Insurance	-	1,256	-	1,256	1,256
Professional development	-	999	2,648	3,647	3,647
Postage	-	16,312	-	16,312	16,312
Software and applications	-	-	8,711	8,711	8,711
Planning and studies	-	-	30,000	30,000	30,000
Supplies	-	443	-	443	443
Contributions to City of Kalamazoo	18,500,872	-	-	-	18,500,872
TOTAL EXPENSES	$ 18,500,872	$ 434,313	$ 75,180	$ 509,493	$ 19,010,365

See accompanying notes to financial statements.

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 20,977,427
Adjustments to reconcile change in net assets to net cash (used) by operating activities	
Contributed stock	(42,514,400)
Realized and unrealized (gain)/loss on investments	(33,715,738)
Decrease in:	
Contributions receivable, net	38,514,403
Increase in:	
Accounts payable	17,537
Due to City of Kalamazoo	182,843
NET CASH (USED) BY OPERATING ACTIVITIES	(16,537,928)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(45,041,723)
Sales of investments	61,573,200
NET CASH PROVIDED BY INVESTING ACTIVITIES	16,531,477
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,451)
Cash and cash equivalents, beginning of year	8,604
Cash and cash equivalents, end of year	$ 2,153

See accompanying notes to financial statements.

NOTE 1 - NATURE OF THE ORGANIZATION

The mission of Kalamazoo Foundation For Excellence (the Foundation) is to "support the goals of the City of Kalamazoo, fund aspirational investments in the City, and empower Kalamazoo residents to achieve the lives they want for themselves and their families."

The Foundation was created to help the City of Kalamazoo accomplish priorities established, from time to time, by the City Commission to set the course for the City of Kalamazoo's future direction, to provide budget stability to the City resulting from the City's reduction of the ad valorem tax rate on property in addition to the reduction of payments received from the State, to provide for aspirational projects which the City of Kalamazoo wishes to undertake, and to perform any activities that may assist in exploring budgetary savings of the City or assisting the City which would be the best way to utilize the grants transferred to the City from the Foundation. The majority of the Foundation's revenue is from donations received from the general public.

The Foundation will make annual distributions to the City authorized by majority vote of the Board of Directors in an amount that is:

a. Equal to the difference between the amount that the City would have received in property tax revenue for the fiscal year-in-question calculated using a millage rate of 19.2705 mills ($19.2705 per $1,000 of taxable value) and the property tax revenue the City is budgeted to receive for the fiscal year-in-question under the City's proposed millage rate, plus,

b. A budget stabilization payment of $4,000,000 for fiscal year 2019 and thereafter, adjusted annually by the Municipal Cost Index, and

c. Additional annual distributions may be approved and made by the Foundation if requests are consistent with the Foundation's purposes and consistent with donor intent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation's accounting policies conform to U.S. generally accepted accounting principles (GAAP) as applicable to nonprofit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing nonprofit accounting and financial reporting principles.

The following is a summary of the significant accounting policies of the Foundation:

<u>Basis of Accounting</u>

The Foundation utilizes the accrual method of accounting, which recognizes income when earned and expenses when incurred.

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents consist of cash accounts and money market funds. The Foundation considers short-term highly liquid investments with maturities of three months or less as cash equivalents. Cash included in the investment category is not classified as a cash or cash equivalent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are stated at fair value. Net investment return is included in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. Investments are recorded as long-term as it is management's intent to hold for long-term purposes and not spend in the next 12 months. See Note 6 for discussion of fair value measurements.

Investments are managed by professional advisors subject to the Foundation's investment policy. The degree and concentration of market and credit risk vary by type of investment.

Contributions Receivable

Contributions receivable consists almost entirely of unconditional promises. We record unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2023, the allowance was $0.

Beginning and ending balances for contributions receivable is reported as follows for the year ended December 31:

Contributions receivable, beginning of year	$ 288,646,000
Contributions receivable, end of year	$ 250,131,597

Net Assets

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Revenue Recognition

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional.

Functional Expense Allocation

The costs of providing program and other activities will be reported in the statement of activities. The statement of functional expenses presents the natural classification of expenses that are allocated to program or supporting functions of the Foundation. Allocated expenses primarily consist of personnel costs, professional fees, and general expenses based on an analysis of wages and management's estimated use of resources.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Concentration of Risk

The Foundation is required to disclose significant concentrations of risk regardless of the degree of such risk. Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments, and contributions receivable. The Foundation places its cash with FDIC insured financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk. The Foundation has not experienced losses in any of these accounts.

Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from foundations supportive of the Foundation's mission.

Investments are maintained with diversified investment managers whose performance is monitored by management of the Foundation and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

In preparing these financial statements, the Foundation's management has evaluated events and transactions for potential recognition or disclosure through April 1, 2024, the date the financial statements were available to be issued.

NOTE 3 - TAX STATUS

The Foundation is exempt from U.S. federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for tax on "unrelated business income", as defined. The Foundation is not classified as a private foundation. No provision for U.S. income taxes is required.

