



Kalamazoo
Foundation for
Excellence

Agenda FFE Finance Committee

Monday, March 31, 2025 2:00 PM

Kalamazoo City Hall – 241 West South Street

A. CALL TO ORDER

1. Roll Call
2. Approve Agenda

B. APPROVAL OF MINUTES

1. Approve minutes of the December 9, 2024, meeting

C. REPORTS AND COMMUNICATIONS

1. (No Action) Review Annual Financial Report Information

D. REGULAR AGENDA

1. Policy Review
2. Recommend the Draft Annual Grant Distribution to the Board of Directors

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
FINANCE COMMITTEE**

MINUTES

Meeting of December 9, 2024

- A. Call to Order
 - 1. The meeting of the Kalamazoo Foundation for Excellence (KFFE) Finance Committee was called to order at 2:01 p.m. in the Community Room of City Hall by President Calderon-Huezo.
 - 2. Vice President Ritsema, Treasurer Balkema, and Directors Carrel and Parker, and Chief Financial Officer Vicenzi were present. A quorum was present.
- B. The draft minutes of the October 7, 2024, meeting were moved for approval by Director Carrel and seconded by Treasurer Balkema. The motion was approved by unanimous voice vote.
- C. Reports and Communications.
 - 1. CFO Vicenzi will follow up with the investment subcommittee consultant regarding typos in the memo and how dividends and interest income are tied out into other components of the report.
 - 2. CFO Vicenzi and Executive Director Brown would be following up on the 2025 expiration of the FFE endowment consultant management contract.
- D. Regular Agenda
- E. No public comments.
- F. No board comments.
 - 1. Directors requested that the 2024 newsletter be recalled from the publisher for several updates, including labelling neighborhoods and core neighborhoods, and clarification of some terms, among other notes.
- G. President Calderon-Huezo adjourned the meeting at 2:55 p.m.

The next meeting is scheduled for Monday, January 27, 2024, at 2 p.m.

Minutes Drafted: December 9, 2024.

Minutes Approved: _____

Steve Brown, Recording Secretary



FFE Finance Committee Staff Report

TO: Foundation for Excellence Finance Committee

FROM: Steve Brown, Executive Director

DATE: March 31, 2025

SUBJECT: (No Action) Review Annual Financial Report Information

RECOMMEDATION:

(No Action) Review Annual Financial Report Information

BACKGROUND:

Complete annual financial compliance as laid out in Sections 4 and 6 of the FFE Bylaws, which includes preparing financial statements and reports.

- + An FFE Income Statement.
- + Year-end balance sheet, including trust funds and funds restricted by donors or the Board.
- + A written notice addressed to the City Manager and Mayor describing the type and amount of all support the Corporation provided to the City during the Corporation's taxable year immediately preceding the taxable year in which the written notice is provided.
- + A copy of the Corporation's Form 990 (forthcoming).
- + An annual report from the City Manager to reflect its use of funds received from the Corporation for the previous year and a report regarding projects and initiatives undertaken with the funds distributed by the Corporation.

Performance of the
Kalamazoo Foundation for Excellence
December 31, 2024

The market value of portfolio assets increased from \$302.1 million to \$303.8 million during the fourth quarter of 2024, an increase of \$1.7 million or 0.56%. During the quarter there were contributions of \$111.5 million and withdrawals of \$111.6 million (including intra-account transfers). In the investment account there were dividends and interest income of \$784,912.66.

The portfolio weighted average return for the quarter, net of manager fees, was 0.55%. The 1-year return, net of manager fees, was 17.34%.

Equities comprised 69.6% of the Kalamazoo Foundation for Excellence portfolio at the end of the quarter. The equity portion of the portfolio returned 2.4% for the quarter, and 24.98% over the last year.

Fixed Income comprised 25.5% of the Kalamazoo Foundation for Excellence portfolio at the end of the quarter. The fixed income portion of the portfolio returned -3.01% for the quarter, and 1.70% over the last year.

Real Estate comprised 4.9% of the Kalamazoo Foundation for Excellence portfolio at the end of the quarter. The real estate portion of the portfolio returned -7.57% for the quarter and 5.08% over the last year.

Cash and equivalents totaled \$9, or essentially 0.0% of the total assets.

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 0.45% as the US BLS All Urban inflation rate for the quarter was 0.10%. With an annual inflation rate of 2.89% the one-year real return was 14.45%. Since May 1, 2020, the return on the portfolio, net of manager fees, has been 10.48% nominal and 5.93% real with a since-inception inflation rate of 4.55%.

