

***CITY OF MUSKOGEE FOUNDATION, INC.***

***FINANCIAL REPORT  
TOGETHER WITH AUDITOR'S REPORT***

***FOR THE YEAR ENDED JUNE 30, 2010***

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**KATHY HEWITT, CPA, INC., P.C.**

**Certified Public Accountant**

918.682.8529 • Fax 918.682.4176

web: kathyhewittcpa.com • email: khewitt@hewittcpainc.com

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of  
City of Muskogee Foundation Inc.

We have audited the accompanying statement of financial position of the City of Muskogee Foundation, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 above present fairly, in all material respects, the financial position of City of Muskogee Foundation Inc., as of June 30, 2010, 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.



Kathy Hewitt CPA Inc., PC

October 5, 2010

**CITY OF MUSKOGEE FOUNDATION  
STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>June 30, 2010</b>
<b>Current Assets</b>	
Cash in Bank	\$ 337,492.11
Cash in Investments	\$ 98,624,158.72
Total Cash and Cash Equivalents	<u>\$ 98,961,650.83</u>
Interest Receivable on Investments	\$ 118,833.06
Loan Receivable - current	<u>\$ 234,837.66</u>
Total Current Assets	<u>\$ 99,315,321.55</u>
<b>Long Term Assets</b>	
Loan Receivable - long term	<u>\$ 842,523.13</u>
Total Long Term Assets	<u>\$ 842,523.13</u>
TOTAL ASSETS	<u><u>\$ 100,157,844.68</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Administrative fees payable	\$ 25,010.00
Grants payable - current	<u>\$ 2,494,861.00</u>
Total Current Liabilities	<u>\$ 2,519,871.00</u>
<b>Long Term Liabilities</b>	
Grants payable - long term	<u>\$ 2,100,000.00</u>
Total Long Term Liabilities	<u>\$ 2,100,000.00</u>
Total Liabilities	\$ 4,619,871.00
<b>NET ASSETS</b>	
Unrestricted	\$ 95,537,973.68
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 100,157,844.68</u></u>

The Notes to Financial Statements are an integral part of these statements

**CITY OF MUSKOGEE FOUNDATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

**OPERATING INCOME**

Unrestricted Contributions	<u>\$ 12,300,000.00</u>
Total Operating Income	\$ 12,300,000.00

**OPERATING EXPENSES**

Accounting fees	\$ 2,900.00
Bank fees	\$ 329.00
Registration fees	\$ 15.00
Legal fees	\$ 8,008.60
Insurance (Director's and Officers)	\$ 2,174.00
Management Fees	\$ 286,500.00
Muskogee Office	\$ 12,000.00
Outside Contract Services	\$ 2,145.00
Grants	<u>\$ 6,160,541.00</u>
Total Operating Expenses	<u>\$ 6,474,612.60</u>
Net Operating Income over Operating Expenses	\$ 5,825,387.40

**OTHER INCOME AND EXPENSE**

Investment income	\$ 2,459,346.33
Realized gains on investments	\$ 255,784.59
Unrealized gains on investments	<u>\$ 5,899,923.39</u>
Total Other Income and Expense	<u>\$ 8,615,054.31</u>
Total Change in Net Assets - Unrestricted	\$ 14,440,441.71
Net Assets Beginning of the Year - Unrestricted	<u>\$ 81,097,531.97</u>
Net Assets End of Year - Unrestricted	<u><u>\$ 95,537,973.68</u></u>

The Notes to Financial Statements are an integral part of these statements

**CITY OF MUSKOGEE FOUNDATION  
STATEMENT OF CASH FLOWS**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>June 30, 2010</b>
Increase in Net Assets	\$ 14,440,441.71
Adjustments to reconcile increase in net assets to cash provided by operating activities:	
Unrealized gains in investments	\$ -
(Increase) decrease in operating assets:	
Investment income receivable	\$ (14,227.70)
Loan receivable	\$ (1,077,360.79)
Increase (decrease) in operating liabilities:	
Administrative fees payable	\$ 2,411.00
Grants payable	<u>\$ 3,432,923.00</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 16,784,187.22
 CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of short term investments	<u>\$ 14,033,358.15</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ 14,033,358.15</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 \$ 30,817,545.37
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>\$ 68,144,105.46</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 98,961,650.83</u></u>

The Notes to Financial Statements are and integral part of these statements

**NOTES TO FINANCIAL STATEMENTS  
CITY OF MUSKOGEE FOUNDATION  
JUNE 30, 2010**

**NATURE OF THE ORGANIZATION AND SUMMARY OF 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. Muskogee Regional Medical center 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 of 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.