In preparation of tax returns, tax positions are taken based on interpretation of income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been recorded in the financial statements as uncertain positions. Tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are estimated to be collected as follows at December 31, 2023**:**

Within one year	$ 40,000,597
In one to five years	200,000,000
Over five years	40,000,000
	280,000,597
Less discount to net present value at rate of 1.91%	(29,869,000)
Contributions receivable, net	$ 250,131,597

At December 31, 2023, one donor accounted for nearly 100% of total promises to give.

During the year ended December 31, 2021, long-term residents of the community made an unconditional promise to give the Foundation $40,000,000 annually for ten consecutive years. Contributions received in the current year were released from restriction, while the remainder of the original promise to give that was made in 2021 was reported as contributions with donor-imposed time restrictions.

NOTE 5 - LIQUIDITY AND AVAILABILITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The following table reflects the Foundation's financial assets as of December 31, 2023, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date. Amounts appropriated from net assets with donor restrictions with one year of the date of the statement of financial position are considered available.

Financial assets available at year-end	
Cash and cash equivalents	$ 2,153
Contributions receivable, net of discount	250,131,597
Investments	220,340,643
Total financial assets available at year-end	470,474,393
Donor imposed restrictions	
Less time restricted funds until after 2023	(212,338,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 258,136,393

The overall investment goal of the management of the assets of the Foundation is to maximize the likelihood of meeting the Foundation's spending objectives in perpetuity as it relates to the Foundation's mission and to the disbursement of funds by the Foundation's Board of Directors.

In addition, the investment goals include:

- Maintaining the ability to pay all distributions and obligations when due.
- Maximizing return within reasonable and prudent levels of risk.
- Preserving the real (i.e., inflation adjusted) purchasing power of assets.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Investments that are considered long term on the statement of financial position are included in the financial assets available to meet cash needs for general expenditures and could be used to meet general expenditures.

NOTE 6 - FAIR VALUE MEASUREMENTS

GAAP have established a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable.

NOTE 6 - FAIR VALUE MEASUREMENTS (continued)

The three levels of the hierarchy under GAAP are described below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3: Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

The asset 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 measurement. 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 measured at fair value. There have been no changes in the methodologies used at December 31, 2023.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Debt Instruments - Corporate Bonds and U.S. Government Securities: The investment grade debt securities held by the Foundation often do not trade in active markets on the measurement date. If they do, they are measured at the closing price in that active market. In the absence of a trade on the measurement date for the identical security in an active market, corporate bonds and U.S. government securities are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 6 - FAIR VALUE MEASUREMENTS (continued)

The following is market value summary by the level of inputs used, as of December 31, 2023, in evaluating the Foundation's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

	Level 1	Level 2	Level 3	Total
U.S. Equities				
Mutual funds	$ 167,715,943	$ -	$ -	$ 167,715,943
U.S. Fixed Income				
Corporate securities	-	13,877,554	-	13,877,554
Government and agencies	-	36,978,198	-	36,978,198
International Fixed Income				
Corporate securities	-	1,760,868.00	-	1,760,868
Foreign currency	8,080	-	-	8,080
Total	$ 167,724,023	$ 52,616,620	$ -	$ 220,340,643

NOTE 7 - INVESTMENTS

The following table summarizes the cost basis and fair value (carrying value) of investments as of December 31, 2023:

	Cost	Fair Value
U.S. Equities		
Mutual funds	$ 134,044,755	$ 167,715,943
U.S. Fixed Income		
Corporate securities	15,033,621	13,877,554
Government and agencies	38,246,601	36,978,198
International Fixed Income		
Corporate securities	1,834,737	1,760,868
Foreign currency	8,080	8,080
Total	$ 189,167,794	$ 220,340,643

NOTE 8 - RELIANCE ON FUNDING SOURCES

The Foundation receives a substantial amount of their support from donations made by the general public. A significant reduction in the level of this support, if it were to occur, would have an effect on the Foundation's programs and activities.

NOTE 9 - RELATED PARTY TRANSACTIONS

As indicated in Note 1, the Foundation exists to help the City of Kalamazoo. The Foundation is a component of the City of Kalamazoo and is included in the City's audited financial statements. Additionally, the City of Kalamazoo provides personnel to perform the administrative and financial services for the Foundation. These services are provided without charge to the Foundation. The value of those services is not considered material to the financial statements taken as a whole and therefore has not been recognized in these financial statements.

NOTE 10 - SUBSEQUENT EVENT

In February 2024, the Foundation received the fourth installment of the unconditional promise to give that is detailed in Note 4, and an additional donation of $15 million dollars from an anonymous donor. The fair value of these contributions as of that date was $60,496,331.

Kalamazoo
Foundation for
Excellence

FFE Audit Subcommittee Staff Report

TO: Foundation for Excellence Audit Subcommittee

FROM: Steve Brown, Foundation for Excellence Executive Director

DATE: April 1, 2024

SUBJECT: Recommend 2024 Audit Subcommittee Appointments

RECOMMENDATION:

Recommend 2024 Audit Subcommittee Appointments

BACKGROUND:

The Audit Subcommittee Description states that any FFE Director may be a member. A recommendation for member appointments may be made to the Board for action at their April 22, 2024, meeting where all committee appointments are made. Current Members:

1. Sandra Calderon-Huezo
2. Alisa Carrel
3. Andrea Bostrom
4. Mary Balkema