Respectfully submitted,
February 26, 2025

Zhang Financial



OFFICE OF THE CITY MANAGER

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MEMORANDUM

Date: March 31, 2025

To: The Board of Directors of the Kalamazoo Foundation for Excellence

From: James K. Ritsema, ICMA-CM, Kalamazoo City Manager

Directors,

The following report is submitted in compliance with Section 4.18 – Report to Directors, of the Foundation for Excellence bylaws, which states:

“An annual report from the City Manager to reflect its use of funds received from the Corporation for the previous year and a report regarding projects and initiatives undertaken with the funds distributed by the Corporation.”

The City received \$20,471,989 from the FFE endowment for the fiscal year beginning 1.1.2024 and ending 12.31.2024.

The City is profoundly grateful for the existence of the Foundation for Excellence and looks forward to our ongoing relationship to benefit everyone in the Kalamazoo community.

Sincerely,

James K. Ritsema, ICMA-CM
City Manager

Report Regarding Projects

City Property Tax Reduction Reimbursement Grant – Required

The FFE Bylaws, Section 9.03, Subsection A, states this grant shall be “equal to the difference between the amount that the City would have received in real estate tax and personal property tax revenue for the fiscal year-in-question calculated using a millage rate of 19.2705 mills (\$19.2705 per \$1000 of taxable value) less the amount of real and personal property taxes that the City is budgeted to receive for the fiscal year-in-question under the City's proposed millage rate [12] (...)”

For 2024, \$15,347,374 was received by the City from the FFE to achieve this end. Furthermore, \$384,694 was received by the City from the FFE to true-up the 2023 City property tax reduction.

Budget Stabilization Grant – Required

Bylaws, Section 9.03, Subsection B, states that this grant shall be “\$4 million for budget fiscal 2019 and thereafter adjusted annually by the Municipal Cost Index developed by the American City & County Magazine, or another credible model addressing the price of the unique market basket of goods and services purchased by local governments, to address the structural revenue imbalance to City finances due to Michigan's broken municipal finance system.”

For 2024, \$4,739,921 was received by the City from the FFE to stabilize the City’s budget.

Aspirational Community Investments – Conditional

Bylaws, Section 9.03, Subsection C, states that “Additional annual distributions may be approved (...) (i) consistent with the purposes set forth in Article II in the Articles of Incorporation of this Corporation; and, (ii) consistent with donor intent as specified in the Statement of Donor Intent (...)”

For 2024, \$670,344 of new Aspirational funds were approved but none were transferred to the City from FFE because existing resources at the City from prior grants and grant years were sufficient to pursue projects. A report on those projects is provided below.

2024 Approved Aspirational Projects

Background

Since 2021 the City and FFE have collaborated to track performance of investments using a Key Performance Indicator (KPI) approach that sets measurable goals within a set time frame by which to establish if a project has achieved its intentions or not. City staff choose their own KPI categories and targets with help from other staff as needed. Categories and targets are never imposed on project leaders. Each project must establish a minimum of one and a maximum of three outputs as well as the same amount for outputs to receive FFE funding.

Outputs and Outcomes

An output is defined as numbers of people, events, services, objects, or similar items that can be counted, such as number of youths enrolled in a program. An outcome is defined as the change in knowledge, skill or attitude of a person, such as percentage of youth enrolled who exhibit better time-management skills when leaving the program than on arrival.

Assessment

Each annual output and outcome target should be met, but a variance of +/- 10% is afforded every project because of acceptable real-world variations, such that a project targeting 10 participants but receiving only 9 would be recorded as achieving its objective.

Reporting

The information in this table records the quantity of targets met within the allowed variance.

2024 Project	Grant	Status	Output Targets Achieved	Outcome Targets Achieved
Neighborhood Engagement and Activation	\$79,063	Completed	0/1	Incomplete data
MyCity YOU	\$27,391	Completed	2 of 3	3 of 3
All Things Possible	\$168,613	Completed	2 of 3	3 of 3
SuperRec	\$248,542	Completed	2 of 3	2 of 3
Youth Action Council	\$21,606	Completed	2 of 3	3 of 3
Youth Development Stipend	\$25,629	Completed	1 of 3	2 of 3
Youth Mobility Fund	\$99,500	Completed	0 of 1	1 of 1
Total	\$670,344		9 of 17 (53%)	14 of 16 (88%)



MEMORANDUM

Date: March 31, 2025

To: Mayor of the City of Kalamazoo
The Kalamazoo City Manager

From: Mary Balkema, Treasurer, Kalamazoo Foundation for Excellence

Mayor Anderson and City Manager Ritsema;

The following report is submitted in compliance with Section 4.18 – Report to Directors, of our bylaws, which states that:

“A written notice addressed to the City Manager and Mayor describing the type and amount of all of the support the Corporation provided to the City during the Corporation’s taxable year immediately preceding the taxable year in which the written notice is provided.”

