

city of muskogee
FOUNDATION



FINANCIAL STATEMENTS

and

INDEPENDENT AUDITORS' REPORT

June 30, 2014



Clothier & Company CPA's P.C.

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City of Muskogee Foundation, Inc.
Table of Contents
June 30, 2014

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-10
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12



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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the City of Muskogee Foundation, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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.

Auditors' 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 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 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 the City of Muskogee Foundation, Inc. as of June 30, 2014, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company CPA's
November 6, 2014

City of Muskogee Foundation
Statement of Financial Position
June 30, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$	35,419
Interest receivable		14,625
Current portion loan receivable		1,011,443
Total Current Assets		1,061,487

Fixed Assets

Furniture and equipment		2,036
Accumulated depreciation		(712)
Total Fixed Assets		1,324

Other Assets

Investments		136,517,628
Loan receivable-LT		408,776
Total Other Assets		136,926,404

Total Assets	\$	137,989,215
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	40,601
Grants payable-current		5,165,765
Total Current Liabilities		5,206,366

Long Term Liabilities

Grants payable-long term		12,229,817
Total Long Term Liabilities		12,229,817

Net Assets

Temporarily restricted		0
Permanently restricted		0
Unrestricted		111,869,144
Increase (Decrease) in Net Assets		8,683,888
Total Net Assets		120,553,032

Total Liabilities and Net Assets	\$	137,989,215
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See accompanying footnotes and independent auditors' report.

City of Muskogee Foundation
Statement of Activities
June 30, 2014

UNRESTRICTED NET ASSETS

Revenues and Gains	
Investment Interest	\$ 2,434,087
Investment Unrealized Gains	(1,294,586)
Investment Realized Gains	16,786,781
Total Revenues	<u>17,926,282</u>
Program Expenses	
Grant Expense	8,761,574
Total Program Expenses	<u>8,761,574</u>
Administrative Expenses	
Printing and copying	1,410
Business registration fees	0
Accounting fees	5,000
Bank fees	710
Management fees	398,302
Legal fees	1,020
Outside contract services	69,023
Insurance expense	4,948
Travel and meetings	0
Depreciation expense	407
Total Administrative Expenses	<u>480,820</u>
Total Expenses	<u>9,242,394</u>
Increase (Decrease) in Net Assets	
Temporarily Restricted	0
Permanently Restricted	0
Unrestricted	8,683,888
Beginning Net Assets	<u>111,869,144</u>
Ending Net Assets	<u><u>\$ 120,553,032</u></u>

See accompanying footnotes and independent auditors' report.

City of Muskogee Foundation
Statement of Cash Flows
June 30, 2014

Cash Flows From Operating Activities:	
Increase (Decrease) in Net Assets	\$8,683,888
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	407
Decrease/(Increase) in:	
Receivables	(446,536)
(Decrease)/Increase in:	
Accounts Payable	(3,801)
Grants Payable	<u>3,068,668</u>
Net Cash Provided/(Used) by Operating Activities	<u>11,302,626</u>
Cash Flows From Investing Activities:	
BancFirst Investments	(11,564,625)
Purchase of fixed assets	<u>0</u>
Net Cash Provided/(Used) by Investing Activities	<u>(11,564,625)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(261,999)
Cash and Cash Equivalents June 30, 2013	<u>297,418</u>
Cash and Cash Equivalents June 30, 2014	<u><u>\$35,419</u></u>
Interest expense	<u><u>\$0</u></u>

See accompanying footnotes and independent auditors' report.

CITY OF MUSKOGEE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ending June 30, 2014

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 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.

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.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

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 FASB ASC 958-205-55, *Not-for-Profit Entities-Presentation of Financial Statements-Implementation Guidance and Illustrations*. Under FASB ASC 958-205-55, 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

CITY OF MUSKOGEE FOUNDATION, INC.

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.

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 1/12th 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

CITY OF MUSKOGEE FOUNDATION, INC.

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 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.

	Fair Value at 6/30/2014	Fair Value at 6/30/2013
Cash and Cash Equivalents	\$2,418,345	\$1,713,097
Fixed Income	\$57,546,422	\$53,100,250
Equities	<u>\$76,552,861</u>	<u>\$70,139,656</u>
Total Investments	<u><u>\$136,517,628</u></u>	<u><u>\$124,953,003</u></u>

5. GRANT INFORMATION

During the fiscal year ending June 30, 2014 the Foundation approved 47 grants to 36 local applicants and the City of Muskogee totaling \$7,316,021 and wrote off \$142,362 in previously approved grants.

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

CITY OF MUSKOGEE FOUNDATION, INC.

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.

The balance in the checking account at June 30, 2014 was all covered by FDIC.

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, 2014 was \$114,904.

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, 2014 was \$478,719.

On February 25, 2013 the Foundation agreed to loan the Muskogee Redevelopment Authority up to \$1.1 million dollars to purchase property located near the intersection of State Highway 69 and Shawnee Bypass. On September 16, 2013 the Authority purchased the real property for \$826,596. Payments of interest in the amount of \$27,500 (2.5%) will be made annually for five years beginning February 25, 2014 and ending February 28, 2018 at which time the principal of \$826,596 is due for payment in full of the note obligation. The loan was paid in full on July 1, 2014.

The current maturities below shows the payoff of the loan in 2015 instead of in 2018 as originally agreed upon.

CITY OF MUSKOGEE FOUNDATION, INC.

The current maturities are as follows:

2015	\$1,011,443
2016	72,757
2017	75,683
2018	78,727
2019	181,609
Thereafter	<u>0</u>
Total	1,420,219
Current portion loan receivables	<u>(1,011,443)</u>
Loan receivables	<u><u>\$408,776</u></u>

9. RELATED PARTY TRANSACTIONS

During the fiscal year ending June 30, 2014 the Foundation had the following related party transactions:

- Received from the City of Muskogee interest income of \$77,365
- Paid the City of Muskogee \$3,016,324 in grant monies
- Awarded the City of Muskogee \$3,816,189 in grants.

10. SUBSEQUENT EVENTS

Subsequent events have been considered through the date of the Independent Auditors' Report, November 6, 2014, which is the date the financial statements were issued.



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INDEPENDENT AUDITORS' 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.

We have audited, in accordance with the 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, the financial statements of the City of Muskogee Foundation, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control 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 that might be or material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company CPA's
November 6, 2014