



OKLAHOMA CITY MUSEUM OF ART, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2013 and 2012

WITH

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Oklahoma City Museum of Art, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Oklahoma City Museum of Art, Inc. (the Museum) as of June 30, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial position of the Museum as of June 30, 2013 and 2012, and the consolidated results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2011. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information as of and for the year ended June 30, 2013, is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hogan Taylor LLP

October 16, 2013

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

	2013	2012
Assets		
Cash	\$ 1,875,144	\$ 1,109,606
Grants and accounts receivable	90,470	25,485
Inventory, net	288,513	307,563
Prepaid expenses and other assets	320,737	338,052
Restricted cash	510,827	942,887
Grants and accounts receivable with restrictions	118,875	141,832
Investments	4,051,476	3,411,419
Investments with restrictions	11,612,922	11,145,201
Beneficial interest in assets held by others	4,333,917	4,010,241
Property and equipment, net	16,453,132	16,995,014
Art and library collections (see Note 2)		
Total assets	<u>\$ 39,656,013</u>	<u>\$ 38,427,300</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 93,341	\$ 69,171
Accrued liabilities	147,937	254,877
Long-term debt	817,219	835,000
Total liabilities	<u>1,058,497</u>	<u>1,159,048</u>
Net assets:		
Unrestricted	21,548,142	21,092,991
Temporarily restricted	7,729,159	6,877,276
Permanently restricted	9,320,215	9,297,985
Total net assets	<u>38,597,516</u>	<u>37,268,252</u>
Total liabilities and net assets	<u>\$ 39,656,013</u>	<u>\$ 38,427,300</u>

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2013
(and Summarized Totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	Summarized Totals for 2012
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 217,230	\$ 84,705	\$ 11,980	\$ 313,915	\$ 528,325
Corporate and other	736,060	143,000	-	879,060	723,762
Allied Arts	401,918	-	-	401,918	378,882
Grants and foundations	509,333	285,500	10,000	804,833	943,548
	<u>1,864,541</u>	<u>513,205</u>	<u>21,980</u>	<u>2,399,726</u>	<u>2,574,517</u>
Fundraising events	786,795	-	-	786,795	446,113
Memberships	384,715	-	-	384,715	409,095
Admissions	398,037	-	-	398,037	727,395
Museum store sales	256,135	-	-	256,135	286,693
Museum of Art Café sales	1,155,156	-	-	1,155,156	1,232,522
Museum of Art Café catering sales	269,535	-	-	269,535	284,215
Museum parking fees	149,250	-	-	149,250	113,445
In-kind donations	180,883	-	-	180,883	21,496
Miscellaneous	152,765	-	-	152,765	145,998
Investment income	520,335	125,249	250	645,834	628,452
Net unrealized/realized gains on investments	1,057,689	488,376	-	1,546,065	124,228
Funds released from restrictions	274,947	(274,947)	-	-	-
Total revenues, gains and other support	<u>7,450,783</u>	<u>851,883</u>	<u>22,230</u>	<u>8,324,896</u>	<u>6,994,169</u>
Expenses					
Programming	1,733,620	-	-	1,733,620	2,073,635
Museum store	273,928	-	-	273,928	283,067
Museum of Art Café	1,343,617	-	-	1,343,617	1,381,192
Museum parking	38,264	-	-	38,264	31,944
Management and general	982,307	-	-	982,307	1,036,184
Fundraising and development	944,884	-	-	944,884	855,457
Security, building and grounds	914,589	-	-	914,589	966,554
Art accessioned	99,836	-	-	99,836	45,164
Depreciation	664,587	-	-	664,587	697,753
Total expenses	<u>6,995,632</u>	<u>-</u>	<u>-</u>	<u>6,995,632</u>	<u>7,370,950</u>
Changes in net assets	455,151	851,883	22,230	1,329,264	(376,781)
Net assets, beginning of year	21,092,991	6,877,276	9,297,985	37,268,252	37,645,033
Net assets, end of year	<u>\$ 21,548,142</u>	<u>\$ 7,729,159</u>	<u>\$ 9,320,215</u>	<u>\$ 38,597,516</u>	<u>\$ 37,268,252</u>

See notes to consolidated financial statements.