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.

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. The following summarizes the more significant accounting policies employed by the organization:

*Financial statement presentation*

The organization 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 organization 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,

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF MUSKOGEE FOUNDATION**  
**JUNE 30, 2010**

and permanently restricted net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are required to be classified and reported as follows:

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

*Temporarily restricted net assets* – Net assets subject 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 subject 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 SFAS No. 117, the organization is required to present a statement of cash flows.

**MARKETABLE SECURITIES**

The Foundation has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations", as amended by SFAS No. 157 "Fair Value Measurements". Under SFAS No. 157, investments in marketable securities, other assets and liabilities are reported at their fair values in the statement of financial position in accordance with a prioritized three tier level of assurance of value. The valuation premise used to measure the fair value of securities, other assets and liabilities depends on the highest and best use of the securities and other assets by market participants. Level 1, the highest priority, includes those marketable securities, other assets and liabilities whose values are quoted in active markets of identical assets or liabilities. The Foundation's marketable securities fall in this category. Unrealized gains and losses are included in the statement of activities.

**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 .3% times the aggregate market value of the assets of the Foundation as of the last day of each calendar month.



**NOTES TO FINANCIAL STATEMENTS  
CITY OF MUSKOGEE FOUNDATION  
JUNE 30, 2010**

**INVESTMENT INFORMATION**

Investments are composed of stocks, bonds and mutual funds and are carried at fair value. See the explanation of fair value measurements included in the Marketable Securities. 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. These 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.

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

<u>Description</u>	<u>Fair Value at 6/30/10</u>
Cash and Cash Equivalents	\$ 2,203,463.79
Fixed Income	\$46,626,977.58
Equities	<u>\$49,793,717.35</u>
Total	\$98,624,158.72

**NOTES TO FINANCIAL STATEMENTS  
CITY OF MUSKOGEE FOUNDATION  
JUNE 30, 2010**

GRANT INFORMATION

During the year ending June 30, 2010, the Foundation approved 50 grants to 32 local applicants and the City of Muskogee totaling \$6,160,541.

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 organization 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.

The balance in the checking account at June 30, 2010 was in excess of federally insured limits. Funds had been transferred for grants approved and checks written, but the checks had not yet cleared the bank.

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.

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 repaid in 10 semi-annual payments of \$126,698.49. The payment dates are 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).

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF MUSKOGEE FOUNDATION**  
**JUNE 30, 2010**

RELATED PARTY TRANSACTIONS

The City of Muskogee Foundation received funds from the City of Muskogee as follows:

Unrestricted Contributions	\$12,300,000.00
Interest Income	\$ 4,059.28

The City of Muskogee Foundation disbursed funds to the City of Muskogee as follows:

Grants	\$ 655,000.00
Loan Receivable	\$1,200,000.00

SUBSEQUENT EVENTS

Subsequent events have been considered through the date of Independent Auditor's Report on page 1 which is the date the financial statements were issued.

\$15,000 grant to Beckman Park was not funded as they did not qualify for the matching state grant. This amount was subsequently granted to the Muskogee Public Schools Junior Achievement project.

\$2,000,000 grant to Muskogee Public Schools was not funded as they subsequently did not qualify for the federal grant that required the match.

**KATHY HEWITT, CPA, INC., P.C.**

**Certified Public Accountant**

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web: kathyhewittcpa.com • email: khewitt@hewittcpainc.com

**INDEPENDENT AUDITOR'S REPORT  
ON ADDITIONAL INFORMATION**

To The City of Muskogee Foundation

Our report on our audit of the basic financial statements of the City of Muskogee Foundation for the year ended June 30, 2010, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information presented on pages 11 - 14 are presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has not been audited by us and therefore we express no opinion on them.

