

city of muskogee  
FOUNDATION



**FINANCIAL STATEMENTS**

**and**

**INDEPENDENT AUDITORS' REPORT**

**June 30, 2012**



***Clothier & Company CPA's P.C.***

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
City of Muskogee Foundation, Inc.  
Muskogee, Oklahoma

We have audited the accompanying statement of financial position of the City of Muskogee Foundation (a nonprofit organization) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 26, 2012, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or

on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Clothier + Company CPA's*

Clothier & Company CPA's  
December 26, 2012

**CITY OF MUSKOGEE FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2012**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$199,931
Investments	115,627,001
Current Portion Loan Receivable	296,521
Interest Receivable	97,489
Total Current Assets	116,220,942

**Other Assets**

Loan Receivable-Long Term	909,706
Total Other Assets	909,706

<b>Total Assets</b>	<b>\$117,130,648</b>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	42,963
Grants Payable-Current	4,025,908
Total Current Liabilities	4,068,871

**Long Term Liabilities**

Grants Payable-Long Term	3,086,211
Total Long Term Liabilities	3,086,211

**NET ASSETS**

Temporarily Restricted	0
Permanently Restricted	0
Unrestricted	109,975,566
	109,975,566

<b>Total Liabilities and Net Assets</b>	<b>\$117,130,648</b>
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See accompanying footnotes and independent auditors' report.

**CITY OF MUSKOGEE FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2012**

**Support and Revenues**

Investment Interest	\$2,649,879
Investment Unrealized Gains	1,142,325
Investment Realized Gains	658,640
Total Revenues	4,450,844

**Program Expenses**

Grant Expense	2,771,174
Total Program Expenses	2,771,174

**Administrative Expenses**

Business Registration Fees	15
Accounting Fees	4,200
Bank Fees	435
Management Fees	339,960
Legal Fees	160
Outside Contract Services	60,404
Insurance Expense	2,385
Total Administrative Expenses	407,559
Total Expenses	3,178,733

**Change in Net Assets**

Temporarily Restricted	0
Permanently Restricted	0
Unrestricted	1,272,111

**Beginning Net Assets** 108,703,455

**Ending Net Assets** \$109,975,566

See accompanying footnotes and independent auditors' report.

**CITY OF MUSKOGEE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2012**

<b>Cash Flows From Operating Activities:</b>	
Increase (Decrease) in Net Assets	\$1,272,111
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	0
Decrease/(Increase) in:	
Note Receivable	(362,300)
(Decrease)/Increase in:	
Accounts Payable	5,173
Grants Payable	<u>(602,686)</u>
Net Cash Provided/(Used) by Operating Activities	<u>312,298</u>
<b>Cash Flows From Investing Activities:</b>	
BancFirst Investments	<u>(306,061)</u>
Net Cash Provided/(Used) by Investing Activities	<u>(306,061)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	6,237
Cash and Cash Equivalents June 30, 2011	<u>193,694</u>
Cash and Cash Equivalents June 30, 2012	<u><u>\$199,931</u></u>

See accompanying footnotes and independent auditors' report.

CITY OF MUSKOGEE FOUNDATION, INC.  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ending June 30, 2012**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The City of Muskogee Foundation (the Foundation) was established as a result of the long term lease of the Muskogee Regional Medical Center (MRMC) operations. MRMC is a public trust under Oklahoma law. The City of Muskogee is the sole beneficiary of this Trust. The Foundation was charged with the management of the funds on behalf of the City of Muskogee. The Foundation's mission is to utilize the earnings from its corpus to work cooperatively with the City of Muskogee to develop, support, promote and improve programs relating to education, arts, culture, community revitalization and beautification, social services, health care, economic development, infrastructure, housing and recreation for the City of Muskogee.

The City of Muskogee is the sole member of the Foundation. As the sole member, it appoints the Board of Directors. The City Council (the City's governing body) appoints 11 or the 13 members of the Board of Directors of the Foundation. The remaining two members serve by virtue of their positions with the city as Mayor and City Manager. Two of the 11 members of the Board appointed by the City Council must be members of the City Council.

Income Taxes

The Foundation was incorporated in the state of Oklahoma on June 24, 2008. Subsequent to incorporation, the Foundation applied for and received tax exempt status under Internal Revenue Service Code Section 501(c)3. Accordingly, no provision for federal or state income taxes has been made

Basis of Accounting

The Foundation maintains its books on the accrual basis of accounting, which is in accordance with Generally Accepted Accounting Principles Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Foundation prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence of absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are required to be classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subjected to donor-imposed stipulations.

## CITY OF MUSKOGEE FOUNDATION, INC.

*Temporarily restricted net assets* – Net assets subjected to donor-imposed stipulations that may or will be met, either by actions of the organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subjected to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the non-profit entity to use all or part of the income earned on any related investments for general or specific purposes.

In addition, under the provisions of FASB ASC 230, the organization is required to present a statement of cash flows.

### **2. MARKETABLE SECURITIES**

The Foundation has adopted FASB ASC 985-230, *Not-for-Profit Entities-Investments-Debt and Equity Securities* that requires investments in equity securities with readily determinable fair values and all investments in debt securities to be initially recorded at (a) acquisition cost (net of brokerage and other transaction fees) if purchased, or (b) fair value if received by contribution or by agency transaction. Thereafter, these investments should be reported in the statement of financial position at fair value, and realized and unrealized gains and losses should be reported in the statement of activities.