The Foundation for Excellence provided \$20,471,989 from its endowment to the City of Kalamazoo from January 1, 2024, to December 31, 2024. Of that sum, \$15,347,374 was used to lower 2024 City property taxes for all taxpayers to 12 mills, \$384,694 was used to true-up the 2023 City property tax reduction, and \$4,739,921 was paid to stabilize the City’s budget consistent with Section 9.03 of the FFE Bylaws. No funds were transferred for Aspirational projects.

Respectfully Yours,

Mary Balkema
Treasurer and Housing Sector Stakeholder Director

The Mission of the Kalamazoo Foundation for Excellence 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.

KALAMAZOO FOUNDATION FOR EXCELLENCE

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
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, 2024, 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, 2024, 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.

Maney Costeiran PC

March 18, 2025

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2024

ASSETS

Current assets

Cash and cash equivalents	\$ 4,443
Current portion of contributions receivable, net	<u>37,085,000</u>

Total current assets	<u>37,089,443</u>
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Noncurrent assets

Investments	304,588,835
Contributions receivable, net (less current portion)	<u>175,253,000</u>

Total noncurrent assets	<u>479,841,835</u>
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TOTAL ASSETS	<u><u>\$ 516,931,278</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Accounts payable	\$ 39,760
Due to City of Kalamazoo	<u>192,605</u>

TOTAL LIABILITIES	<u>232,365</u>
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NET ASSETS

Without donor restrictions	304,360,913
With donor restrictions	
Time-restricted for future periods	<u>212,338,000</u>

TOTAL NET ASSETS	<u>516,698,913</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 516,931,278</u></u>
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KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 22,768,518	\$ -	\$ 22,768,518
Investment return, net	44,740,921	-	44,740,921
Net assets released from restrictions	37,793,000	(37,793,000)	-
TOTAL SUPPORT AND REVENUE	105,302,439	(37,793,000)	67,509,439
EXPENSES			
Program services			
Operational assistance	20,471,989	-	20,471,989
Supporting services			
General and administrative	524,244	-	524,244
Fundraising	55,146	-	55,146
Total supporting services	579,390	-	579,390
TOTAL EXPENSES	21,051,379	-	21,051,379
CHANGE IN NET ASSETS	84,251,060	(37,793,000)	46,458,060
Net assets, beginning of year	220,109,853	250,131,000	470,240,853
Net assets, end of year	\$ 304,360,913	\$ 212,338,000	\$ 516,698,913

See accompanying notes to financial statements.

**KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2024**

	Program Services	Supporting Services		Total Supporting Services	Total
	Operational Assistance	General and Administrative	Fundraising		
Salaries and benefits	\$ -	\$ 142,076	\$ 35,519	\$ 177,595	\$ 177,595
Bank fees	-	764	-	764	764
Professional fees	-	277,255	-	277,255	277,255
Insurance	-	30,519	-	30,519	30,519
Professional development	-	1,816	10,427	12,243	12,243
Postage	-	6,204	-	6,204	6,204
Software and applications	-	-	9,200	9,200	9,200
Administrative fees	-	50,004	-	50,004	50,004
Memberships	-	15,200	-	15,200	15,200
Supplies	-	406	-	406	406
Contributions to City of Kalamazoo	20,471,989	-	-	-	20,471,989
TOTAL EXPENSES	\$ 20,471,989	\$ 524,244	\$ 55,146	\$ 579,390	\$ 21,051,379

KALAMAZOO FOUNDATION FOR EXCELLENCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 46,458,060
Adjustments to reconcile change in net assets to net cash (used) by operating activities	
Contributed stock	(60,546,298)
Realized and unrealized (gain)/loss on investments	(41,553,671)
Decrease in:	
Contributions receivable, net	37,793,597
Increase (decrease) in:	
Accounts payable	(9,930)
Due to City of Kalamazoo	8,749
NET CASH USED BY OPERATING ACTIVITIES	<u>(17,849,493)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(64,071,359)
Sales of investments	<u>81,923,142</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>17,851,783</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	2,290
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Cash and cash equivalents, beginning of year	<u>2,153</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,443</u></u>

**KALAMAZOO FOUNDATION FOR EXCELLENCE
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. \$4,000,000 for budget fiscal year 2019 and thereafter adjusted annually by the Municipal Cost Index developed by the American City & County Magazine, or another credible model addressing the price of the unique market basket of goods and services purchased by local governments, so as to address the structural revenue imbalance to City finances due to shortcomings of Michigan’s municipal finance system, 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:

Basis of Accounting

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

Cash and Cash Equivalents

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.

**KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

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, 2024, the allowance was \$0.

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

Beginning of year	<u>\$ 250,131,597</u>
End of year	<u>\$ 212,338,000</u>

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.

KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

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.

KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

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 March 18, 2025, 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, 2024:

Within one year	\$ 40,000,000
In one to five years	<u>200,000,000</u>
	240,000,000
Less discount to net present value at rate of 1.91%	<u>(27,662,000)</u>
Contributions receivable, net	<u><u>\$ 212,338,000</u></u>

At December 31, 2024, 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.

KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

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, 2024, 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	\$ 4,443
Contributions receivable, net of discount	212,338,000
Investments	<u>304,588,835</u>
 Total financial assets available at year-end	 516,931,278
 Donor imposed restrictions	
Less time-restricted for future periods	<u>(212,338,000)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 304,593,278</u>

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.

KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

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.

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, 2024.

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.

KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - FAIR VALUE MEASUREMENTS (continued)

The following is market value summary by the level of inputs used, as of December 31, 2024, 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Equities				
Mutual funds	\$ 232,581,095	\$ -	\$ -	\$ 232,581,095
U.S. Fixed Income				
Corporate securities	-	18,227,468	-	18,227,468
Government and agencies	-	51,238,991	-	51,238,991
International Fixed Income				
Corporate securities	-	2,541,281	-	2,541,281
Total	<u>\$ 232,581,095</u>	<u>\$ 72,007,740</u>	<u>\$ -</u>	<u>\$ 304,588,835</u>

NOTE 7 - INVESTMENTS

The following table summarizes the cost basis and fair value (carrying value) of investments as of December 31, 2024:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Equities		
Mutual funds	\$ 175,741,591	\$ 232,581,095
U.S. Fixed Income		
Corporate securities	19,288,767	18,227,468
Government and agencies	55,064,924	51,238,991
International Fixed Income		
Corporate securities	<u>2,577,415</u>	<u>2,541,281</u>
Total	<u>\$ 252,672,697</u>	<u>\$ 304,588,835</u>

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.

**KALAMAZOO FOUNDATION FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

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.

NOTE 10 - SUBSEQUENT EVENT

In February 2025, the Foundation received the fifth 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 \$54,749,114.



Kalamazoo
Foundation for
Excellence

FFE Audit Subcommittee Staff Report

TO: Foundation for Excellence Audit Subcommittee

FROM: Steve Brown, Foundation for Excellence Executive Director

DATE: March 31, 2025

SUBJECT: Policy Review

RECOMMEDATION:

Recommend updates to Gift Acceptance, Expense Reimbursement, Financial Accountability policies and the Finance Committee Description.

BACKGROUND:

The Executive Committee initiated a regular best practices review of all policies to take place in 2025, some of which fall under the Finance Committee and require member input. Per the Executive Committee, staff have made initial key edits to the documents using 'track changes' and present them for review and discussion.



FFE Finance Committee Staff Report

TO: Foundation for Excellence Finance Committee

FROM: Steve Brown, Executive Director

DATE: March 31, 2025

SUBJECT: Recommend the Draft Annual Grant Distribution to the Board of Directors

RECOMMEDATION:

Recommend the Draft Annual Grant Distribution to the Board of Directors

BACKGROUND:

A Spending Policy review will be conducted with committee members alongside relevant current data to establish a recommended draft grant memo for board consideration at the April meeting.



DRAFT MEMORANDUM

Date: March 31, 2025

To: FFE Finance Committee

From: Executive Director

Subject: Fiscal Year 2026 FFE Grant to the City of Kalamazoo

1. GRANT SUMMARY

The Foundation for Excellence (FFE) was founded in 2017 to establish a \$500 million endowment to support the City of Kalamazoo in reducing property taxes for all taxpayers 38%, stabilizing the City's budget, and funding aspirational community investments in perpetuity. This memo conveys the draft recommended FFE grant of \$26,624,000 to the City of Kalamazoo for the 2026 fiscal year in all three areas of funding:

- 2024 Tax Reduction Reimbursement: Estimate of \$16,541,000
- 2023 Tax Reduction Reconciliation: PENDING
- Budget Stabilization: Estimate of \$5,083,000
- Aspirational Investments: Estimate of \$5,000,000

This recommendation prudently balances the requirement to achieve and maintain a \$500 million endowment while maximizing resources for the greater good of Kalamazoo.

Additionally, this memo explains a long-term endowment spending strategy, subject to annual review, that creates a robustly healthy endowment to grant an estimated \$456 million from 2026 to 2040 and, most importantly, continue to do so in perpetuity:

- Tax Reduction Reimbursement: \$302,000,000
- Budget Stabilization: \$94,000,000
- Aspirational Investments: \$60,000,000

Please refer to the subsequent sections of this memo for background, policy, and methodology.

Respectfully Submitted,

2. HISTORY OF THE FFE ENDOWMENT

2017-2022: began with historic grant funds totaling \$150 million given directly to the City of Kalamazoo by the Stryker Johnston Foundation to begin fulfilling the FFE’s mission while its administrative and governance structures and endowment were put in place.

2020-2030: began in 2020 when the FFE endowment received an \$86 million gift, followed in 2021 by a \$400 million pledge to be contributed to the endowment from 2021 to 2030, and a pledge of in 2023 of \$45 million to be contributed from 2024 to 2026.