OKLAHOMA CITY MUSEUM OF ART, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2012
 (and Summarized Totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	Summarized Totals for 2011
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 276,053	\$ 21,878	\$ 230,394	\$ 528,325	\$ 431,487
Corporate and other	568,762	155,000	-	723,762	584,594
Allied Arts	378,882	-	-	378,882	359,326
Grants and foundations	631,548	302,000	10,000	943,548	909,057
	<u>1,855,245</u>	<u>478,878</u>	<u>240,394</u>	<u>2,574,517</u>	<u>2,284,464</u>
Fundraising events	446,113	-	-	446,113	476,736
Memberships	409,095	-	-	409,095	408,755
Admissions	727,395	-	-	727,395	533,737
Museum store sales	286,693	-	-	286,693	250,032
Museum of Art Café sales	1,232,522	-	-	1,232,522	1,131,127
Museum of Art Café catering sales	284,215	-	-	284,215	292,560
Museum parking fees	113,445	-	-	113,445	88,942
In-kind donations	21,496	-	-	21,496	25,695
Miscellaneous	145,998	-	-	145,998	103,679
Investment income	507,278	121,174	-	628,452	646,754
Net unrealized/realized gains on investments	70,156	54,072	-	124,228	2,609,745
Funds released from restrictions	787,174	(787,174)	-	-	-
Total revenues, gains and other support	<u>6,886,825</u>	<u>(133,050)</u>	<u>240,394</u>	<u>6,994,169</u>	<u>8,852,226</u>
Expenses					
Programming	2,073,635	-	-	2,073,635	1,633,566
Museum store	283,067	-	-	283,067	254,260
Museum of Art Café	1,381,192	-	-	1,381,192	1,311,973
Museum Parking	31,944	-	-	31,944	30,771
Management and general	1,036,184	-	-	1,036,184	845,467
Fundraising and development	855,457	-	-	855,457	627,245
Security, building and grounds	966,554	-	-	966,554	921,785
Art accessioned	45,164	-	-	45,164	20,000
Depreciation	697,753	-	-	697,753	714,055
Total expenses	<u>7,370,950</u>	<u>-</u>	<u>-</u>	<u>7,370,950</u>	<u>6,359,122</u>
Changes in net assets	(484,125)	(133,050)	240,394	(376,781)	2,493,104
Net assets, beginning of year	21,577,116	7,010,326	9,057,591	37,645,033	35,151,929
Net assets, end of year	<u>\$ 21,092,991</u>	<u>\$ 6,877,276</u>	<u>\$ 9,297,985</u>	<u>\$ 37,268,252</u>	<u>\$ 37,645,033</u>

See notes to consolidated financial statements.

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Changes in net assets	\$ 1,329,264	\$ (376,781)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	664,587	697,753
Net unrealized/realized gains on investments	(1,546,065)	(124,228)
Contributions restricted for long-term purposes	(21,980)	(240,394)
Changes in operating assets and liabilities:		
Grants and accounts receivable	(64,985)	103,271
Inventory	19,050	(23,320)
Prepaid expenses and other assets	17,315	(110,068)
Grants and accounts receivable with restrictions	22,957	34,202
Accounts payable	24,170	(72,302)
Accrued liabilities	(106,940)	48,701
Net cash provided by (used in) operating activities	337,373	(63,166)
Cash Flows from Investing Activities		
Purchases of property and equipment	(122,705)	(177,531)
Purchases of investments	(316,508)	(317,126)
Proceeds from sales of investments	419,021	400,136
Purchases of investments with restrictions	(213,684)	(548,109)
Proceeds from sale of investments with restrictions	225,782	303,934
(Increase) decrease in restricted cash	432,060	(297,725)
Net cash provided by (used in) investing activities	423,966	(636,421)
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes	21,980	240,394
Debt principal payments	(17,781)	-
Net cash provided by financing activities	4,199	240,394
Net increase (decrease) in cash	765,538	(459,193)
Cash, beginning of year	1,109,606	1,568,799
Cash, end of year	\$ 1,875,144	\$ 1,109,606
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 29,761	\$ 23,232

OKLAHOMA CITY MUSEUM OF ART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 1 – Organization

The Oklahoma City Museum of Art, Inc. (the Museum) is a privately-funded museum located at the Donald W. Reynolds Visual Arts Center. The three-story, 110,000 square-foot Visual Arts Center features 15 galleries showcasing the Museum's collections, temporary exhibitions organized by the Museum, and world-class traveling exhibitions. It offers the only comprehensive film program in the region. The Museum is accredited by the American Association of Museums and is an Allied Arts Member Agency. The Museum's mission is to enrich lives through the visual arts. The Museum's purpose is to create a cultural legacy in art and education for current and future generations to experience at the Museum and carry with them throughout their lives.

