

CITY OF MUSKOGEE  
FOUNDATION, INC.

FINANCIAL REPORT

June 30, 2018

# *Luton & Co., PLLC*

## CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
City of Muskogee Foundation, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of City of Muskogee Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets 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 City of Muskogee Foundation, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Luton & Co., PLLC*

Oklahoma City, Oklahoma  
March 1, 2019

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of cash flows	5
Notes to financial statements	6-11

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

Cash and cash equivalents	\$ 3,239,525
Interest receivable	250,968
Accounts receivable	9,451
Marketable securities	125,698,603
Notes receivable	10,166,064
Furniture and equipment, net of accumulated depreciation of \$2,036	<u>-</u>
	<u>\$ 139,364,611</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 44,207
Accrued interest payable	426,786
Notes payable	11,441,548
Grants payable	<u>9,946,774</u>
	21,859,315

NET ASSETS

Unrestricted	<u>117,505,296</u>
	<u>\$ 139,364,611</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENT OF ACTIVITIES  
Year ended June 30, 2018

Revenues	
Interest and dividends	\$ 3,077,722
Unrealized gains (losses)	(1,138,063)
Realized gains	6,376,045
Contributions	6
	<hr/>
	8,315,710
Expenses	
Grant expense	4,908,001
Advertising	24,377
Legal and accounting	5,975
Management fees	440,105
Outside contract services	74,125
Insurance expense	5,906
Facilities and equipment rent	750
Interest expense	510,558
Depreciation expense	103
Bank fees	89
	<hr/>
	5,969,989
Increase in net assets	2,345,721
Net assets, beginning of year	<hr/>
	115,159,575
Net assets, end of year	<hr/>
	\$ 117,505,296

The Notes to Financial Statements are an integral part of this statement.

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended June 30, 2018

Cash flows from operating activities:	\$ 2,345,721
Change in net assets	
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	103
(Gains) losses in investments	(5,237,982)
(Increase) decrease in interest receivable	99,990
(Increase) decrease in accounts receivable	(9,451)
(Increase) decrease in notes receivable	340,532
Increase (decrease) in accounts payable	2,778
Increase (decrease) in accrued interest payable	149,538
Increase (decrease) in grants payable	704,421
Net cash provided (used) by operating activities	<u>(1,604,350)</u>
 Cash flows from investing activities:	
Proceeds from sales and maturities of marketable securities	24,565,341
Purchase of marketable securities	<u>(18,210,427)</u>
Net cash provided (used) by investing activities	<u>6,354,914</u>
 Cash flows from financing activities:	
Proceeds from loan	596,712
Payment of principal	<u>(2,151,000)</u>
Net cash provided (used) by financing activities	<u>(1,554,288)</u>
 Net increase in cash	3,196,276
 Cash and cash equivalents, beginning of year	<u>43,249</u>
 Cash and cash equivalents, end of year	<u>\$ 3,239,525</u>
 Interest expense paid	<u>\$ 361,020</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Organization and Summary of Significant Accounting Policies

Organization

City of Muskogee Foundation, Inc. (the Foundation) was established as a result of the long term lease of 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 its resources 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 eleven of the thirteen 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 eleven members of the board appointed by the City Council must be members of the City Council.

Basis of presentation

Financial statement presentation follows generally accepted accounting principles and reports information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation has only unrestricted net assets.

Investment and investment return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Receivables

The Foundation charges any uncollectable accounts directly to current operations. All accounts at June 30, 2018 are thought to be collectible.

Property and equipment

Maintenance and repairs which do not improve or extend the useful lives of the assets are expensed as incurred. Additions and betterments greater than \$2,000 are capitalized. Upon retirement or replacement, the costs and accumulated depreciation are removed from the respective accounts and the differences are included in changes in net assets.



CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Organization and Summary of Significant Accounting Policies, continued

Property and equipment, continued

Fixed assets are recorded at cost or fair value, if donated, and depreciated using the straight-line method over the estimated useful life as follows:

Office equipment	5 years
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Depreciation expense for the year ending June 30, 2018 is \$103.

Income tax status

The Foundation has been granted exemption from taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 2. Marketable Securities and Fair Value

Investments are measured at fair value in the statement of financial position. Realized and unrealized gains and losses are reported in the statement of activities and changes in net assets. Accounting standards establish a three-level hierarchy for the valuation of financial instruments:

Level I – Quoted priced in active markets for identical assets or liabilities.