2031-2040: will begin in 2031 once the endowment is fully funded. At that point the FFE will operate entirely from market earnings for the first time, although additional gifts to the endowment will always be gratefully accepted.

3. GRANTMAKING RULES AND DETAIL

The total annual amount paid to the City by FFE is determined by the Board of Directors using section Article II of the Articles of Incorporation, Section 9.03 of the Bylaws, and the FFE Spending Policy, which are discussed in detail below to show how granting is calculated. The Board relies on consultation with retained financial advisers and staff, the FFE Investment Subcommittee and Finance Committee, and engages City Commission through the Mayor, City Manager, and two City Commissioners on the FFE Board.

The Tax Reduction Reimbursement and Budget Stabilization grants are required to be disbursed to the City each year based on formulas that calculate their value. The Aspirational grant, however, is only to be awarded to the City if, and at a level whereby, doing so does not diminish the endowment’s permanence and/or ability to cover the Tax and Budget grants long term.

City Property Tax Reduction Reimbursement Grant – Required

Bylaws, Section 9.03, Subsection A, states this grant shall be “equal to the difference between the amount that the City would have received in real estate tax and personal property tax revenue for the fiscal year-in-question calculated using a millage rate of 19.2705 mills (\$19.2705 per \$1000 of taxable value) less the amount of real and personal property taxes that the City is budgeted to receive for the fiscal year-in-question under the City's proposed millage rate [12] (...)”

- 2026 est. value of Kalamazoo real estate and personal property: __PENDING__

- 2026 est. City earnings at previous rate of 19.2705 mills: __ PENDING __
- 2026 est. City earnings at current rate of 12 mills: __ PENDING __
- Total 2026 FFE Tax Reduction Reimbursement Grant: __ PENDING __

TABLE 1 – History of Tax Reduction Reimbursement Grants

Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026**	Avg.
Tax Grant*	\$10.86	\$11.72	\$12.18	\$12.60	\$12.99	\$13.60	\$14.37	\$15.35	\$15.81	\$16.5	
Annual increase	N/A	7.97%	3.95%	3.42%	3.09%	4.71%	5.66%	6.81%	3.01%	4.00%	4.74%

*In millions of dollars.

**Projected as of 3/31/2025.

Budget Stabilization Grant – Required

Bylaws, Section 9.03, Subsection B, states that this grant shall be “\$4 million for budget fiscal 2019 and thereafter adjusted annually by the Municipal Cost Index developed by the American City & County Magazine, or another credible model addressing the price of the unique market basket of goods and services purchased by local governments, to address the structural revenue imbalance to City finances due to Michigan's broken municipal finance system.”

TABLE 2 – History of Budget Stabilization Grants

Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026**	Avg.
Budget Grant*	N/A	\$3.8	\$4	\$4.12	\$4.24	\$4.37	\$4.5	\$4.74	\$4.93	\$5.08	
Inflating Factor	N/A	N/A	5.26%	3.00%	3.00%	3.00%	3.28%	5.00%	4.00%	3.10%	3.71%

*In millions of dollars.

**Projected as of 3/31/2025.

Aspirational Community Investments – Conditional

Bylaws, Section 9.03, Subsection C, states that “Additional annual distributions may be approved (...) (i) consistent with the purposes set forth in Article II in the Articles of Incorporation of this Corporation; and, (ii) consistent with donor intent as specified in the Statement of Donor Intent (...).”

TABLE 3 – History of Aspirational Grants

Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026**
Aspirational Grant*	\$3.15	\$12.43	\$10.01	\$10.23	\$8.54	\$8.61	\$4.46	\$0.67	\$5.00	\$5.00

*In millions of dollars.

**Projected as of 3/31/2025.

Note: The 2024 FFE aspirational grant was lowered to relieve the endowment after financial setbacks related to market downturns associated with COVID and in context of the City receiving \$38 million of federal resources including from the American Rescue Plan Act (ARPA).

FFE Spending Policy

“In determining whether to appropriate or accumulate fund assets Section 9.03 of the FFE Bylaws will be consulted, and FFE will act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. In accordance with Michigan’s Uniform Prudent Management of Institutional Funds Act, the following [seven] factors will be considered in the determination to spend or accumulate endowment assets:”

I. The duration and preservation of the endowment fund

The FFE endowment is required to be permanent and to meet its required liabilities of Tax Reimbursements and Budget Stabilization in perpetuity. To create the highest reasonable probability of achieving this the FFE’s financial projections must:

