



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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2018 and 2017**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

## CONTENTS

|                                                     |    |
|-----------------------------------------------------|----|
| Independent Auditor's Report .....                  | 1  |
| Consolidated Statements of Financial Position.....  | 3  |
| Consolidated Statements of Activities .....         | 4  |
| Consolidated Statements of Cash Flows .....         | 5  |
| Notes to Consolidated Financial Statements.....     | 6  |
| Supplemental Information:                           |    |
| Consolidating Statement of Financial Position ..... | 16 |
| Consolidating Statement of Activities .....         | 17 |

## 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 financial statements of Oklahoma City Museum of Art, Inc. and its subsidiaries which comprise the consolidated statements of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 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 Oklahoma City Museum of Art, Inc. and its subsidiaries as of June 30, 2018, and the results of their activities and their cash flows for the year 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 2017 financial statements of Oklahoma City Museum of Art, Inc. and its subsidiaries, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information as of and for the year ended June 30, 2018, 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 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

A handwritten signature in black ink that reads "Hogan Taylor LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
November 14, 2018

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

|                                              | <u>2018</u>          | <u>2017</u>          |
|----------------------------------------------|----------------------|----------------------|
| <b>Assets</b>                                |                      |                      |
| Cash                                         | \$ 1,715,744         | \$ 3,703,297         |
| Grants and accounts receivable               | 459,820              | 329,370              |
| Inventory, net                               | 386,512              | 289,634              |
| Prepaid expenses                             | 365,547              | 101,447              |
| Investments                                  | 18,812,060           | 16,989,938           |
| Beneficial interest in assets held by others | 5,174,098            | 4,927,710            |
| Property and equipment, net                  | 13,719,641           | 14,283,363           |
| Art and library collections                  |                      |                      |
|                                              | <hr/>                | <hr/>                |
| Total assets                                 | <u>\$ 40,633,422</u> | <u>\$ 40,624,759</u> |
| <b>Liabilities and Net Assets</b>            |                      |                      |
| Liabilities:                                 |                      |                      |
| Accounts payable                             | \$ 147,201           | \$ 244,002           |
| Accrued liabilities                          | 212,604              | 206,994              |
| Long-term debt                               | 589,451              | 633,425              |
|                                              | <hr/>                | <hr/>                |
| Total liabilities                            | 949,256              | 1,084,421            |
| Net assets:                                  |                      |                      |
| Unrestricted                                 | 20,117,842           | 20,854,736           |
| Temporarily restricted                       | 10,197,486           | 9,316,764            |
| Permanently restricted                       | 9,368,838            | 9,368,838            |
|                                              | <hr/>                | <hr/>                |
| Total net assets                             | <u>39,684,166</u>    | <u>39,540,338</u>    |
|                                              | <hr/>                | <hr/>                |
| Total liabilities and net assets             | <u>\$ 40,633,422</u> | <u>\$ 40,624,759</u> |

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**Year ended June 30, 2018**

(with summarized totals for year ended June 30, 2017)