The Donald W. Reynolds Visual Arts Center, funded in part by a \$14.5 million capital grant from the Donald W. Reynolds Foundation, Las Vegas, Nevada, is part of the Museum's completed \$40 million project to fund the new Visual Arts Center expansion and endowment. The project was completed through private funding and was not a part of the Oklahoma City MAPS sales tax program. The Museum received significant funds from the general public and from private foundations.

The Museum is the sole owner of the Museum of Art Cafe, Inc. (the Café), which is located in the Donald W. Reynolds Visual Arts Center and provides full-service lunch and dinner in a casually elegant dining atmosphere.

The Museum is the sole owner of Museum Parking, LLC, which was formed to acquire a parcel of land functioning as a parking lot in the vicinity of the Museum. Museum Parking, LLC leases the parking lot to a third-party operator.

Note 2 – Summary of Significant Accounting Policies

Consolidated financial statements

The accompanying consolidated financial statements include the accounts of the Museum, the Café, and Museum Parking, LLC. All material intercompany transactions have been eliminated in the consolidated financial statements.

Basis of accounting and reporting

Separate funds are utilized to account for the Museum's various activities. The assets, liabilities and net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of operations. At June 30, 2013 and 2012, unrestricted net assets of \$3,054,676 and \$2,888,036, respectively, were designated for specific purposes by the Museum's Board of Trustees (see Note 9).
- Temporarily restricted net assets represent funds with donor-designated restrictions for acquisitions, capital campaign funds, maintenance of art objects or specific programs.
- Permanently restricted net assets represent funds that are subject to donor-designated restrictions requiring the principal to be invested in perpetuity.

Cash and restrictions

Cash consists of cash on hand and deposits in banks. Cash balances are maintained in high credit quality financial institutions. At times, cash may exceed federally insured limits, but management believes any possible credit risk is minimal.

At June 30, 2013 and 2012, the Museum had cash of \$510,827 and \$942,887, respectively, restricted for specific purposes.

Investments

Investments, which include money market funds, exchange traded funds and U.S. government and agency securities, are stated at fair value (based on quoted market prices) with unrealized gains and losses reported in the consolidated statement of activities. Donated investments are initially recorded at fair value at the date of donation.

Property and equipment

Property and equipment is recorded at historical cost or fair value at date of donation. Depreciation of these assets is provided on the straight-line basis over the estimated useful lives of the respective assets, which range from 2 to 40 years.

Art and library collections

The Museum's art and library collections are made up of historically significant art, contemporary art and other art objects that are held for educational, research, and curatorial purposes. Each item is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Art and library collections, which were acquired through purchases and contributions since the Museum's inception are insured under the Museum's fine art insurance policy, and are not capitalized and recognized as assets in the consolidated statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributions of collection items are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net assets classification. The Museum's policy provides for deaccessioning works that do not fit into the collections plan or that are of poor quality or condition. Any funds made available by the sale of unrestricted deaccessioned works are used for acquisitions to strengthen the collection.

Contributions to the Museum

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statement of activities as net assets released from restrictions. Net assets with restrictions, which are met in the same reporting period as their receipt, are presented as part of unrestricted net assets.

The Museum reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Museum reports bequests as temporarily restricted support in contributed income when notice has been received and becomes legally enforceable. Once funds are received, bequests are considered available for general use, unless restricted for a specific use or for an endowment fund by the donor.

Income tax status

The Museum is a nonprofit organization and is exempt from income taxes under Internal Revenue Code Section 501. However, the Museum is subject to federal income tax on any unrelated business taxable income. Generally, the Museum is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years prior to 2010.

Allocation of expenses

Salaries and wages are allocated based on actual staff position. Administrative expenses are allocated to each area based on an estimate of usage. All remaining expenses are allocated based on actual expenditures for the function.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of credit risk

Financial instruments, which potentially subject the Museum to credit risk, consist of grants and accounts receivable, grants and accounts receivable with restrictions, and investments.