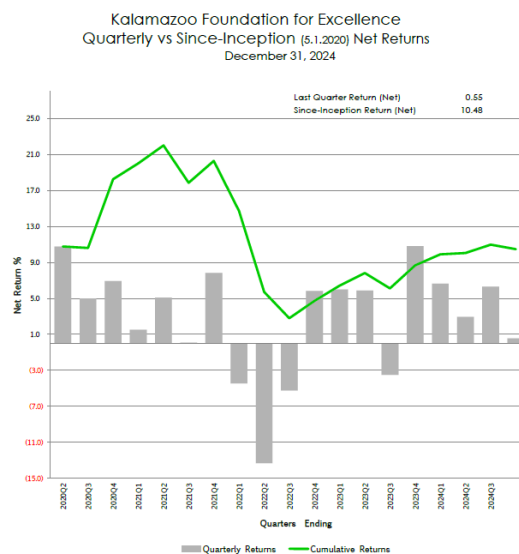
- achieve an endowment >\$500 million by 12.31.2030 when major gifts to FFE end;
- maintain >1% annual growth net of expenses and inflation for 15 projected years.

II. The purposes of the institution and the endowment fund

The purpose of the FFE is to provide resources to the City of Kalamazoo to support its goals (The Imagine Kalamazoo Master Plan and other adopted plans) in perpetuity.

III. General economic conditions

Table 4* below shows quarterly earnings and cumulative returns in FFE’s brief existence.



*Figures are net of investment fees only, not net of grants to City, operations, or inflation.

The predicted average gross rates of endowment earnings in the FFE’s Investment Policy Statement were confirmed in February of 2024 as remaining accurate for the foreseeable future. These rates are 6.50% while the endowment is valued under \$300 million and 7.50% once it is valued above \$300 million. These rates are based on historic earnings from FFE’s mix of investments projected forward over the long term to meet the FFE’s spending needs while prudently managing risk.

IV. The possible effect of inflation or deflation

According to the most recent Investment Subcommittee report, dated 12.31.2024, FFE has experienced “a since-inception inflation rate of 4.55%.” Future annual inflation rates of approximately 3% are accurate for FFE projections. That rate is applied to Budgeted Stabilization and Operations/Admin expenses but not to Aspirational Grants or Tax Reduction Reimbursement, which is based on assessed property value that increases depending on trends in real estate markets. Deflation is not being discussed as a risk by FFE’s financial advisors at this time.

V. The expected total return from income and appreciation

Between 2031 and 2040, once current major contributions to the endowment end, average earnings of the FFE endowment net of investment fees, grants to the City, operations expenses, and 3% inflation, are projected to be 1.48% annually as shown in **Table 5**.

TABLE 5

Average Endowment Earnings for the Period	2031-2040
Gross	7.50%
Net	1.48%

As **Table 6** shows, at a rate of 1.48% annual net earnings, the FFE endowment’s total value would grow by 14.11% from 2031 to 2040. This means a doubling of value in 49 years. Meanwhile, because of FFE’s spending requirements, expenses would double every 27 years. This would result in decreasing annual net returns from 1.74% in 2031 to 1.19% in 2040.

TABLE 6

Growth for the Period	From 2031 to 2040
Annual Expenses	26.65%
Endowment Value	14.11%

Lastly, it is important to look at long term trends in FFE fund availability shown in **Table 7**. FFE Aspirational grants are projected in this memo to remain flat at approximately \$4 million per

year to meet requirements but will be reassessed using this same process annually to confirm and adjust as needed. **Table 7** shows Aspirational grants remaining steady as an absolute sum while **Table 8** shows Aspirational grants becoming a smaller percentage of FFE’s annual budget. This is because the two required expenses of Tax Reimbursement and Budget Stabilization are expected to continue to grow based on the formulas required in the Bylaws.