|                                                | 2018                 |                        |                        | Total                | 2017 Totals          |
|------------------------------------------------|----------------------|------------------------|------------------------|----------------------|----------------------|
|                                                | Unrestricted         | Temporarily Restricted | Permanently Restricted |                      |                      |
| <b>Revenues, Gains and Other Support</b>       |                      |                        |                        |                      |                      |
| Contributions                                  | \$ 1,634,360         | \$ 1,010,197           | \$ -                   | \$ 2,644,557         | \$ 1,996,816         |
| Fundraising events                             | 243,662              | 340,332                | -                      | 583,994              | 656,242              |
| Memberships                                    | 508,830              | -                      | -                      | 508,830              | 552,347              |
| Admissions                                     | 478,972              | -                      | -                      | 478,972              | 673,713              |
| Museum store sales                             | 312,429              | -                      | -                      | 312,429              | 410,422              |
| Museum of Art Cafe, Inc. sales                 | 1,361,042            | -                      | -                      | 1,361,042            | 1,541,373            |
| Museum Parking, LLC fees                       | 188,767              | -                      | -                      | 188,767              | 189,794              |
| In-kind donations                              | 222,651              | -                      | -                      | 222,651              | 411,288              |
| Miscellaneous                                  | 58,849               | -                      | -                      | 58,849               | 78,333               |
| Investment income                              | 550,958              | 129,127                | -                      | 680,085              | 644,642              |
| Net gains on investments                       | 810,207              | 691,804                | -                      | 1,502,011            | 1,634,587            |
| Funds released from restrictions               | 1,290,738            | (1,290,738)            | -                      | -                    | -                    |
| <b>Total revenues, gains and other support</b> | <b>7,661,465</b>     | <b>880,722</b>         | <b>-</b>               | <b>8,542,187</b>     | <b>8,789,557</b>     |
| <b>Expenses</b>                                |                      |                        |                        |                      |                      |
| Programming                                    | 2,107,821            | -                      | -                      | 2,107,821            | 3,494,915            |
| Museum store                                   | 377,040              | -                      | -                      | 377,040              | 387,514              |
| Museum of Art Cafe, Inc.                       | 1,462,930            | -                      | -                      | 1,462,930            | 1,657,328            |
| Museum Parking, LLC                            | 37,990               | -                      | -                      | 37,990               | 33,094               |
| Management and general                         | 936,672              | -                      | -                      | 936,672              | 1,363,240            |
| Fundraising and development                    | 1,134,943            | -                      | -                      | 1,134,943            | 1,392,149            |
| Security, building and grounds                 | 1,703,355            | -                      | -                      | 1,703,355            | 1,247,678            |
| Art accessioned                                | -                    | -                      | -                      | -                    | 144,000              |
| Depreciation                                   | 637,608              | -                      | -                      | 637,608              | 656,397              |
| <b>Total expenses</b>                          | <b>8,398,359</b>     | <b>-</b>               | <b>-</b>               | <b>8,398,359</b>     | <b>10,376,315</b>    |
| Changes in net assets                          | (736,894)            | 880,722                | -                      | 143,828              | (1,586,758)          |
| Net assets, beginning of year                  | 20,854,736           | 9,316,764              | 9,368,838              | 39,540,338           | 41,127,096           |
| <b>Net assets, end of year</b>                 | <b>\$ 20,117,842</b> | <b>\$ 10,197,486</b>   | <b>\$ 9,368,838</b>    | <b>\$ 39,684,166</b> | <b>\$ 39,540,338</b> |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2018 and 2017**

|                                                                                          | <u>2018</u>         | <u>2017</u>         |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>                                              |                     |                     |
| Changes in net assets                                                                    | \$ 143,828          | \$ (1,586,758)      |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: |                     |                     |
| Depreciation                                                                             | 637,608             | 656,397             |
| Net gains on investments                                                                 | (1,502,011)         | (1,634,587)         |
| Changes in operating assets and liabilities:                                             |                     |                     |
| Grants and accounts receivable                                                           | (130,450)           | 146,453             |
| Inventory                                                                                | (96,878)            | (69,783)            |
| Prepaid expenses                                                                         | (264,100)           | 1,687,395           |
| Accounts payable                                                                         | (96,801)            | 47,659              |
| Accrued liabilities                                                                      | 5,610               | 10,327              |
|                                                                                          | <hr/>               | <hr/>               |
| Net cash used in operating activities                                                    | (1,303,194)         | (742,897)           |
| <b>Cash Flows from Investing Activities</b>                                              |                     |                     |
| Purchases of property and equipment                                                      | (73,886)            | (109,652)           |
| Purchases of investments                                                                 | (3,866,179)         | (1,477,238)         |
| Proceeds from sales of investments                                                       | 3,299,680           | 2,347,278           |
|                                                                                          | <hr/>               | <hr/>               |
| Net cash (used in) provided by investing activities                                      | (640,385)           | 760,388             |
| <b>Cash Flows from Financing Activities</b>                                              |                     |                     |
| Debt principal payments                                                                  | (43,974)            | (48,442)            |
|                                                                                          | <hr/>               | <hr/>               |
| Net decrease in cash                                                                     | (1,987,553)         | (30,951)            |
| Cash, beginning of year                                                                  | 3,703,297           | 3,734,248           |
|                                                                                          | <hr/>               | <hr/>               |
| Cash, end of year                                                                        | <u>\$ 1,715,744</u> | <u>\$ 3,703,297</u> |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                  |                     |                     |
| Cash paid for interest                                                                   | <u>\$ 25,430</u>    | <u>\$ 23,483</u>    |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**Note 1 – Organization**