*Kathy Hewitt, CPA, Inc. PC*

Kathy Hewitt CPA, Inc., PC

October 5, 2010



### Opportunities Committee

Organization Name	Project	Approved Amount
MCCOYS	Partial funding for the Summer Adventure Program, which takes at-risk students on a camping adventure.	\$5,000
STAND	Partial funds for the Summer Program, which provides a safe haven for area youth through supervised recreational activities, educational activities and mentoring programs that promotes character development and training for behavior management	\$10,000
City of Muskogee	Funds for the Housing Rehabilitation Neighborhood Revitalization Program, which will help up to facilitate the rehabilitation and restoration of borderline derelict structures located within the Original Townsite requiring minimal rehabilitation.	\$200,000
Friends of Honor Heights Park	Funds for the construction of the Teaching Gardens & Butterfly Sanctuary, as long as FHHP matches with their own fundraising	\$200,000
Housing Authority	Funds for the Deposit Assistance Program, which assists in paying deposits for people to get into housing in Muskogee.	\$20,000
Muskogee Little Theater	Funds to go toward the MLT Capital Project. Pledges of \$500,000 promised in 2011 and 2012, as long as MLT matches each year in their own fundraising.	\$1,500,000
Muskogee Nonprofit Resource Center	Funds for the Community Resource Development Project, which includes salary funds for the Grant Writer, PR/Marketing, and intern staff.	\$59,500
Muskogee Public Library	Funding for the comprehensive building proposal for the future of the Muskogee Public Library. An additional \$145,000 is pledged for 2011	\$290,000
Muskogee Round Up Club	Funds for their Improvement Plan, which includes renovations of the Concession Stand, new bleachers for safety reasons, etc.	\$15,000
OK Music Hall of Fame	Funds to pay partial salaries for the Administrative Staff Expansion, to include the Executive Director, Facilities Coordinator, Associate, PR/Marketing staff.	\$50,000
Robison Park Community Assoc.	Funds for the Robison Park Development Project, to include picnic shelter, gazebo, and basketball courts.	\$100,000
Three Rivers Museum	Funds for operational support for 2010	\$15,000
Volunteers of America	Salary for the project coordinator of We Care Transportation, a program that utilizes the tools available through RSVP to help the elderly citizens of Muskogee access medical services.	\$25,000

**TOTAL OPPORTUNITIES: (9) \$2,489,500**



### Health and Wellness Committee

Organization Name	Project	Amount Approved
Muskogee Parks and Recreation	Centennial Trail Phase IV (Approved in 2009)	\$50,000
Kelly B Todd Cerebral Palsy & Neuro Muscular Foundation	Contruction of a Therapeutic Fitness Track (Approved 2009)	\$32,000
Muskogee Parks and Recreation	Beckman Park improvements, pending a State grant	\$15,000
Muskogee Public Schools	Personel costs for the School Based Health Clinic to stay open during the summer months of 2010.	\$50,473
Muskogee Swim and Fitness	Funds for the Summer day camp "Wise Kids Youth Camp" which includes lessons on Energy Balance, The Food Pyramid, Calories, Food Labels, The Heart, The Body, Activity, Wise Kid Graduation and Balance in Action.	\$2,000
CASA	Salary for one Case Worker, who helps to provide more direct supervision and better training for CASAs, therefore growing the program and helping more children	15,000
Frist Baptist Church of Muskogee	Funds will go towards the Free Clinic which is open to the public on Monday evenings. Funds will assist with the rent, utilities, medical equipment, office equipment.	62,200
Good Shepherd Medical Clinic	Funds to support the Diabetic needs at the clinic, to include purchasing diabetic test strips to give to patients, as well as diabetic shoes.	16,200
Hilldale Public Schools	Funds for their program "Fighting the Good Fight of Fat", which will include purchasing gym class equipment such as a tricycles, dumbell sets, exercise games, etc.	45,000
Muskogee Civitan Club	Funds for the Handicap Accessible Playground Phase II, purchases to include playground equipment	94,000
Muskogee Kids Space	Operational expenses for 2010, due to an legislative vote which changed funding.	40,000
Muskogee Co. Community Action Fdn.	Funds to support the Elderly and Low Income Feeding Program, to include the Back Pack program for kids, Meals on Wheels, etc.	100,000
Muskogee Health Dept	Partial funding for the Muskogee Wellness Initiative, to include salary for a Wellness Coordinator, Marketing budget, training, speakers, educational materials etc.	60,000
Muskogee Housing Authority	Funds for Whispering Pines Playground structure, which will promote an active, healthier lifestyle for children in the neighborhood	26,500
Muskogee Parks and Rec	Love Hatbox Skate Park renovations, including converting the wood-framed ramp to steel, which will handle the weather better, and stay safe for the kids	120,000
WISH	Funds for the Children's Recreational Program, which will give children a safe place to play outside, while staying at WISH (includes privacy fence, play ground equipment)	21,500