### **3. MANAGEMENT AGREEMENT**

The Foundation has entered into a management agreement with the Communities Foundation of Oklahoma, (CFO) an Oklahoma nonprofit corporation, to conduct and oversee the day-to-day operations of the Foundation as well as investment management of funds received. Under the terms of the agreement, CFO receives a monthly fee equal to 1/12<sup>th</sup> of 0.3% times the aggregate market value of the assets of the Foundation as of the last day of each calendar month.

### **4. INVESTMENTS**

The Foundation's investments are composed of stocks, bonds and mutual funds and are carried at fair value. The Foundation uses the Market approach to determine the fair value of its assets. Using this approach, the Foundation measures the fair value of its investments at Level 1 due to the fact they have quoted prices in active markets for identical assets. These are considered cash equivalents as they are not donor restricted. The investments are overseen by investment managers. The managers are provided with the investment policy adopted by the Board of Directors and directed to follow that policy. Additionally, the Foundation maintains an investment committee that provides oversight with regard to the investments.

“Growth and Income” is the Foundation's overall investment objective. The intent of the objective is to provide both current income and future growth to accommodate the Foundation's spending policy plus

CITY OF MUSKOGEE FOUNDATION, INC.

normal inflation, thereby preserving the constant dollar value and purchasing power of the Foundation for future generations.

Investment performance will be reviewed over a five-year time horizon or market cycle, using the most appropriate benchmarks for the types of investments held. The goal of each asset class is to achieve the total return of its benchmark while maintaining a risk level similar to, or less than, that of the benchmark. The overall goal for the Foundation is to achieve a real rate of return after inflation that is equal to the spending rate identified in the spending policy.

The Board expects the Foundation’s asset allocation policy to reflect and be consistent with the investment objectives and risk tolerance expressed throughout the Investment Policy. The following guidelines will be used by the Investment Committee in determining the allocation of the Foundation’s assets:

- Fixed Income – The fixed income equity component, including cash and equivalents, shall normally constitute 35% to 55% of total fund assets.
- Equities – The equity component of the portfolio shall normally constitute 45% to 65% of the total fund assets.

<u>Description</u>	<u>Fair Value at 6/30/2012</u>	<u>Fair Value at 6/30/2011</u>
Cash and Cash Equivalents	\$1,294,032	\$2,330,776
Fixed Income	\$45,295,802	\$46,431,241
Equities	<u>\$69,037,167</u>	<u>\$66,559,068</u>
Total	<u><u>\$115,627,001</u></u>	<u><u>\$115,321,085</u></u>

**5. GRANT INFORMATION**

During the fiscal year ending June 30, 2012 the Foundation approved 31 grants to 21 local applicants and the City of Muskogee totaling \$2,506,110.

**6. CASH AND CASH EQUIVALENTS**

The investments of the Foundation are carried at their fair values. Under this accounting principle, investments are initially recorded at cost. For reporting purposes, the investments are adjusted to their fair value as determined as of the date of the financial statement presentation, and the difference between cost and fair value is recorded as unrealized gains and losses. For purposes of preparing the statement of cash flows, the Foundation considers all Cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Investments with maturities outside of three months are considered either short term or long term investments.

**CITY OF MUSKOGEE FOUNDATION, INC.**

The balance in the checking account at June 30, 2012 was within the federally insured limits.

**7. ESTIMATES**

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

**8. LOAN RECEIVABLE**

On April 26, 2010 the Foundation loaned \$1,200,000 to the City of Muskogee to construct Port Place Road Phase III. The loan is to be paid in 10 semi-annual payments of \$126,689.49 due June 1 and December 1 each year, with the final payment on December 1, 2014. The interest rate is 2%. The City of Muskogee will repay this loan with Sales Tax Ordinance 3812-A (0.18% sales tax to provide revenue for financing and implementing capital improvement projects of the City). The balance as of June 30, 2012 was \$606,227.

On March 2, 2012 the Foundation entered into a lease purchase agreement with Independent School District No. 20 of Muskogee County (Muskogee Public Schools) in the amount of \$600,000 for the acquisition and/or installation of equipment from Field Turf USA, Inc. The lease is payable in annual payments of \$72,996.18 for the first payment on June 15, 2013 and \$87,595.41 for the next five payments and a final payment of \$187,717.69 on June 15, 2019. The interest rate is 3.95%. The balance as of June 30, 2012 was \$600,000.

**9. RELATED PARTY TRANSACTIONS**

During the fiscal year ending June 30, 2012 the Foundation had the following related party transactions: The City of Muskogee interest income of \$15,696 and disbursement of \$249,000 grants.

**10. SUBSEQUENT EVENTS**

Subsequent events have been considered through the date of the Independent Auditors' Report which is the date the financial statements were issued.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Directors of  
City of Muskogee Foundation, Inc.  
Muskogee, Oklahoma

We have audited the financial statements of the City of Muskogee Foundation, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPAs".

Clothier & Company CPA's  
December 26, 2012