TABLE 7

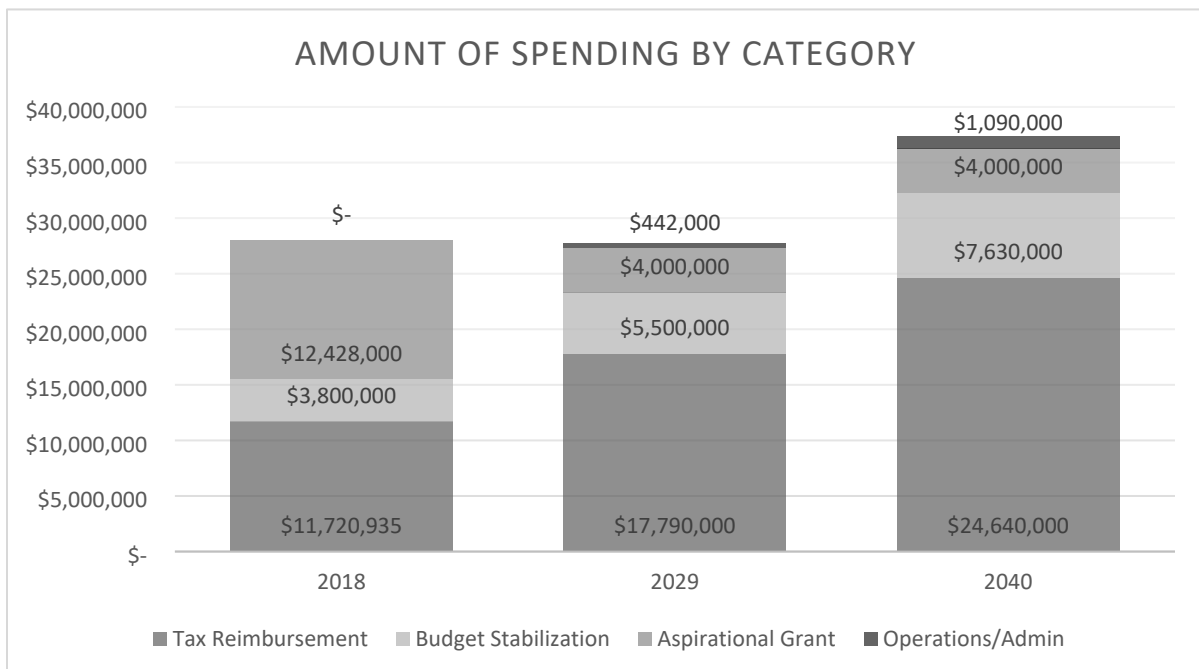
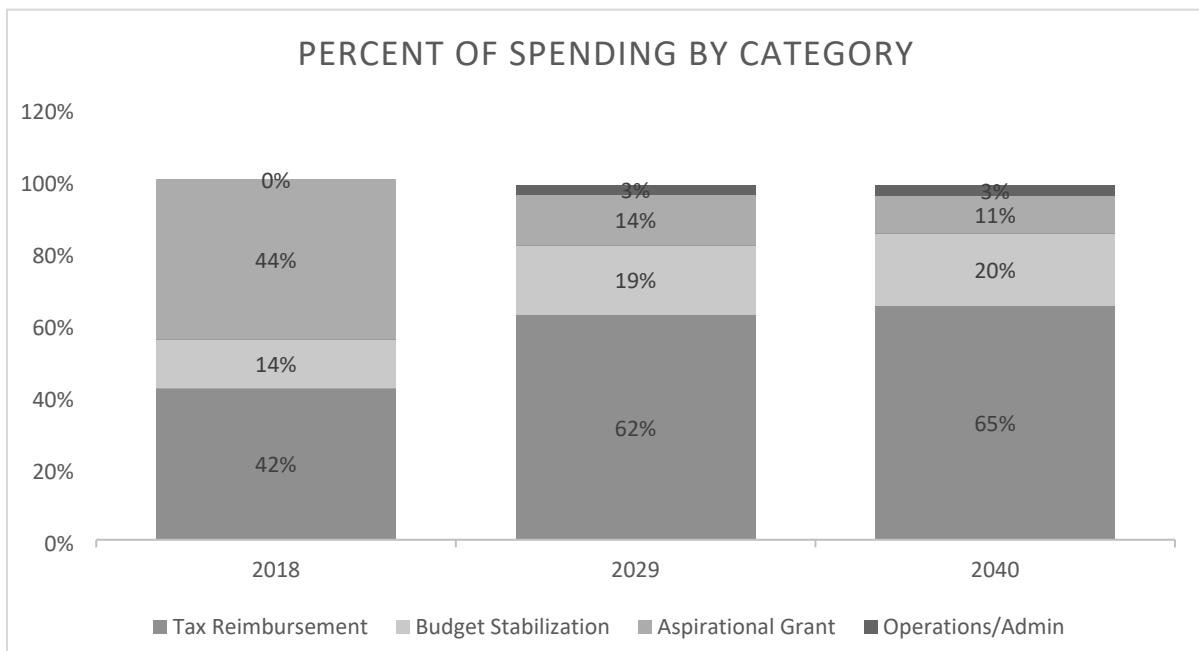


TABLE 8



VI. Other resources of the institution

FFE possesses no other resources.

VII. The investment policy of the institution

The FFE's Investment Policy Statement sets forth the official structure for the Endowment Fund's assets that are expected to produce a sufficient investment return over the long term to meet the FFE's spending objectives while prudently managing risk. As a check on the reasonableness of how risk and return are balanced in the Investment Policy Statement and spending recommendation contained in this memo the FFE's financial advisors conducted an analysis that determines the probability of achieving a >\$500 million at 12.31.2030 given known projected expenses by iterating the scenario 1,000 times with different market conditions, good and bad. FFE's odds of achieving the set targets were established in March 2024 at 67%. The remaining 33% chance of not achieving them is divided evenly as 16.5% chance of having more and 16.5% of having less, with very few of those scenarios failing below \$500 million.