**TOTAL HEALTH & WELLNESS: (10) \$749,873**



**Education Committee**

Organization Name	Project	Amount Approved
Bacone College	Partial funding for Bacone's Summer Bridge Program, which gives American Indian students who may not have been accepted to college, a chance to take classes in the summer, and go on to Bacone College in the fall.	\$10,000
God's Desire Learning Center	Purchasing computers, listening stations, headsets, and other related material for the literacy program "ABC Jump Start"	\$7,750
Muskogee Day Nursery	Funding for salaries, art supplies, and musical equipment for their Summer Camp.	\$8,500
Muskogee Parks and Recreation	Youth Volunteer Corps Summer of Service, including paying Student Team Leaders, and other related materials	\$10,000
Muskogee Public Schools	Partial funding for coordinators, instructors and student-aides, for Rougher Summer Pride, a summer day camp open to ALL MPS youth, where academics and sports are both areas of emphasis.	\$80,000
Girl Scouts	Funding for "Powered Up!" which is a program at the Alternative School, with a focus on 7th-12th grade girls, that emphasizes anti-bullying, self-esteem, goal setting, etc	\$6,600
Girl Scouts	Public Housing Outreach Program, partial funding for salaries and related expenses for Girl Scouts in Public Housing areas	\$20,000
Muskogee Day Nursery	Funding for equipment and curriculum for the Reading, Math, and Science Lab	\$8,000
Muskogee Kids Space	Protective Parenting Class, funding facilitators, materials, mileage, etc.	\$13,743
Muskogee Public Schools	Partial funding for student fees, teacher fees, and other related materials for the 7th Grade Rougher Outdoor Camp	\$49,575
Muskogee Public Schools	Funds for the Covey Leadership Program for teachers at MPS, to include professional development sessions, student materials, etc.	\$22,000
Muskogee Public Schools	Activies for students and teachers to participate in together, as part of the Student/Teacher Advocacy Program, which has proven to decrease drop-out rates, improve student/teacher relations etc.	\$10,000
Muskogee Public Schools	Project CAST is a program that emphasizes on decision making, problem sloving and relationship skills. Funding goes towards Second Step, Operation Aware and Botvin Life Skills curriculum.	\$61,000



Muskogee Public Schools	Project COARS (Creating Opportunities for At Risk Students) provides an at risk counselor for the 7th and 8th Grade Center who will work with an intervention team which will focus on students at risk.	\$63,000
Muskogee Public Schools	Funding for all 5th graders in MPS to attend Junior Achievement's BizTown, as well as have access to all the corresponding curriculum.	\$16,000
Muskogee Teen Center	Funding for the Muskogee Teen Center, which will be focusing on Education, Health and Recreation and the Arts.	\$160,000
Oklahoma School for the Blind	Funding for OSB students to participate in various Student Activities, such as Space Camp, National Braille Challenge, and sports competitions	\$10,000
St. Joseph Schools	Funds will go to help the school continue to accept students, and offer scholarships to help pay for tuition.	\$50,000
Venae, Inc	Prized Princesses is a program that teaches young girls in MPS Self-Esteem, Etiquette, Resume Writing, Interviewing, and Financial Literacy.	\$30,000
Muskogee Public Schools	Provide ten \$1,000 scholarships to Muskogee students, through the Muskogee Parent Teacher Association	\$10,000
Muskogee Public Schools	MPS is applying for a \$8 million grant to become a S.T.E.M. school, and needed a 20% local match. The Foundation has agreed to pay \$2 million over 5 years if the grant is made.	\$2,000,000

**TOTAL EDUCATION: (20) \$2,646,158**

**Economic Development Committee**

Organization Name	Project	Amount Approved
City of Muskogee	Funds for reconstruction/expansion of the Davis Field Airport terminal	\$275,000

Total Health and Wellness (10) \$749,873  
 Total Opportunities (9) \$2,489,500  
 Total Education: (20) 2,646,158  
 Total Economic Development: (1) 275,000

**TOTAL CoMF Recommendations (39) \$6,160,531**