Level II – Observable inputs other than Level I prices, such as quoted prices for similar asset or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Foundation’s marketable securities consist primarily of mutual funds and equities. A summary of the marketable securities as of June 30, sorted by hierarchy, is as follows:

Mutual Funds (Level I)	Cost	Market Value
Equity		
Vanguard Institutional Index Inst	\$ 9,129,450	\$28,027,587
Vanguard Mid-Cap Index Trust	5,034,069	7,014,178
Vanguard Small-Cap Value Index Inst	4,137,622	5,588,716
Vanguard Tot Int’l Stk Indx Cl Inst	14,377,215	13,737,452
Vanguard Value Index Inst	4,303,990	10,481,777
Vanguard Small-Cap Value ETF	1,709,260	4,934,473
Fixed Income		
Goldman Sachs Strg Income Instl	3,969,604	3,811,738
Pimco Moderate Duration Instl	20,640,443	19,592,600
Vanguard Short Term Bond Index Inst	17,042,471	16,774,509
Vanguard Total Bond Market Inst	<u>15,628,427</u>	<u>15,735,573</u>
	<u>\$95,972,551</u>	<u>\$125,698,603</u>

CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 2. Marketable Securities and Fair Value, continued

Unrealized losses arising during the year totaling \$1,138,063 have been included in the accompanying statement of activities and changes in net assets. Realized gains of \$6,376,045 are also included in the statement of activities. Total proceeds from security sales were \$24,565,341 and the gain or loss was determined using the specific identification method.

The investments are overseen by investment managers which have been 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 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 total 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.

Note 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. Total management expense for the year ended June 30, 2018 was \$440,105.

CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Grants Payable

During the year, the Foundation approved 37 grants to 21 local applicants and the City of Muskogee.

A summary of the grants payable activity is as follows:

Grants payable, July 1, 2017	\$9,242,353
Grants awarded	4,908,001
Disbursements	<u>(4,203,580)</u>
Grants payable, June 30, 2018	<u>\$9,946,774</u>

Note 5. Notes Receivable

The notes receivable at December 31, 2018 consist of the following:

Notes receivable (A)	\$ 181,609
Notes receivable (B)	5,500,000
Notes receivable (C)	812,809
Notes receivable (D)	<u>3,671,646</u>
	<u>\$10,166,064</u>

- (A) Lease purchase agreement with Independent School District No. 20 (Muskogee Public Schools). Due in seven annual payments including interest at 3.95%. Matures on June 15, 2019.
- (B) Loan to the Muskogee Urban Renewal Authority to purchase real property for redevelopment. Payments of interest only to be made semi-annually for twenty years at prime rate less .25 basis points. Matures on January 27, 2035 and shall be payable in a single principal payment of \$5,500,000 plus any accrued and unpaid interest.
- (C) Loan to Muskogee Redevelopment Authority for capital improvement projects; due in sixty monthly installments including interest at prime rate less .25 basis points. Matures on January 30, 2020.
- (D) Loan to Muskogee Redevelopment Authority to purchase land near State Highway 69 and Shawnee Bypass; payments of interest only to be made annually for five years at prime rate less .25 basis points. Matures on March 1, 2020.

CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 6. Functional Expenses

Generally accepted accounting principles require a presentation of expenses on a functional basis. The costs of providing program services and other activities have been summarized below. Certain costs have been allocated among the program and supporting services benefited.

Program Services	\$4,933,792
Support Services	
Management and General	1,036,197
Fundraising	-
	<u>\$5,969,989</u>

Note 7. Related Party Transactions

During the fiscal year ending June 30, 2018, the Foundation had the following related party transactions with the City of Muskogee and its Authorities:

Interest income	\$ 339,211
Grants disbursed	1,417,319
Grants awarded	1,617,606

Note 8. Notes Payable

The Foundation was obligated on the following notes at June 30, 2018. All of the loans are collateralized by investments.

Note payable to BancFirst for capital improvements. Variable interest rate of .25% under prime. Annual payments of accrued unpaid interest are due each year on January 23. Outstanding principal and all accrued unpaid interest due on January 23, 2020.	\$ 813,000
Note payable to BancFirst to fund Muskogee Little Theatre building construction grant. Variable interest rate of .25% under prime. Ten annual principal payments of \$500,000 and one payment of principal and interest of \$412,682 due on July 15, 2025.	4,320,398
Note payable to BancFirst to fund the Urban Renewal Authority grant for acquisition of property on Shawnee Bypass. Variable interest rate of .25% under prime. Nine annual principal payments of \$400,000 and one payment of principal and interest of \$412,000 due on July 15, 2024.	4,300,000
Note payable to BancFirst to fund construction of a new building for the Martin Luther King Center. Variable interest rate of .25% under prime. Nine annual principal payments of \$251,000 and one final payment of principal and interest of \$258,789 due August 15, 2025. Regular annual payments of accrued unpaid interest are also due.	<u>2,008,150</u>
	<u>\$11,441,548</u>

CITY OF MUSKOGEE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Notes Payable, continued

Future maturities as of June 30 are as follows:

	Current Maturities
2019	\$ 1,151,000
2020	1,964,000
2021	1,151,000
2022	1,151,000
2023	1,151,000
Thereafter	<u>4,873,548</u>
	<u>\$11,441,548</u>

Note 9. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of March 1, 2019, the date the report was available to be issued, and has determined that no additional events occurred which would require disclosure in these financial statements.