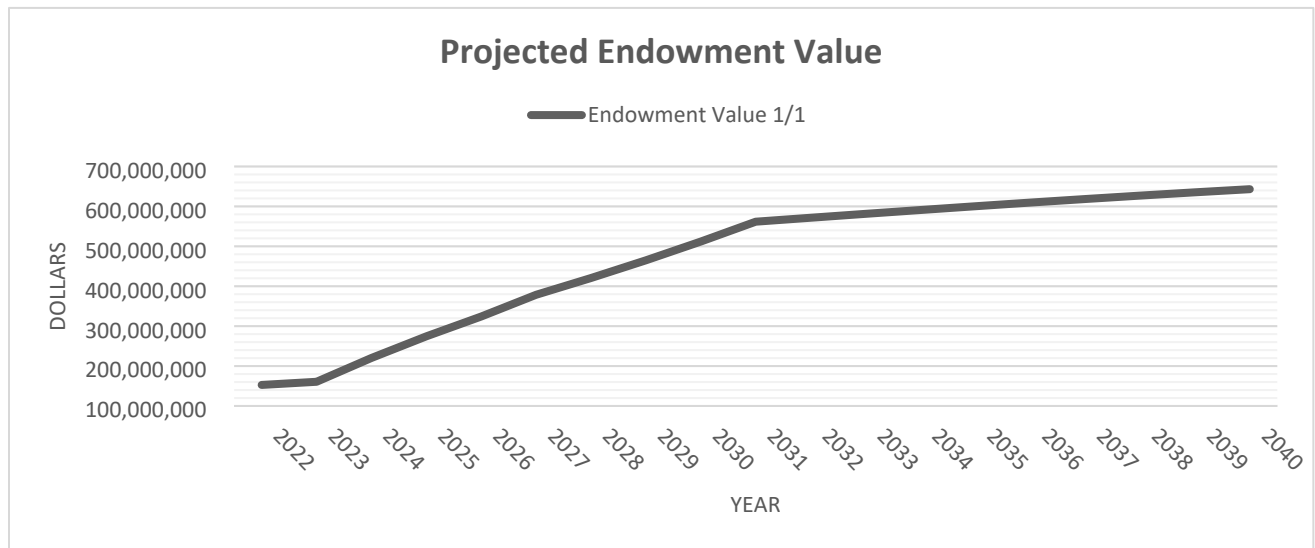
4. SPENDING POLICY CONCLUSION

The grants proposed in this memo present a balanced approach that "an ordinarily prudent person in a like position would exercise under similar circumstances." This approach has a high probability of achieving the required >\$500 million value by 12.31.2030 and maintaining >1% annual growth out to 2040 as shown in **TABLE 9** while maximizing resource availability to the City Kalamazoo.

By contrast, an average increase of just 25% in total Aspirational spending between 2026 to 2040 would result in a 33% reduction of annual net endowment growth in 2040 from 1.19% to 0.80%, well below the >1% target.

The FFE Spending Policy will be revisited annually to update projections with annual earnings and valuations. This memo will be issued on the timeline in Section 5. Continual prudent risk management by FFE decisionmakers will form a healthy endowment to contribute an estimated \$483 million to Kalamazoo from 2025 to 2040 and make such grants possible forever.

TABLE 9



Finally, to give broader context to the Spending Policy conclusion, FFE’s long-term planning has been compared to other non-private foundations, which typically grant 5% of their endowment value each year. As **Table 10** shows, FFE is on average currently significantly exceeding 5% and will remain on average 0.51% above 5% to 2040. Therefore, the FFE Board, City Commission, and broader community can be confident that the FFE is being thoughtful and intentional to make as many resources available as reasonably possible each year and will continue to revisit the topic annually to ensure long term support of the Kalamazoo.

TABLE 10

Projected Averages for the Period Shown	2020-2030	2031-2040
Expenses as a Percent of the Endowment’s Value	8.35%	5.51%

5. TIMELINE FOR FISCAL YEAR 2026 APPROVAL

February 26, 2025 – FFE Investment Subcommittee report for Q4-2024 endowment issued;
 March 30, 2025 – City Tax Assessment Board of review provides estimated Tax information;
 March 31, 2025 – FFE Finance Committee recommends draft 2025 Disbursement amounts;
 April 28, 2025 – FFE Board adopts the draft 2026 Grant disbursement amounts;
 Tentative, June 2, 2025 – Endowment update presentation to the City Commission;
 September 8, 2025 – FFE Finance and Executive Committees review draft 2026 City request;
 September 22, 2025 – FFE Board reviews draft 2025 City request;
 October 6, 2025 – FFE Finance and Executive Committees review 2025 Budget and Grant;
 October 27, 2025 – FFE Board reviews and votes to approve 2025 Budget and Grant;
 January 2026 (First meeting) – City Commission votes to adopt 2025 Budget and Grant.