Oklahoma City Museum of Art, Inc. (the Museum) is located in the Donald W. Reynolds Visual Arts Center which features three floors of galleries showcasing the Museum's permanent collection and temporary exhibitions organized by the Museum, and traveling exhibitions featured from art museums throughout the United States and abroad. The Museum showcases the only comprehensive independent, foreign, and repertory film program in the region. The Museum is accredited by the American Alliance of Museums and is a member of the Association of Art Museum Directors. Its mission is to enrich lives through the visual arts.

The Museum's wholly-owned subsidiaries are Museum of Art Cafe, Inc. (the Cafe), which provides full-service lunch and dinner in a casually elegant dining atmosphere, and Museum Parking, LLC (Parking), which owns a parking lot near the Museum. Parking leases the parking lot to a third-party operator.

**Note 2 – Summary of Significant Accounting Policies**

Consolidated financial statements

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

Summarized comparative financial information

The consolidated statements of activities include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the consolidated financial statements for fiscal year 2017 from which the summarized information was derived.

Basis of accounting and reporting

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, 2018 and 2017, unrestricted net assets of \$5,334,184 and \$4,854,125, respectively, were designated to be held in reserve by the Board of Trustees (see Note 8).
- Temporarily restricted net assets represent funds with donor-designated restrictions for acquisitions, 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.

Investments

Investments are stated at fair value which is based on quoted market prices, if available, or by a reasonable estimate of fair value for fixed income securities, with gains and losses reported in the financial statements. Donated investments are initially recorded at fair value at the date of donation.



### Property and equipment

Property and equipment is recorded at cost or fair value at the 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.

### Permanent art collection

The Museum's permanent art collection is made up of historically significant art, photography, works on paper, 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. The permanent collection forms the basis for special exhibitions on art historical topics and is used to conduct research and disseminate new scholarship to the general public. The Museum hosts special exhibitions organized by other institutions permitting a range of subject matter and works of art outside the scope of the Museum's own collection. A diversity of educational programs, ranging from tours, classes, in-gallery experiences, and lectures, are geared to visitors of all ages. The Museum is accessible to individuals with physical and sensory disabilities.

The Museum Film Program collects historic and contemporary arts of moving images. Additionally, it is the only cinema in the region showing independent, foreign, and repertory programming. The Samuel Noble Theatre screens films Thursday through Sunday.

Works of art, 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 financial statements. 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 financial statements. 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

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor's 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 financial statements as funds released from restrictions. Gifts received with restrictions, which are met in the same reporting period as their receipt, are reported as unrestricted support.

Gifts of land, buildings, and equipment are reported 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, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bequests are reported as temporarily restricted support 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. However, the Museum is subject to federal income tax on any unrelated business taxable income.

### Allocation of expenses

Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Museum providing those services.

### Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 and investments. Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect the investment balances and the amounts reported in the financial statements.

### Reclassifications

Certain reclassifications have been made to the 2017 financial statement information to conform to the current-year presentation. These reclassifications had no effect on total net assets or the change in total net assets in 2017.

### Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU decreases the number of net asset classes from three to two, requires reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments, requires disclosures of how an entity manages its liquid available resources to meet cash needs for general expenditures within one year and the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year, and requires reporting of expenses by nature and function, as well as an analysis of these expenses. The ASU must be adopted on a retrospective basis and early adoption is permitted. The ASU will be effective for the Museum for its fiscal year ending on June 30, 2019. The Museum is currently evaluating the effects adoption of the ASU will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. As deferred by ASU 2015-14, the update is effective for the Museum for its fiscal year ending on June 30, 2020. The standard permits the use of either the retrospective or cumulative effect transition method. The Museum is currently evaluating the effects adoption of the ASU will have on its financial statements.

### Subsequent events

Management has evaluated subsequent events through November 14, 2018, the date the financial statements were available to be issued.

### **Note 3 – 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:

|                                                                             | 2018                 | 2017                 |
|-----------------------------------------------------------------------------|----------------------|----------------------|
| Raymond A. and Verna N. Young Endowment (A)                                 | \$ 2,212,635         | \$ 2,015,096         |
| Westheimer Family Endowment (B)                                             | 1,332,316            | 1,253,037            |
| Thatcher Hoffman Smith Film Endowment (C)                                   | 976,204              | 912,582              |
| Sarkeys Foundation Arts Education Endowment (D)                             | 665,638              | 625,437              |
| Sonic America's Drive-In Arts Education Endowment (E)                       | 335,154              | 317,552              |
| Museum Legacy Endowment (F)                                                 | 7,075,210            | 6,871,969            |
| Donald W. Reynolds Visual Arts Center Building<br>Maintenance Endowment (G) | 4,883,841            | 4,612,417            |
| Records Family Endowment (H)                                                | 406,282              | 381,848              |
| Certificates of deposit and money market mutual fund                        | 924,780              | -                    |
|                                                                             | <u>\$ 18,812,060</u> | <u>\$ 16,989,938</u> |

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

- (A) The fund is unrestricted for use in general operations of the Museum.
- (B) The fund and related interest and unrealized investment gains 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.
- (C) This is a permanent endowment, with the principal required to be maintained in perpetuity, and the interest being expendable to support the Museum's comprehensive film program.
- (D) This is a permanent endowment, with the principal required to be maintained in perpetuity, and the interest being expendable to support art education programming.
- (E) This is a permanent endowment, with the principal required to be maintained in perpetuity, and the interest being expendable to support education programming.
- (F) This fund includes contributions intended to provide for a permanent endowment for the Museum. Interest and unrealized investment gains generated by the endowment principal may be used for general Museum operations.
- (G) This fund is temporarily restricted for maintenance of the Museum in the Donald W. Reynolds Visual Arts Center facility.
- (H) This fund is a permanent endowment to support Museum operations. Interest and unrealized gains generated by the endowment principal may be used for general Museum operations.

#### Note 4 – Contributions to Oklahoma City Community Foundation, Inc.

A separate fund, Oklahoma City Museum of Art Affiliated Fund of The Oklahoma City Community Foundation, Inc. (the Affiliated Fund), is established at the Oklahoma City Community Foundation (OCCF). Contributions received after 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 OCCF's Board of Directors. As a result, OCCF has variance power and the Museum has not recorded these funds in the financial statements, except as detailed below.

Funds held by OCCF, at fair value, on behalf of the Museum and recognized in the accompanying financial statements as beneficial interest in assets held by others are as follows at June 30:

|                                                                                                                            | 2018             | 2017             |
|----------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Oklahoma City Museum of Art Funds                                                                                          | \$ 2,099,729     | \$ 2,048,068     |
| Fee-Milligan Operating Endowment                                                                                           | 199,141          | 194,241          |
| The James C. and Virginia W. Meade Acquisitions Fund for 18 <sup>th</sup><br>and 19 <sup>th</sup> Century American Art (A) | 1,531,247        | 1,425,890        |
| Carolyn A. Hill Collections Endowment (B)                                                                                  | 1,159,075        | 1,079,326        |
| James C. Meade Friends Lecture Series Endowment Fund                                                                       | 184,906          | 180,185          |
|                                                                                                                            | <u>5,174,098</u> | <u>4,927,710</u> |

