

**KALAMAZOO FOUNDATION FOR EXCELLENCE**  
**REPORT ON FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2020**

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT .....     | 1-2         |
| FINANCIAL STATEMENTS                   |             |
| Statement of Financial Position.....   | 3           |
| Statement of Activities .....          | 4           |
| Statement of Functional Expenses.....  | 5           |
| Statement of Cash Flows.....           | 6           |
| <br>Notes to Financial Statements..... | <br>7-13    |

---

## INDEPENDENT AUDITOR'S REPORT

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

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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Foundation For Excellence as of December 31, 2020, 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.

*Maney Costeiran PC*

March 25, 2021

**KALAMAZOO FOUNDATION FOR EXCELLENCE  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2020**

|  |                      |
|--|----------------------|
| <b>ASSETS</b>                                |                      |
| Current assets                               |                      |
| Cash and cash equivalents                    | \$ 23,729            |
| Contributions receivable                     | <u>28,119</u>        |
| Total current assets                         | <u>51,848</u>        |
| Noncurrent assets                            |                      |
| Investments                                  | <u>95,765,822</u>    |
| TOTAL ASSETS                                 | <u>\$ 95,817,670</u> |
| <b>LIABILITIES AND NET ASSETS</b>            |                      |
| Current liabilities                          |                      |
| Accounts payable                             | \$ 26,904            |
| Due to City of Kalamazoo                     | <u>1,001</u>         |
| TOTAL LIABILITIES                            | <u>27,905</u>        |
| NET ASSETS                                   |                      |
| Without donor restrictions                   | 95,738,765           |
| With donor restrictions - purpose restricted | <u>51,000</u>        |
| TOTAL NET ASSETS                             | <u>95,789,765</u>    |
| TOTAL LIABILITIES AND NET ASSETS             | <u>\$ 95,817,670</u> |

See accompanying notes to financial statements.

**KALAMAZOO FOUNDATION FOR EXCELLENCE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2020**

|                                  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|----------------------------------|-------------------------------|----------------------------|----------------------|
| SUPPORT AND REVENUE              |                               |                            |                      |
| Contributions                    | \$ 90,003,075                 | \$ 7,227                   | \$ 90,010,302        |
| Investment return, net           | 5,735,690                     | -                          | 5,735,690            |
| <b>TOTAL SUPPORT AND REVENUE</b> | <b>95,738,765</b>             | <b>7,227</b>               | <b>95,745,992</b>    |
| <b>TOTAL EXPENSES</b>            | <b>-</b>                      | <b>-</b>                   | <b>-</b>             |
| <b>CHANGE IN NET ASSETS</b>      | <b>95,738,765</b>             | <b>7,227</b>               | <b>95,745,992</b>    |
| Net assets, beginning of year    | -                             | 43,773                     | 43,773               |
| Net assets, end of year          | <b>\$ 95,738,765</b>          | <b>\$ 51,000</b>           | <b>\$ 95,789,765</b> |

See accompanying notes to financial statements.

**KALAMAZOO FOUNDATION FOR EXCELLENCE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2020**

|                | Program Services          |                          |                              | Supporting<br>Services        |       |
|----------------|---------------------------|--------------------------|------------------------------|-------------------------------|-------|
|                | Operational<br>Assistance | Aspirational<br>Projects | Total<br>Program<br>Services | General and<br>Administrative | Total |
| TOTAL EXPENSES | \$ -                      | \$ -                     | \$ -                         | \$ -                          | \$ -  |

See accompanying notes to financial statements.

**KALAMAZOO FOUNDATION FOR EXCELLENCE  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2020**

|  |                             |
|--|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                             |
| Change in net assets   | \$ 95,745,992               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                             |
| Contributed stock  | (90,003,075)                |
| Realized and unrealized (gain) on investments  | (5,253,856)                 |
| Increase in:   |                             |
| Accounts payable   | 26,403                      |
| Due to City of Kalamazoo   | <u>501</u>                  |
| <br><b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                       | <br><u>515,965</u>          |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                             |
| Purchases of investments   | (81,876,257)                |
| Sales of investments   | <u>81,367,366</u>           |
| <br><b>NET CASH USED BY INVESTING ACTIVITIES</b>   | <br><u>(508,891)</u>        |
| <br><b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                       | <br>7,074                   |
| <br>Cash, beginning of year  | <br><u>16,655</u>           |
| <br>Cash and cash equivalents, end of year   | <br><u><u>\$ 23,729</u></u> |

See accompanying notes to financial statements.



**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. 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.

The Foundation has not made any distributions to the City to date. The first distributions are not anticipated to be made until 2023.

**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 5 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 mainly of amounts due for contributions that have been collected by the City of Kalamazoo but not yet remitted to the Foundation.

**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. At December 31, 2020, the Foundation reported net assets with donor restrictions totaling \$51,000 for aspirational projects within the City of Kalamazoo.

**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 have been 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 will primarily consist of personnel costs, professional fees, and general expenses based on an analysis of wages and management's estimated use of resources. For the year ended December 31, 2020, the Foundation had only supporting services expenses.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**Subsequent Events** - In preparing these financial statements, the Foundation's management has evaluated events and transactions for potential recognition or disclosure through March 25, 2021, 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.

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

**NOTE 4 - 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, 2020, 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  | \$ 23,729                   |
| Contributions receivable  | 28,119                      |
| Investments   | <u>95,765,822</u>           |
| Total financial assets available at year-end  | 95,817,670                  |
| Donor imposed restrictions  |                             |
| Less purpose restricted funds   | <u>(51,000)</u>             |
| Financial assets available to meet cash needs for<br>general expenditures within one year | <u><u>\$ 95,766,670</u></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 5 - 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, 2020.

*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 5 - FAIR VALUE MEASUREMENTS (continued)**

The following is market value summary by the level of inputs used, as of December 31, 2020, 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               | \$ 53,787,912        | \$ -                 | \$ -           | \$ 53,787,912        |
| U.S. fixed income          |                      |                      |                |                      |
| Corporate securities       | -                    | 15,105,259           | -              | 15,105,259           |
| Government and agencies    | -                    | 24,767,853           | -              | 24,767,853           |
| International fixed income |                      |                      |                |                      |
| Corporate securities       | -                    | 2,104,798            | -              | 2,104,798            |
| Total                      | <u>\$ 53,787,912</u> | <u>\$ 41,977,910</u> | <u>\$ -</u>    | <u>\$ 95,765,822</u> |

**NOTE 6 - INVESTMENTS**

The following table summarizes the cost basis and fair value (carrying value) of investments as of December 31, 2020.

|                            | <u>Cost</u>          | <u>Fair Value</u>    |
|----------------------------|----------------------|----------------------|
| U.S. equities              |                      |                      |
| Mutual funds               | \$ 41,159,862        | \$ 53,787,912        |
| U.S. fixed income          |                      |                      |
| Corporate securities       | 14,659,166           | 15,105,259           |
| Government and agencies    | 24,691,205           | 24,767,853           |
| International fixed income |                      |                      |
| Corporate securities       | <u>2,038,992</u>     | <u>2,104,798</u>     |
| Total                      | <u>\$ 82,549,225</u> | <u>\$ 95,765,822</u> |

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

**NOTE 7 - CONTRIBUTIONS RECEIVABLE**

At December 31, 2020, contributions receivable consisted of \$28,119 due from the City of Kalamazoo for contributions collected on behalf of the Foundation.

**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 - UNCERTANTIES**

The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on services, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and results of operations is uncertain.