CITY OF MUSKOGEE FOUNDATION, INC.

FINANCIAL REPORT

June 30, 2020 and 2019

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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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Linton & Co., PLLC

Oklahoma City, Oklahoma
December 14, 2020

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

ASSETS	2020	2019
Cash and cash equivalents	$ 4,304,780	$ 2,351,504
Interest receivable	358,606	464,471
Marketable securities	125,093,644	129,757,249
Notes receivable	9,171,646	9,271,361
Furniture and equipment, net of accumulated depreciation of $2,036	-	-
	$ 138,928,676	$ 141,844,585
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 34,460	$ 40,295
Accrued interest payable	386,229	434,278
Notes payable	8,233,626	9,384,626
Grants payable	24,015,543	27,742,926
	32,669,858	37,602,125
NET ASSETS		
Net assets without donor restrictions	106,258,818	104,242,460
	$ 138,928,676	$ 141,844,585

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

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended June 30, 2020 and 2019

	2020	2019
Revenues		
Interest and dividends	$ 3,346,164	$ 3,550,487
Unrealized gains (losses)	(2,390,284)	4,428,668
Realized gains	2,672,939	1,060,224
Contributions	5,000	-
	3,633,819	9,039,379
Expenses		
Program expenses	723,445	21,327,077
Management and administration	894,016	975,138
Fundraising	-	-
	1,617,461	22,302,215
Increase (decrease) in net assets	2,016,358	(13,262,836)
Net assets, beginning of year	104,242,460	117,505,296
Net assets, end of year	$ 106,258,818	$ 104,242,460

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

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2020 and 2019

	2020			
	Program Expenses	Management and Administration	Fundraising	Total
Contract services	$ -	$ 55,601	$ -	$ 55,601
Bank fees	349	-	-	349
Management fees	-	414,503	-	414,503
Grant expense	633,576	-	-	633,576
Interest expense	-	405,319	-	405,319
Insurance	-	6,968	-	6,968
Accounting	-	11,625	-	11,625
Summer feeding program expense	84,520	-	-	84,520
Bridges out of poverty program expense	5,000	-	-	5,000
	$ 723,445	$ 894,016	$ -	$ 1,617,461

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

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2020 and 2019

	2019			
	Program Expenses	Management and Administration	Fundraising	Total
Advertising	$ 1,750	$ -	$ -	$ 1,750
Contract services	-	64,266	-	64,266
Bank fees	402	-	-	402
Management fees	-	420,230	-	420,230
Grant expense	21,324,925	-	-	21,324,925
Interest expense	-	473,486	-	473,486
Insurance	-	6,106	-	6,106
Accounting	-	11,050	-	11,050
	$ 21,327,077	$ 975,138	$ -	$ 22,302,215

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

CITY OF MUSKOGEE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 2,016,358	$ (13,262,836)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Gains) losses in investments	(282,655)	(5,488,891)
(Increase) decrease in interest receivable	105,865	(213,503)
(Increase) decrease in accounts receivable	-	9,451
(Increase) decrease in notes receivable	99,715	894,703
Increase (decrease) in accounts payable	(5,835)	(3,912)
Increase (decrease) in accrued interest payable	(48,051)	7,492
Increase (decrease) in grants payable	(3,727,383)	17,796,152
Net cash provided (used) by operating activities	(1,841,986)	(261,344)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	22,855,616	20,872,147
Purchase of marketable securities	(17,909,354)	(17,665,860)
Net cash provided (used) by investing activities	4,946,262	3,206,287
Cash flows from financing activites:		
Payment of principal	(1,151,000)	(2,056,922)
Net cash provided (used) by financing activities	(1,151,000)	(2,056,922)
Net increase (decrease) in cash	1,953,276	(888,021)
Cash and cash equivalents, beginning of year	2,351,504	3,239,525
Cash and cash equivalents, end of year	$ 4,304,780	$ 2,351,504
Interest expense paid	$ 453,370	$ 465,993

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

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Foundation had no net assets with donor restrictions at June 30, 2020 and 2019.

Revenue recognition

Revenues, gains, and other support are reported as increases in net assets without donor restrictions if the restriction expires (that is, when a stipulated time restriction ends on purpose restriction is accomplished) in the reporting period in in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities and changes in net assets as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions only. Gains and losses on investments and other assets and liabilities are reported as increases or decrease in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law.

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.

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

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, 2020 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.

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

Depreciation expense for each of the years ending June 30, 2020 and 2019 is $0.

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 statements of financial position. Realized and unrealized gains and losses are reported in the statements 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.