Funds contributed by third parties and held by OCCF, with variance power retained by OCCF, and not recognized in the accompanying financial statements as beneficial interest in assets held by others are as follows at June 30:

|                                                     |                      |                     |
|-----------------------------------------------------|----------------------|---------------------|
| Oklahoma City Museum of Art Affiliated Fund         | 4,786,924            | 4,605,709           |
| Pauline Morrison Ledbetter Fund                     | 344,006              | 343,184             |
| Oklahoma City Museum of Art Acquisitions Fund       | 65,654               | 61,360              |
|                                                     | <u>5,196,584</u>     | <u>5,010,253</u>    |
| Total funds held by OCCF                            | <u>\$ 10,370,682</u> | <u>\$ 9,937,963</u> |
| Investment income distributed to the Museum by OCCF | <u>\$ 329,824</u>    | <u>\$ 323,285</u>   |

(A) This endowment is for the purpose of supporting acquisitions for the Museum's collections and furtherance of the Museum's mission. The annual distribution from this endowment will be subject to the Museum's Endowment Distribution Policy as described in Note 8.

(B) This endowment is for the purpose of supporting acquisitions for the Museum's collections. The annual distribution from this endowment will be subject to the Museum's Endowment Distribution Policy as described in Note 8.

## Note 5 – 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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at June 30, 2018 and 2017. During the years ended June 30, 2018 and 2017, there were no transfers of financial instruments into or out of Level 3.

Following is a description of the valuation methodologies used for assets measured at fair value:

Where quoted market prices are available in an active market, investments are classified within Level 1. Level 1 investments primarily include cash and cash equivalent, certificates of deposit, mutual funds, and exchange traded funds.

Where quoted market prices are not available, fair values are estimated by using pricing models, quoted prices of investments with similar characteristics, or discounted cash flows. Inputs used include broker/dealer quotes and other data which are obtained from independent pricing services. These investments are classified within Level 2 and primarily include fixed income securities.

In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Museum has beneficial interests in assets held by others which are reported at fair value based on fair value of underlying investments held by OCCF (Level 3 inputs).

This table sets forth by level, within the fair value hierarchy, assets at fair value at June 30, 2018:

|                                    | Level 1              | Level 2             | Level 3             | Total                |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Cash and cash equivalents          | \$ 69,685            | \$ -                | \$ -                | \$ 69,685            |
| Certificates of deposit            | 674,753              | -                   | -                   | 674,753              |
| Mutual funds                       | 897,346              | -                   | -                   | 897,346              |
| Exchange traded funds              | 9,367,582            | -                   | -                   | 9,367,582            |
| Fixed income securities            | -                    | 7,802,694           | -                   | 7,802,694            |
| Beneficial interest in assets held | -                    | -                   | 5,174,098           | 5,174,098            |
| Total assets at fair value         | <u>\$ 11,009,366</u> | <u>\$ 7,802,694</u> | <u>\$ 5,174,098</u> | <u>\$ 23,986,158</u> |

This table sets forth by level, within the fair value hierarchy, assets at fair value as of June 30, 2017:

|                                    | Level 1              | Level 2             | Level 3             | Total                |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Cash and equivalents               | \$ 645,518           | \$ -                | \$ -                | \$ 645,518           |
| Mutual funds                       | 641,176              | -                   | -                   | 641,176              |
| Exchange traded funds              | 9,100,041            | -                   | -                   | 9,100,041            |
| Fixed income securities            | -                    | 6,603,203           | -                   | 6,603,203            |
| Beneficial interest in assets held | -                    | -                   | 4,927,710           | 4,927,710            |
| <b>Total assets at fair value</b>  | <b>\$ 10,386,735</b> | <b>\$ 6,603,203</b> | <b>\$ 4,927,710</b> | <b>\$ 21,917,648</b> |

Beneficial interest in assets held by others (Beneficial Interest) is measured at fair value using Level 3 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.