The Museum's investments consist of various stocks, bonds and U.S. Treasury notes. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the investment account balances and the amounts reported in the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

Subsequent events

Management has evaluated subsequent events through October 16, 2013, the date the financial statements were available to be issued.

Note 3 – Donated Services

The Museum has an affiliated volunteer group known as the Beaux Arts Committee which hosts an annual fundraiser benefiting the Museum's Beaux Arts Acquisitions Trust. The Museum recorded contributions from this group of \$80,000 and \$50,000 for the years ended June 30, 2013 and 2012, respectively, which are included in individuals contributed income in the consolidated statements of activities.

A substantial number of volunteers have made significant contributions of their time to develop the Museum's programs, of which no value was assigned.

Note 4 – Investments

To ensure observance of limitations and restrictions placed on the uses of the resources available to the Museum, investments are maintained in various funds which are segregated as follows at June 30:

	2013	2012
Investments:		
Young Endowment	\$ 1,881,684	\$ 1,647,510
Museum Legacy Endowment	996,799	653,384
Westheimer Family Endowment	1,172,993	1,110,525
	<hr/> 4,051,476	<hr/> 3,411,419
Investments with restrictions:		
Museum Acquisitions Trust	4,148	3,481
Beaux Arts Acquisitions Trust	271,647	283,104
Thatcher Hoffman Smith Film Endowment	816,296	758,770
Sarkeys Foundation Arts Education Endowment	585,453	556,039
Sonic America's Drive-In Arts Education Endowment	295,678	280,407
Museum Legacy Endowment	5,285,977	5,285,977
Donald W. Reynolds Visual Arts Center		
Building Maintenance Endowment	3,998,013	3,640,713
Records Family Endowment	355,711	336,710
	<hr/> 11,612,923	<hr/> 11,145,201
	<hr/> <u>\$ 15,664,399</u>	<hr/> <u>\$ 14,556,620</u>

Investments without restrictions are maintained in funds as shown for the following purposes:

- The Raymond A. and Verna N. Young Endowment represents the funds originally designated for the construction of the Museum building. Since the construction has been completed, the funds became unrestricted for use in general operations of the Museum.
- The interest and unrealized investment gains generated from the Museum Legacy Endowment are unrestricted and available for use in general Museum operations.
- The Westheimer Family Endowment and related interest and unrealized investment gains generated from the funds are available for use for the Museum's programs and operations with first priority for the proper maintenance, display, and preservation of the Westheimer Family Collection.

Investments with restrictions are maintained in funds as shown for the following purposes:

- The Museum Acquisitions Trust and Beaux Arts Acquisitions Trust are temporarily restricted funds maintained for the purchase and maintenance of art objects for the Museum.
- The Thatcher Hoffman Smith Film Endowment includes funds maintained for the purpose of supporting the Museum's comprehensive film program. This is a permanent endowment, with the principal required to be maintained in perpetuity and the interest being expendable for the stated purpose of the fund.
- The Sarkeys Foundation Arts Education Endowment is maintained for education programming. Like the Thatcher Hoffman Smith Film Endowment, this is also a permanent endowment, with the principal required to be maintained in perpetuity and the interest being expendable for the stated purpose of the endowment.
- The Sonic America's Drive-In Arts Education Endowment is permanently restricted for education programming.

- The Museum Legacy Endowment includes funds solicited from donors to provide for a permanent endowment for the Museum. The principal amount of these funds will not be expended. Interest and unrealized gains generated by the endowment principal may be used for general Museum operations.
- The Donald W. Reynolds Visual Arts Center Building Maintenance Endowment represents funds temporarily restricted for maintenance of the Museum in the Donald W. Reynolds Visual Arts Center facility. It is the Museum's intention to use only the income generated from the endowment principal for the maintenance and upkeep of the building as directed by the grant agreement.
- The Records Family Endowment was established as a permanent endowment to support Museum operations. The principal amount of these funds will not be expended. Distributions of interest and unrealized gains generated by the endowment principal may be used for general Museum operations.

