city of muskogee FOUNDATION

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITORS' REPORT

June 30, 2017

Clothier & Company CPA's P.C.

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City of Muskogee Foundation, Inc.
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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. (the Foundation),(a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 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 the City of Muskogee Foundation, Inc. as of June 30, 2017, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 10, 2018, 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Clothier + Company CPA's

Clothier & Company CPA's
May 10, 2018

City of Muskogee Foundation
Statement of Financial Position
June 30, 2017

ASSETS

Current Assets		
Cash and cash equivalents	$	43,249
Interest receivable		350,958
Current portion loan receivable		154,411
Total Current Assets		548,618
Fixed Assets		
Furniture and equipment		2,036
Accumulated depreciation		(1,933)
Total Fixed Assets		103
Other Assets		
Investments		126,815,535
Loan receivable-LT (net allowance)		10,506,596
Less: Current portion loan receivable		(154,411)
Total Other Assets		137,167,720
Total Assets	$	137,716,441

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	$	41,429
Accrued interest		277,248
Current portion LT debt		1,151,000
Grants payable-current		3,664,191
Total Current Liabilities		5,133,868
Long Term Liabilities		
Notes payable-long term		12,995,836
Less: current portion LT debt		(1,151,000)
Grants payable-long term		5,578,162
Total Long Term Liabilities		17,422,998
Net Assets		
Temporarily restricted		0
Permanently restricted		0
Unrestricted		107,586,255
Increase (Decrease) in Net Assets		7,573,320
Total Net Assets		115,159,575
Total Liabilities and Net Assets	$	137,716,441

See accompanying footnotes and independent auditors' report.

City of Muskogee Foundation
Statement of Activities
June 30, 2017

UNRESTRICTED NET ASSETS		
Revenues and Gains		
Investment Interest	$	2,893,034
Investment Unrealized Gains		7,117,226
Investment Realized Gains		2,693,344
Total Revenues		12,703,604
Program Expenses		
Grant Expense		3,408,117
Total Program Expenses		3,408,117
Administrative Expenses		
Advertising		40,742
Accounting fees		5,200
Management fees		427,727
Outside contract services		58,443
Insurance expense		5,317
Utilities		125
Interest expense		378,886
Bad Debt		805,320
Depreciation expense		407
Total Administrative Expenses		1,722,167
Total Expenses		5,130,284
Increase (Decrease) in Net Assets		
Temporarily Restricted		0
Permanently Restricted		0
Unrestricted		7,573,320
Beginning Net Assets		107,586,255
Ending Net Assets	$	115,159,575

See accompanying footnotes and independent auditors' report.

City of Muskogee Foundation
Statement of Cash Flows
June 30, 2017

Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	$	7,573,320
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		407
Decrease/(Increase) in:		
Receivables		(299,798)
(Decrease)/Increase in:		
Accounts Payable		2,542
Accrued Expenses		124,134
Grants Payable		(6,333,638)
Net Cash Provided/(Used) by Operating Activities		1,066,967
Cash Flows From Investing Activities:		
BancFirst Investments		(4,361,126)
Purchase of fixed assets		0
Net Cash Provided/(Used) by Investing Activities		(4,361,126)
Cash Flows From Financing Activities:		
Proceeds from financing		3,803,364
Payment of principal		(651,000)
Net Cash Provided/(Used) by Financing Activities		3,152,364
Net Increase/(Decrease) in Cash and Cash Equivalents		(141,795)
Cash and Cash Equivalents June 30, 2016		185,044
Cash and Cash Equivalents June 30, 2017	$	43,249
Interest expense	$	378,886

See accompanying footnotes and independent auditors' report.

CITY OF MUSKOGEE FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ending June 30, 2017

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 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 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 2014, 2015, and 2016 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 or 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.

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,* which 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 $1/12^{th}$ 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. 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 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 6/30/2017	Fair Value at 6/30/2016
Cash and Cash Equivalents	$459,637	$189,354
Fixed Income	55,567,009	53,909,501
Equities	70,788,889	68,355,554
Total Investments	$126,815,535	$122,454,409

5. GRANT INFORMATION

During the fiscal year ending June 30, 2017 the Foundation approved 31 grants to 23 local applicants and the City of Muskogee totaling $6,738,709 and wrote off $3,330,592 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 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, 2017 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 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 $187,718.33 on June 15, 2019. The interest rate is 3.95%. There is no penalty for early payment. The balance as of June 30, 2017 was $336,020.

On January 30, 2015 the Foundation agreed to loan the City of Muskogee Urban Renewal Authority $4,000,000 for the purpose of acquiring certain real property located in a blighted area for redevelopment. On January 3, 2016 the loan was revised and the principal increased to $5,500,000. January 11, 2017 funds in the amount of $903,456 were transferred to the Urban Renewal Authority. Payments of interest in the amount of $77,778 (3%) will be made semi-annually for 20 years beginning June 1, 2016 and ending February 27, 2035 at which time the principal of is due in full along with any accrued interest. There is no penalty for early payment. The balance as of June 30, 2017 was $4,903,456.

On January 30, 2015 the Foundation agreed to loan the Muskogee Redevelopment Authority $3,500,000 for capital improvement projects under Ordinance No. 3937-A approved in June 2015. Monthly payments of principal and interest (3%) will be made for five years beginning 30 days after the first draw and ending January 30, 2020. The Authority had drawn $1,812,809 as of June 30, 2017. The Authority has not made the payments in accordance with the loan agreement. The first payment was due June 6, 2015 and each month thereafter.