Following is a reconciliation of the beginning and ending balances of fair value measurements using significant unobservable inputs (Level 3) for the years ended June 30:

|                                                                                                                                                                                       | 2018                  | 2017                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Beginning balance                                                                                                                                                                     | \$ 4,927,710          | \$ 4,566,051          |
| Total realized and unrealized gains included in investment return                                                                                                                     | 361,681               | 478,119               |
| Distributions to the Museum                                                                                                                                                           | (115,293)             | (116,460)             |
| Ending balance                                                                                                                                                                        | <u>\$ 5,174,098</u>   | <u>\$ 4,927,710</u>   |
| <br>The amount of total gains for the year included in investment return attributable to the change in unrealized gains or losses relating to assets still held at the reporting date | <br><u>\$ 361,681</u> | <br><u>\$ 478,119</u> |

## Note 6 – Property and Equipment

Property and equipment consists of the following at June 30:

|                           | 2018                 | 2017                 |
|---------------------------|----------------------|----------------------|
| Land                      | \$ 901,909           | \$ 901,909           |
| Building and improvements | 20,768,764           | 20,768,764           |
| Furniture and fixtures    | 1,620,019            | 1,571,401            |
| Equipment                 | 1,804,457            | 1,779,191            |
|                           | 25,095,149           | 25,021,265           |
| Accumulated depreciation  | <u>(11,375,508)</u>  | <u>(10,737,902)</u>  |
|                           | <u>\$ 13,719,641</u> | <u>\$ 14,283,363</u> |

## Note 7 – Restricted Net Assets

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

|                                | 2018                 | 2017                |
|--------------------------------|----------------------|---------------------|
| Art acquisition                | \$ 1,401,072         | \$ 1,236,030        |
| Art education endowment        | 250,442              | 192,640             |
| Building maintenance endowment | 4,883,841            | 4,612,417           |
| Film endowment                 | 235,818              | 172,196             |
| General Museum (OCCF)          | 2,298,870            | 2,242,309           |
| Museum operations endowment    | 98,442               | 74,009              |
| Meade Lecture Series (OCCF)    | 40,281               | 35,560              |
| Programming                    | 988,720              | 751,603             |
|                                | <u>\$ 10,197,486</u> | <u>\$ 9,316,764</u> |

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

|                             | 2018                | 2017                |
|-----------------------------|---------------------|---------------------|
| Art acquisition (OCCF)      | \$ 1,629,373        | \$ 1,629,373        |
| Meade Lecture Series (OCCF) | 144,625             | 144,625             |
| Art education endowment     | 750,350             | 750,350             |
| Museum endowment            | 5,796,264           | 5,796,264           |
| Film endowment              | 740,386             | 740,386             |
| Museum operations endowment | 307,840             | 307,840             |
|                             | <u>\$ 9,368,838</u> | <u>\$ 9,368,838</u> |

## Note 8 – 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 investment allocation goal of 55% equities and 45% 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 at June 30, 2018:

|                                  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|----------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Donor-restricted endowment funds | \$ -                | \$ 5,468,542              | \$ 7,594,840              | \$13,063,382        |
| Board-designated endowment funds | 5,334,184           | -                         | -                         | 5,334,184           |
| Total funds                      | <u>\$ 5,334,184</u> | <u>\$ 5,468,542</u>       | <u>\$ 7,594,840</u>       | <u>\$18,397,566</u> |

Changes in endowment fund net assets for the year ended June 30, 2018, consist of the following:

|                                              | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|----------------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Endowment fund net assets, beginning of year | \$ 4,854,125        | \$ 5,051,262              | \$ 7,594,840              | \$17,500,227        |
| Investment return:                           |                     |                           |                           |                     |
| Investment income                            | 154,852             | 111,090                   | -                         | 265,942             |
| Net appreciation                             | 737,661             | 508,203                   | -                         | 1,245,864           |
|                                              | 892,513             | 619,293                   | -                         | 1,511,806           |
| Contributions                                | 72,546              | -                         | -                         | 72,546              |
| Appropriation for expenditure                | (485,000)           | (202,013)                 | -                         | (687,013)           |
| Endowment fund net assets, end of year       | <u>\$ 5,334,184</u> | <u>\$ 5,468,542</u>       | <u>\$ 7,594,840</u>       | <u>\$18,397,566</u> |