Note 5 – Contributions to the Oklahoma City Community Foundation

A separate fund, the Oklahoma City Museum of Art Affiliated Fund (the Affiliated Fund), is established at the Oklahoma City Community Foundation (OCCF). Contributions received subsequent to July 1, 1991, by OCCF, which are designated to be invested to benefit the Museum, are placed in the Affiliated Fund. Investment decisions for the Affiliated Fund are made by a five-member panel that includes three representatives appointed by OCCF and two representatives appointed by the Museum's Board of Trustees. Income earned on the donated funds is paid to the Museum on a basis determined by the five-member panel. The principal amount of the Affiliated Fund cannot be distributed without the unanimous approval of the OCCF Board of Directors. As a result, OCCF has variance power and the Museum has not recorded these funds as an asset in its statement of position.

Funds held by OCCF on behalf of the Museum are as follows at June 30 at fair value:

	2013	2012
Recognized in the Museum's financial statements as beneficial interest in assets held by others:		
Oklahoma City Museum of Art Affiliated Fund	\$ 177,504	\$ 168,505
Fee-Milligan Operating Endowment	1,872,977	1,778,435
The James C. and Virginia W. Meade Collections Endowment	1,290,195	1,169,814
Carolyn A. Hill Collections Endowment	834,752	750,030
James C. Meade Friends Lecture Series Endowment Fund	158,489	143,457
	<u>4,333,917</u>	<u>4,010,241</u>
Funds held by OCCF with variance power retained by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	4,150,241	3,907,994
Oklahoma City Museum of Art Acquisitions Fund	97,628	89,215
Pauline Morrison Ledbetter Fund	307,950	281,322
	<u>4,555,819</u>	<u>4,278,531</u>
Total funds held by OCCF	<u>\$ 8,889,736</u>	<u>\$ 8,288,772</u>
Investment income distributed to the Museum by OCCF	<u>\$ 271,997</u>	<u>\$ 262,920</u>

The Fee-Milligan Operating Endowment (the Endowment) within the Affiliated Fund includes funds transferred by the Museum to OCCF, with the Museum designating itself as beneficiary of the fund. The Museum's Board of Trustees has authorized OCCF to manage the Endowment in the same manner as the Affiliated Fund assets, which effectively grants variance power to OCCF. However, as the Museum

designated itself as beneficiary for the Endowment, the Museum recognizes a beneficial interest in the Endowment assets held by OCCF in its statements of financial position.

The fair value of the entire Affiliated Fund, which includes the beneficial interest Endowment funds, was \$8,484,157 and \$7,918,235, at June 30, 2013 and 2012, respectively. As a result of OCCF's variance power over the funds contributed by unrelated donors, the Museum has not recorded the remaining value of the Affiliated Fund of \$4,555,819 and \$4,278,531 at June 30, 2013 and 2012, respectively, as an asset in the accompanying consolidated statements of financial position. Investment income distributed to the Museum from OCCF is classified as unrestricted support in the consolidated statements of activities.

In addition, OCCF maintains an account for funds designated for Museum acquisitions of art (the Designated Fund). Earnings are not distributed but, rather, are retained in the Designated Fund under the control of OCCF until requested by the Museum for an acquisition of art. The expendable balance in the Designated Fund was \$32,205 and \$27,868 at June 30, 2013 and 2012, respectively, and is recorded in grants and accounts receivable in the consolidated statements of financial position.

In 2006, the Museum entered into an endowment agreement with James C. and Virginia W. Meade (the Meades) to establish a permanent endowment named "*The James C. and Virginia W. Meade Collections Endowment*" for the purpose of supporting acquisitions for the Museum's collections and furtherance of the Museum's mission. Under the terms of this agreement (and a related agreement between the Meades, the Museum and the OCCF), the Meades pledged \$1,000,000 to the Museum to be contributed over a three-year period and invested in the Affiliated Fund at OCCF. The annual distribution from the fund will generally be 5% of the average market value based upon certain restrictions intended to protect and preserve the original corpus of the endowment.

In 2007, OCCF received a direct gift of \$250,000 to establish the Pauline Morrison Ledbetter Fund to benefit the Museum. At the direction of the donor, this gift established an acquisitions endowment fund whereby two-thirds of the earnings of the funds are available for the purchase of art and sculpture for the Museum and the remaining one-third of earnings reinvested in the endowment. Because OCCF retains variance power over these funds, the endowment is not recorded in the statement of financial position of the Museum. The expendable balance in the Pauline Morrison Ledbetter Fund was \$32,799 and \$23,682 at June 30, 2013 and 2012, respectively, and is recorded in grants and accounts receivable in the consolidated statements of financial position.

