



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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2010 and 2009

WITH

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Oklahoma City Museum of Art, Inc.

We have audited the accompanying consolidated statements of financial position of Oklahoma City Museum of Art, Inc. and Subsidiaries (OKCMOA) as of June 30, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OKCMOA's management. Our responsibility is to express an opinion on these financial statements based on our audits. The summarized comparative information for the year ended June 30, 2009, has been derived from the OKCMOA's 2009 financial statements and, in our report dated October 29, 2009, we expressed an unqualified opinion on those financial statements. The summarized comparative information for the year ended June 30, 2008, has been derived from the OKCMOA's 2008 financial statements and, in our report dated September 30, 2008, we expressed an unqualified opinion on those financial statements. Hogan & Slovacek P.C. audited the financial statements of OKCMOA for the year ended June 30, 2008, and merged with Tullius Taylor Sartain & Sartain LLP to form HoganTaylor LLP effective January 1, 2009.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OKCMOA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OKCMOA as of June 30, 2010 and 2009, and the consolidated results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information detailing the consolidating statement of financial position as of June 30, 2010, and the consolidating statement of activities and changes in net assets for the year then ended are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This additional information is the responsibility of OKCMOA's management. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects to the basic consolidated financial statements taken as a whole.

HoganTaylor LLP

October 5, 2010

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	2010	2009
Assets		
Cash	\$ 1,675,110	\$ 1,856,011
Grants and accounts receivable	75,071	44,374
Inventory, net	263,169	309,604
Prepaid expenses and other assets	231,426	597,262
Other restricted cash	545,421	710,287
Grants and accounts receivable with restrictions	231,551	306,613
Investments	1,990,065	367,097
Investments with restrictions	10,404,387	9,975,278
Beneficial interest in assets held by OCCF	2,904,873	2,659,450
Property, plant and equipment, net	18,097,544	17,993,762
	\$ 36,418,611	\$ 34,819,738
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 64,721	\$ 77,512
Accrued liabilities	366,961	153,695
Note payable	835,000	-
	1,266,682	231,207
Net assets:		
Unrestricted	20,695,414	20,735,833
Temporarily restricted	5,725,346	5,140,529
Permanently restricted	8,731,169	8,712,169
	35,151,929	34,588,531
Total net assets	35,151,929	34,588,531
Total liabilities and net assets	\$ 36,418,611	\$ 34,819,738

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS**

Year ended June 30, 2010
(and Summarized Totals for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	Summarized Totals for 2009
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 198,660	\$ 37,548	\$ 9,000	\$ 245,208	\$ 1,492,564
Corporate and other	324,099	41,500	-	365,599	633,960
Allied Arts	356,020	-	-	356,020	356,488
Grants and foundations	595,502	560,600	10,000	1,166,102	1,248,550
	1,474,281	639,648	19,000	2,132,929	3,731,562
Fundraising events	407,732	-	-	407,732	333,687
Memberships	433,951	-	-	433,951	437,425
Admissions	514,864	-	-	514,864	782,032
Museum store sales	261,492	-	-	261,492	386,322
Museum of Art Café sales	1,078,080	-	-	1,078,080	1,233,080
Museum of Art Café catering sales	192,488	-	-	192,488	248,968
Parking income	44,557	-	-	44,557	-
In-kind donations	128,694	-	-	128,694	62,257
Miscellaneous	114,228	-	-	114,228	167,989
Investment income	520,790	138,038	-	658,828	646,533
Net unrealized gains (losses) on investments	517,364	641,934	-	1,159,298	(2,041,390)
Funds released from restrictions	834,803	(834,803)	-	-	-
Total revenues, gains and other support	6,523,324	584,817	19,000	7,127,141	5,988,465
Expenses					
Programming	1,574,551	-	-	1,574,551	3,269,745
Museum store	270,402	-	-	270,402	378,788
Museum of Art Café	1,202,349	-	-	1,202,349	1,352,389
Museum Parking	21,309	-	-	21,309	-
Management and general	1,033,125	-	-	1,033,125	983,473
Fundraising and development	640,089	-	-	640,089	709,395
Security, building and grounds	835,680	-	-	835,680	903,196
Art accessioned	237,046	-	-	237,046	588,373
Depreciation	749,192	-	-	749,192	779,545
Total expenses	6,563,743	-	-	6,563,743	8,964,904
Changes in net assets	(40,419)	584,817	19,000	563,398	(2,976,439)
Net assets, beginning of year	20,735,833	5,140,529	8,712,169	34,588,531	37,564,970
Net assets, end of year	\$ 20,695,414	\$ 5,725,346	\$ 8,731,169	\$ 35,151,929	\$ 34,588,531