Endowment net asset composition by type of fund at June 30, 2017:

|                                  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|----------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Donor-restricted endowment funds | \$ -                | \$ 5,051,262              | \$ 7,594,840              | \$12,646,102        |
| Board-designated endowment funds | 4,854,125           | -                         | -                         | 4,854,125           |
| Total funds                      | <u>\$ 4,854,125</u> | <u>\$ 5,051,262</u>       | <u>\$ 7,594,840</u>       | <u>\$17,500,227</u> |

Changes in endowment fund net assets for the year ended June 30, 2017, consist of the following:

|                                              | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|----------------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Endowment fund net assets, beginning of year | \$ 4,441,000        | \$ 4,689,442              | \$ 7,579,840              | \$16,710,282        |
| Investment return:                           |                     |                           |                           |                     |
| Investment income                            | 150,011             | 106,219                   | -                         | 256,230             |
| Net appreciation                             | 744,114             | 512,400                   | -                         | 1,256,514           |
|                                              | 894,125             | 618,619                   | -                         | 1,512,744           |
| Contributions                                | -                   | -                         | 15,000                    | 15,000              |
| Appropriation for expenditure                | <u>(481,000)</u>    | <u>(256,799)</u>          | -                         | <u>(737,799)</u>    |
| Endowment fund net assets, end of year       | <u>\$ 4,854,125</u> | <u>\$ 5,051,262</u>       | <u>\$ 7,594,840</u>       | <u>\$17,500,227</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 at June 30, 2018 or 2017.

**SUPPLEMENTAL INFORMATION**

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

**June 30, 2018**

|                                                            | Museum               | Cafe              | Parking             | Eliminating<br>Entries | Total                |
|------------------------------------------------------------|----------------------|-------------------|---------------------|------------------------|----------------------|
| <b>Assets</b>                                              |                      |                   |                     |                        |                      |
| Cash                                                       | \$ 1,635,369         | \$ (4,425)        | \$ 84,800           | \$ -                   | \$ 1,715,744         |
| Grants and accounts receivable                             | 459,242              | 57,004            | 15,682              | (72,108)               | 459,820              |
| Inventory, net                                             | 329,851              | 56,661            | -                   | -                      | 386,512              |
| Prepaid expenses                                           | 353,160              | 11,889            | 498                 | -                      | 365,547              |
| Investments                                                | 18,209,712           | -                 | 674,753             | (72,405)               | 18,812,060           |
| Beneficial interest in assets held by others               | 5,174,098            | -                 | -                   | -                      | 5,174,098            |
| Property and equipment, net<br>Art and library collections | 12,811,124           | 23,039            | 885,478             | -                      | 13,719,641           |
| <b>Total assets</b>                                        | <b>\$ 38,972,556</b> | <b>\$ 144,168</b> | <b>\$ 1,661,211</b> | <b>\$ (144,513)</b>    | <b>\$ 40,633,422</b> |
| <b>Liabilities and Net Assets</b>                          |                      |                   |                     |                        |                      |
| <b>Liabilities:</b>                                        |                      |                   |                     |                        |                      |
| Accounts payable                                           | \$ 145,955           | \$ 46,302         | \$ -                | \$ (45,056)            | \$ 147,201           |
| Accrued liabilities                                        | 208,996              | 25,460            | 5,200               | (27,052)               | 212,604              |
| Long-term debt                                             | -                    | -                 | 589,451             | -                      | 589,451              |
| <b>Total liabilities</b>                                   | <b>354,951</b>       | <b>71,762</b>     | <b>594,651</b>      | <b>(72,108)</b>        | <b>949,256</b>       |
| <b>Net assets:</b>                                         |                      |                   |                     |                        |                      |
| Unrestricted                                               | 19,051,281           | 72,406            | 1,066,560           | (72,405)               | 20,117,842           |
| Temporarily restricted                                     | 10,197,486           | -                 | -                   | -                      | 10,197,486           |
| Permanently restricted                                     | 9,368,838            | -                 | -                   | -                      | 9,368,838            |
| <b>Total net assets</b>                                    | <b>38,617,605</b>    | <b>72,406</b>     | <b>1,066,560</b>    | <b>(72,405)</b>        | <b>39,684,166</b>    |
| <b>Total liabilities and net assets</b>                    | <b>\$ 38,972,556</b> | <b>\$ 144,168</b> | <b>\$ 1,661,211</b> | <b>\$ (144,513)</b>    | <b>\$ 40,633,422</b> |