In 2008, the Museum established an endowment agreement with OCCF to establish a permanent endowment named "*Carolyn A. Hill Collections Endowment*" for the purpose of supporting acquisitions for the Museum's collections. Under the terms of this agreement, the annual distribution from the fund will generally be 5% of the average market value based upon certain restrictions intended to protect and preserve the original corpus of the endowment.

Note 6 – Fair Value Measurements

The Financial Accounting Standards Board Accounting Standards Codification established a consistent framework for measuring fair value and fair value hierarchy based on the observability of inputs used to measure fair value.

These inputs are summarized in the three broad levels listed below:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets 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 3 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 inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,973,460	\$ -	\$ -	\$ 1,973,460
Exchange traded funds	7,791,559	-	-	7,791,559
U.S. government and agency securities	-	5,899,379	-	5,899,379
Beneficial interest in assets held at OCCF ⁽²⁾	-	4,333,917	-	4,333,917
Total assets at fair value	\$ 9,765,019	\$ 10,233,296	\$ -	\$ 19,998,315

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,309,133	\$ -	\$ -	\$ 1,309,133
Exchange traded funds	7,713,936	-	-	7,713,936
U.S. government and agency securities	-	5,533,551	-	5,533,551
Beneficial interest in assets held at OCCF ⁽²⁾	-	4,010,241	-	4,010,241
Total assets at fair value	\$ 9,023,069	\$ 9,543,792	\$ -	\$ 18,566,861

(2) See Note 5 for description of these assets measured at fair value.

Beneficial interest in assets held by others (Beneficial Interest) is measured at fair value using Level 2 inputs. Since OCCF maintains variance power for the beneficial interests it holds, there is no potential market for the Beneficial Interest or similar assets. Consequently, the valuation is determined by aggregating the valuation of the underlying investments of the Beneficial Interest. The underlying investments include cash equivalents, corporate obligations, equity securities and other investments. The fair values of the underlying investments are based on quoted prices from active and inactive markets.

Market volatility

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect net assets.

Note 7 – Property and Equipment

Property and equipment consists of the following at June 30 at cost:

	2013	2012
Land	\$ 901,909	\$ 901,909
Building and improvements	20,662,218	20,662,218
Furniture and fixtures	1,493,765	1,486,765
Equipment	1,479,491	1,363,787
	<u>24,537,383</u>	<u>24,414,679</u>
Accumulated depreciation	(8,084,251)	(7,419,665)
	<u>\$ 16,453,132</u>	<u>\$ 16,995,014</u>

Note 8 – Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2013	2012
Art acquisition	\$ 839,746	\$ 638,958
Art education endowment	130,781	86,096
Building maintenance endowment	3,998,013	3,640,713
Film endowment	120,910	78,384
General Museum (OCCF)	2,050,481	1,946,940
Museum operations endowment	47,870	28,870
Programming	541,358	457,315
	<u>\$ 7,729,159</u>	<u>\$ 6,877,276</u>

Permanently restricted net assets are designated for the following purposes at June 30:

	2013	2012
Art acquisition (OCCF)	\$ 1,770,375	\$ 1,763,145
Art education endowment	750,350	750,350
Capital campaign-Museum endowment	5,796,264	5,796,264
Film endowment	695,386	680,386
Museum operations endowment	307,840	307,840
	<u>\$ 9,320,215</u>	<u>\$ 9,297,985</u>

As described in Note 4, the investment income on the Thatcher Hoffman Smith Film Endowment and the Sarkeys Foundation Arts Education Endowment can be expended for the stated purposes of each endowment. The investment income and unrealized gains on the Museum Legacy Endowment can be expended for general Museum operations.

Note 9 – Donor-Restricted and Board-Designated Endowments

Board interpretation

The Board of Trustees has interpreted state law as requiring the preservation of the fair value of the gifts of the donor-restricted endowment funds unless explicit donor stipulations specify otherwise. To meet that objective, the Museum's endowment investment, management and distribution policies require that the corpus, meaning the fair value of the original and subsequent gifts as of the gift date, be maintained in perpetuity, with the earnings available to support the Museum's ongoing operations and programs.