Note 2. Marketable Securities and Fair Value, continued

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:

	2020		2019	
Mutual Funds (Level I)	Cost	Market Value	Cost	Market Value
Equity				
Vanguard Institutional Index Inst	$ 9,141,037	$ 29,877,394	$10,529,763	$ 30,959,116
Vanguard Mid-Cap Index Trust	3,859,055	5,592,761	5,523,731	7,999,202
Vanguard Small-Cap Value Index Inst	13,025,400	14,831,869	5,250,100	6,622,666
Vanguard Tot Int'l Stk Indx Inst	15,676,215	13,853,397	15,676,215	14,805,017
Vanguard Value Index Inst	2,675,579	6,662,428	4,554,586	11,256,820
Vanguard Small-Cap Value ETF	1,709,260	3,885,366	1,709,260	4,743,693
Fixed Income				
Pimco Moderate Duration Instl	16,907,507	17,643,878	18,794,001	18,765,068
Vanguard Short Term Bond Index Inst	14,399,589	15,107,948	15,594,479	15,830,340
Vanguard Total Bond Market Inst	15,395,566	17,638,603	17,970,394	18,775,327
	$92,789,208	$125,093,644	$95,602,529	$129,757,249

Unrealized gains and (losses) arising during 2020 and 2019 total $(2,390,284) and $4,428,668, respectively and have been included in the accompanying statements of activities and changes in net assets. Realized gains for 2020 and 2019 of $2,672,939 and $1,060,224, respectively are also included in the statements of activities and changes in net assets. Total proceeds from security sales were $22,855,616 and $20,872,147 for 2020 and 2019, respectively 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 Foundation Management, Inc., (FMI), an Oklahoma 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, FMI receives a monthly fee equal to the product of .0018 times divided by 1/12th the aggregate market value of the assets of the Foundation as of the last day of each calendar month. In addition, the agreement states that for each calendar month, FMI will receive a financial consultant fee equal to the product of .0012 times divided by 1/12th of the assets under management as of the last day of the month. Total management expense for the years ended June 30, 2020 and 2019 was $414,503 and $420,230, respectively.

Note 4. Grants Payable

During 2019, the Foundation approved 36 grants to 18 local applicants and the City of Muskogee and during 2020, the Foundation approved 29 grants to 17 local applicants and the City of Muskogee.

A summary of the grants payable activity is as follows:

Grants payable, July 1, 2018	$ 9,946,774
Grants awarded	21,324,925
Disbursements	(3,528,773)
Grants payable, June 30, 2019	27,742,926
Grants awarded	633,576
Disbursements	(4,360,959)
Grants payable, June 30, 2020	$24,015,543

Note 5. Notes Receivable

The notes receivable at June 30, 2020 and 2019 consist of the following:

	2020	2019
Notes receivable (A)	$5,500,000	$5,500,000
Notes receivable (B)	3,671,646	3,671,646
Notes receivable (C)	-	99,715
	$9,171,646	$9,271,361

Note 5. Notes Receivable, continued

(A) 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.

(B) 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. Matured on March 1, 2020, but was renewed for an additional five years under the same terms.

(C) Lease purchase agreement with Independent School District No. 2 (Muskogee Public Schools). Due in eight annual payments including interest at 3.95%. Matured on June 15, 2020 and was paid off.

Additionally, the board of directors approved a two-year balloon loan to the Muskogee City - County Port Authority in the amount of $2,500,000 at an interest rate of Prime - .25%, principal due at maturity and interest due quarterly. No funds have been drawn on the loan.

Note 6. Related Party Transactions

During the fiscal year ending June 30, 2020 and 2019, the Foundation had the following related party transactions with the City of Muskogee and its Authorities:

	2020	2019
Interest income	$ 383,939	$ 414,550
Grants disbursed	$2,009,263	$ 984,427
Grants awarded (net of $1,250,080 and $12,879 written off in 2020 and 2019, respectively.)	$ (779,080)	$16,898,521

Note 7. Notes Payable

The Foundation was obligated on the following notes at June 30, 2020 and 2019. All of the loans are collateralized by investments.

	2020	2019
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.	$3,320,380	$3,820,380
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 $412,200 due on July 15, 2024.	3,500,000	3,900,000

Note 7. Notes Payable, continued

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.	1,413,246	1,664,246
	$8,233,626	$9,384,626

Future maturities as of June 30, 2020 are as follows:

2021	$1,151,000
2022	1,151,000
2023	1,151,000
2024	1,151,000
2025	1,151,000
Thereafter	2,478,626
	$8,233,626

Note 8. Liquidity and Availability

Financial assets available for general expenditures, that is without donor restriction or other restrictions limiting their use, within one year of the statement of financial position, comprise the following:

Cash and cash equivalents	$ 4,304,780
Interest receivable	358,606
Marketable securities	125,093,644
	$129,757,030

Although the Foundation's investments are available to meet current obligations and needs, it is their intent to keep the additional funds invested until needed.

Note 9. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of December 14, 2020, 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, except as noted below.

The Coronavirus pandemic has had a significant impact on the economy locally, across the nation, and globally. The situation continues to evolve so the magnitude and duration of the economic disruption is not known at this date. This pandemic could have a material impact on the Foundation's financial condition and future operations.