On March 1, 2015 the Foundation agreed to loan the Muskogee Redevelopment Authority $4,500,000 to purchase property located near the intersection of State Highway 69 and Shawnee Bypass. Payments of interest in the amount of $122,680 (3%) will be made annually for five years beginning March 1, 2016 and ending March 1, 2020 at which time the principal and accrued interest are due. There is no penalty for early payment. The Authority had draws totaling $4,089,336 as of June 30, 2015. At June 30, 2017 the balance on the loan was $3,514,991.

On May 6, 2015 the Foundation signed a loan agreement with the Oklahoma Music Hall of Fame and Museum, Inc. in the amount of $800,000 contingent upon the receipt of the matching funds from the City of Muskogee, for marketing 2016 events, talent deposits and other start-up costs associated with the 2016 Muskogee Music Festival. Additional funds were drawn on July 7, 2016 in the amount of $95,190 and on March 20, 2017 in the amount of $65,000 for the 2017 Festival. The entire balance of principal and unpaid interest (2.5%) shall be due and payable in full September 1, 2018. As of June 30, 2017 OMHOF had draws of $787,686.

The current maturities are as follows:

2018	$154,411
2019	81,894
2020	5,384,469
2021	0
2022	0
Thereafter	4,903,456
Total	10,524,230
Current portion loan receivables	(154,411)
Loan receivables	$10,369,819

9. RELATED PARTY TRANSACTIONS

During the fiscal year ending June 30, 2017 the Foundation had the following related party transactions:

- Received from the City of Muskogee interest income of $289,858
- Paid the City of Muskogee $3,114,588 in grant monies
- Awarded the City of Muskogee $1,890,399 in grants.

10. LONG TERM DEBT

The Foundation borrowed $3,500,000 from BancFirst on January 23, 2015 to fund the Muskogee Redevelopment Authority grant for capital improvements. The loan has a variable interest rate of .25% under the Index, resulting in an initial rate of 3% per annum. The loan is collateralized by the investment account #60-0022-07-3 held by BancFirst Trust and Investment Management. Annual accrued interest payments will be paid beginning January 1, 2016 and all outstanding principal plus all accrued unpaid interest is payable January 23, 2020. There is no penalty for early payment. As of June 30, 2017 the Redevelopment Authority had drawn $1,813,000.

On January 23, 2015 the Foundation borrowed $5,400,500 from BancFirst to fund the Muskogee Little Theatre building construction grant. The loan has a variable interest rate of .25% under the Index, resulting in an initial rate of 3% per annum. The loan is collateralized by the investment account #60-0022-05-7 held by BancFirst Trust and Investment Management. The Foundation will pay 10 annual

principal payments of $500,000 each and one final principal and interest payment of $412,682. Payments will begin July 15, 2017 with the final payment July 15, 2025 of all principal and accrued interest not yet paid. There is no penalty for early payment. As of June 30, 2017 the Theatre had received $4,820,380 in funding from the Foundation toward the building construction.

On January 23, 2015 the Foundation borrowed $4,000,000 from BancFirst to fund the Urban Renewal Authority grant for the acquisition of property and other ancillary items for property on Shawnee Bypass. January 11, 2017 additional funds in the amount of $903,456 were transferred to the Urban Renewal Authority. The loan has a variable interest rate of .25% under the Index, resulting in an initial rate of 3% per annum. The loan is collateralized by the investment account #60-0022-04-0 held by BancFirst Trust and Investment Management. The Foundation will pay 9 annual principal payments of $400,000 each and one final principal and interest payment of $412,000. Payments will begin July 15, 2016 with the final payment July 15, 2024 of all principal and accrued interest not yet paid. There is no penalty for early payment. The balance as of June 30, 2017 was $4,103,456.

The Foundation borrowed $2,510,150 from BancFirst on August 31, 2015 to fund the construction of a new building for the Martin Luther King Center. The loan has a variable interest rate of .25% under the Index, resulting in an initial rate of 3% per annum. The loan is collateralized by the investment account #60-0022-07-3 held by BancFirst Trust and Investment Management. Annual accrued interest payments will be paid beginning August 15, 2016 and all outstanding principal plus all accrued unpaid interest is payable August 15, 2025. There is no penalty for early payment. As of June 30, 2017 the balance was $2,259,150.

The following is the current maturities and debt service for the above loans that have had draws.

	Current Maturities	Debt Service
2018	$1,151,000	$1,413,673
2019	1,151,000	1,393,362
2020	1,151,000	3,292,614
2021	2,964,000	1,313,137
2022	1,151,000	1,291,595
There after	5,427,836	5,372,910
	$12,995,836	$14,077,291

11. FOUNDATION AS GRANTOR

The Foundation has pledged assets in the amount of $6,550,000 for Muskogee Redevelopment Authority's Three River Plaza Project as of June 31, 2017. This will be an $18.5 million project when completed.

12. SUBSEQUENT EVENTS

Subsequent events have been considered through the date of the Independent Auditors' Report which is the date the financial statements were issued. The Muskogee Redevelopment Authority's loan receivable payment to the Foundation due June 6, 2016 had not been received before these financials were issued.

On October 23, 2017 the Board approved the loan forgiveness for Oklahoma Music Hall of Fame in the amount of $787,686 plus accrued interest to be charged to grant expense.

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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. (the Foundation)(a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, 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 May 10, 2018.

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 circumstances for the purpose of expressing our opinion on the financial statements, 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 that 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 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 from 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 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
May 10, 2018