State law allows the Board to appropriate or accumulate so much of an endowment fund as the Museum determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. The law requires the Board to prudently consider, if relevant, the general economic conditions, possible effect of inflation or deflation, expected total return, other resources of the institution, and the institution's investment policy.

Return objectives, risk parameters, strategies and spending policy

The principal goal of the Museum's investment program is to administer and invest funds received from donors in a prudent manner. The financial objective for the Museum's endowment funds is governed by guidelines specific to each separate investment portfolio. The overall financial objective is to maximize the risk-adjusted investment return while maintaining adequate levels of liquidity. The Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Risk of large losses is minimized by a diversified asset allocation. The current investment allocation of 57% equities and 43% fixed income, with quarterly performance reviews, is expected to achieve the long-term return objectives within prudent risk constraints.

Under the Investment Policy, the total return on investments is expected to exceed a benchmark consisting of the appropriate percent of the Standard & Poor's 500 Index and the Barclays Capital U.S. Government Bond Index that matches the equity and fixed income diversification of the portfolio over an average period of five consecutive years. The total return, after fees, from all unrestricted equity securities should equal or exceed the total return on the Standard & Poor's 500 Index over a period of five consecutive fiscal years.

Under the Museum's endowment distribution policy, the amount available for appropriation each year is 5% of the average market value of the endowment at the end of each of the last 12 calendar quarters, provided that the appropriation would not cause the remaining market value of the endowment fund to be less than the corpus. This policy is expected to allow for real growth in addition to building the endowments through new gifts and return on investment.

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 4,297,573	\$ 7,549,840	\$ 11,847,413
Board-designated endowment funds	3,054,676	-	-	3,054,676
Total funds	<u>\$ 3,054,676</u>	<u>\$ 4,297,573</u>	<u>\$ 7,549,840</u>	<u>\$ 14,902,089</u>

Changes in endowment fund net assets for the year ended June 30, 2013, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 2,888,036	\$ 3,834,063	\$ 7,534,840	\$ 14,256,939
Adjusted endowment fund net assets investment return:				
Investment income	45,444	112,353	-	157,797
Net appreciation	242,377	488,376	-	730,753
	3,175,857	4,434,792	7,534,840	15,145,489
Contributions	19	-	15,000	15,019
Appropriation of endowment assets for expenditure	(121,200)	(137,219)	-	(258,419)
Endowment fund net assets, end of year	<u>\$ 3,054,676</u>	<u>\$ 4,297,573</u>	<u>\$ 7,549,840</u>	<u>\$ 14,902,089</u>

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,834,063	\$ 7,534,840	\$ 11,368,903
Board-designated endowment funds	2,888,036	-	-	2,888,036
Total funds	<u>\$ 2,888,036</u>	<u>\$ 3,834,063</u>	<u>\$ 7,534,840</u>	<u>\$ 14,256,939</u>

Changes in endowment fund net assets for the year ended June 30, 2012, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 2,926,862	\$ 3,920,858	\$ 7,519,840	\$ 14,367,560
Adjusted endowment fund net assets investment return:				
Investment income	45,470	108,613	-	154,083
Net appreciation	30,704	54,072	-	84,776
	3,003,036	4,083,543	7,519,840	14,606,419
Contributions	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	(115,000)	(249,480)	-	(364,480)
Endowment fund net assets, end of year	<u>\$ 2,888,036</u>	<u>\$ 3,834,063</u>	<u>\$ 7,534,840</u>	<u>\$ 14,256,939</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state law requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 or June 30, 2012.

Note 10 – Long-Term Debt

Museum Parking, LLC has a note payable to a bank. The note bears interest payable monthly at 3.51%. Monthly payments on the note are \$5,994, which includes principle and interest. The final payment on this note is \$610,420. The note matures on January 25, 2018. Future annual debt payments as of June 30, 2013, are as follows: 2014-\$43,546; 2015-\$45,121; 2016-\$46,685; 2017-\$48,442; and thereafter-\$633,425.

Note 11 – Commitments

During the years ended June 30, 2013 and 2012, the Museum entered into contractual agreements with certain art exhibit leasing organizations for future exhibits. Exhibit lease commitments for the year ending June 30, 2014, are \$539,700. The Museum is soliciting contributions and other sources of support to fund these commitments.