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

**CONSOLIDATING STATEMENT OF ACTIVITIES**

**Year ended June 30, 2018**

|                                                | Museum               | Cafe             | Parking             | Eliminating<br>Entries | Total                |
|------------------------------------------------|----------------------|------------------|---------------------|------------------------|----------------------|
| <b>Revenues, Gains and Other Support</b>       |                      |                  |                     |                        |                      |
| Contributions                                  | \$ 2,644,557         | \$ -             | \$ -                | \$ -                   | \$ 2,644,557         |
| Fundraising events                             | 583,994              | -                | -                   | -                      | 583,994              |
| Memberships                                    | 508,830              | -                | -                   | -                      | 508,830              |
| Admissions                                     | 478,972              | -                | -                   | -                      | 478,972              |
| Museum store sales                             | 312,429              | -                | -                   | -                      | 312,429              |
| Museum of Art Cafe, Inc. sales                 | -                    | 1,434,081        | -                   | (73,039)               | 1,361,042            |
| Museum Parking, LLC income                     | -                    | -                | 188,767             | -                      | 188,767              |
| In-kind donations                              | 222,651              | -                | -                   | -                      | 222,651              |
| Miscellaneous                                  | 132,631              | -                | -                   | (73,782)               | 58,849               |
| Investment income                              | 680,085              | -                | -                   | -                      | 680,085              |
| Net gains on investments                       | 1,502,011            | -                | -                   | -                      | 1,502,011            |
| Net loss on investment in Cafe                 | (111,545)            | -                | -                   | 111,545                | -                    |
| <b>Total revenues, gains and other support</b> | <b>6,954,615</b>     | <b>1,434,081</b> | <b>188,767</b>      | <b>(35,276)</b>        | <b>8,542,187</b>     |
| <b>Expenses</b>                                |                      |                  |                     |                        |                      |
| Programming                                    | 2,107,821            | -                | -                   | -                      | 2,107,821            |
| Museum store                                   | 377,040              | -                | -                   | -                      | 377,040              |
| Museum of Art Cafe, Inc.                       | -                    | 1,536,712        | -                   | (73,782)               | 1,462,930            |
| Museum Parking, LLC                            | -                    | -                | 37,990              | -                      | 37,990               |
| Management and general                         | 936,672              | -                | -                   | -                      | 936,672              |
| Fundraising and development                    | 1,207,982            | -                | -                   | (73,039)               | 1,134,943            |
| Security, building and grounds                 | 1,703,355            | -                | -                   | -                      | 1,703,355            |
| Depreciation                                   | 625,369              | 8,913            | 3,326               | -                      | 637,608              |
| <b>Total expenses</b>                          | <b>6,958,239</b>     | <b>1,545,625</b> | <b>41,316</b>       | <b>(146,821)</b>       | <b>8,398,359</b>     |
| Change in net assets                           | (3,624)              | (111,544)        | 147,451             | 111,545                | 143,828              |
| Capital contribution                           | -                    | 243,136          | -                   | (243,136)              | -                    |
| Net assets, beginning of year                  | 38,621,229           | (59,186)         | 919,109             | 59,186                 | 39,540,338           |
| <b>Net assets, end of year</b>                 | <b>\$ 38,617,605</b> | <b>\$ 72,406</b> | <b>\$ 1,066,560</b> | <b>\$ (72,405)</b>     | <b>\$ 39,684,166</b> |