Under the Café's operating statement, all costs and expenses of the Café's operations are the responsibility of the Café. However, if the Café incurs operating costs in excess of revenues from its operations (measured on a cash basis), the Museum may advance funds to the Café. No such funds were advanced to the Café in fiscal years 2013 or 2012.

SUPPLEMENTAL INFORMATION

**OKLAHOMA CITY MUSEUM OF ART, INC.
AND SUBSIDIARIES**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2013

	Museum *	Café	Eliminating Entries	Total
Assets				
Cash	\$ 1,794,748	\$ 80,396	\$ -	\$ 1,875,144
Grants and accounts receivable	39,695	79,180	(28,405)	90,470
Inventory	234,248	54,265	-	288,513
Prepaid expenses and other assets	301,300	19,437	-	320,737
Other restricted cash	510,827	-	-	510,827
Grants and accounts receivable with restrictions	118,875	-	-	118,875
Investments	4,288,454	-	(236,978)	4,051,476
Investments with restrictions	11,612,922	-	-	11,612,922
Beneficial interest in assets held by others	4,333,917	-	-	4,333,917
Property and equipment, net	16,365,637	87,495	-	16,453,132
Art and library collections				
Total assets	\$39,600,623	\$ 320,773	\$ (265,383)	\$39,656,013
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 83,189	\$ 38,557	\$ (28,405)	\$ 93,341
Accrued liabilities	102,699	45,238	-	147,937
Long-term debt	817,219	-	-	817,219
Total liabilities	1,003,107	83,795	(28,405)	1,058,497
Net assets:				
Unrestricted	21,548,142	236,978	(236,978)	21,548,142
Temporarily restricted	7,729,159	-	-	7,729,159
Permanently restricted	9,320,215	-	-	9,320,215
Total net assets	38,597,516	236,978	(236,978)	38,597,516
Total liabilities and net assets	\$39,600,623	\$ 320,773	\$ (265,383)	\$39,656,013

* Includes Museum Parking, LLC

See independent auditor's report.

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**OKLAHOMA CITY MUSEUM OF ART, INC.
AND SUBSIDIARIES**

CONSOLIDATING SCHEDULE STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Museum *	Café	Eliminating Entries	Total
Revenues, Gains and Other Support				
Contributed income:				
Individuals	\$ 313,915	\$ -	\$ -	\$ 313,915
Corporate and other	879,060	-	-	879,060
Allied Arts	401,918	-	-	401,918
Grants and foundations	804,833	-	-	804,833
	2,399,726	-	-	2,399,726
Fundraising events	786,795	-	-	786,795
Memberships	384,715	-	-	384,715
Admissions	398,037	-	-	398,037
Museum store sales	256,135	-	-	256,135
Museum of Art Café sales	-	1,155,156	-	1,155,156
Museum of Art Café catering sales	-	269,535	-	269,535
Parking income	149,250	-	-	149,250
In-kind donations	180,883	-	-	180,883
Miscellaneous	246,317	3,745	(97,297)	152,765
Investment income	645,834	-	-	645,834
Net earnings on investment in Café	(41,467)	-	41,467	-
Net realized gains on investments	1,546,065	-	-	1,546,065
Total revenues, gains and other support	6,952,290	1,428,436	(55,830)	8,324,896
Expenses				
Programming	1,733,620	-	-	1,733,620
Museum store	273,928	-	-	273,928
Museum of Art Café	-	1,440,914	(97,297)	1,343,617
Museum parking	38,264	-	-	38,264
Management and general	982,307	-	-	982,307
Fundraising and development	944,884	-	-	944,884
Security, building and grounds	914,589	-	-	914,589
Art accessioned	99,836	-	-	99,836
Depreciation	635,598	28,989	-	664,587
Total expenses	5,623,026	1,469,903	(97,297)	6,995,632
Change in net assets	1,329,264	(41,467)	41,467	1,329,264
Net assets, beginning of year	37,268,252	278,445	(278,445)	37,268,252
Net assets, end of year	\$38,597,516	\$ 236,978	\$ (236,978)	\$38,597,516

* Includes Museum Parking, LLC

See independent auditor's report.