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS**

Year ended June 30, 2009
(and Summarized Totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	Summarized Totals for 2008
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 1,235,124	\$ 40,000	\$ 217,440	\$ 1,492,564	\$ 1,083,571
Corporate and other	428,460	190,000	15,500	633,960	595,245
Allied Arts	356,488	-	-	356,488	263,319
Grants and foundations	589,800	648,500	10,250	1,248,550	2,114,050
	2,609,872	878,500	243,190	3,731,562	4,056,185
Fundraising events	333,687	-	-	333,687	506,950
Memberships	437,425	-	-	437,425	436,725
Admissions	782,032	-	-	782,032	395,486
Museum store sales	386,322	-	-	386,322	362,798
Museum of Art Café sales	1,233,080	-	-	1,233,080	1,123,318
Museum of Art Café catering sales	248,968	-	-	248,968	268,259
In-kind donations	62,257	-	-	62,257	133,113
Miscellaneous	167,989	-	-	167,989	166,003
Investment income	483,000	163,533	-	646,533	857,677
Net unrealized losses on investments	(1,270,833)	(770,557)	-	(2,041,390)	(1,095,216)
Funds released from restrictions	1,283,834	(1,528,954)	245,120	-	-
Total revenues, gains and other support	6,757,633	(1,257,478)	488,310	5,988,465	7,211,298
Expenses					
Programming	3,269,745	-	-	3,269,745	1,686,430
Museum store	378,788	-	-	378,788	328,711
Museum of Art Café	1,352,389	-	-	1,352,389	1,264,589
Management and general	983,473	-	-	983,473	852,763
Fundraising and development	709,395	-	-	709,395	740,591
Security, building and grounds	903,196	-	-	903,196	898,976
Art accessioned	588,373	-	-	588,373	746,409
Depreciation	779,545	-	-	779,545	813,900
Total expenses	8,964,904	-	-	8,964,904	7,332,369
Changes in net assets	(2,207,271)	(1,257,478)	488,310	(2,976,439)	(121,071)
Net assets, beginning of year	22,943,104	6,398,007	8,223,859	37,564,970	37,686,041
Net assets, end of year	\$ 20,735,833	\$ 5,140,529	\$ 8,712,169	\$ 34,588,531	\$ 37,564,970

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 563,398	\$ (2,976,439)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	749,192	779,545
Net unrealized (gain) loss on investments	(1,159,298)	2,041,390
Changes in operating assets and liabilities:		
Grants and accounts receivable	(30,697)	31,824
Inventory	46,435	38,507
Prepaid expenses and other assets	365,836	1,301,015
Grants and accounts receivable with restrictions	72,497	(140,980)
Accounts payable and accrued liabilities	200,475	(64,776)
	807,838	1,010,086
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(852,974)	(231,868)
Purchases of investments	(1,249,461)	(212,974)
Purchases of investments with restrictions	(411,038)	(1,084,758)
Proceeds from sale of investments	143,857	756,718
Proceeds from sale of investments with restrictions	381,011	336,403
Decrease in restricted cash	164,866	750,474
	(1,823,739)	313,995
Net cash (used in) provided by investing activities		
Cash Flows from Financing Activities		
Proceeds from note payable	835,000	-
	835,000	-
Net (decrease) increase in cash		
Cash, beginning of year	1,856,011	531,930
	1,675,110	1,856,011
Cash, end of year		
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 14,980	\$ -
	\$ 14,980	\$ -
Cash paid for taxes	\$ 5,868	\$ 8,179
	\$ 5,868	\$ 8,179

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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 enhance lives through the visual arts.

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). The Café 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 on January 28, 2009, 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 consolidated financial statements of the Oklahoma City Museum of Art, Inc. and subsidiaries include the accounts of the Museum, the Café, and Museum Parking, LLC (collectively OKCMOA). All material intercompany transactions have been eliminated.

Basis of accounting and reporting

The consolidated financial statements of OKCMOA are prepared on the accrual basis of accounting. Separate funds are utilized to account for the Museum's various activities. The assets, liabilities and net assets of OKCMOA are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of OKCMOA operations. At June 30, 2010 and 2009, unrestricted net assets of \$2,552,567 and \$2,395,307, respectively, were designated for specific purposes by the Museum's Board of Trustees.

- 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. OKCMOA maintains its cash balances in high credit quality financial institutions. At times, OKCMOA's cash may exceed federally insured limits, but OKCMOA believes any possible credit risk is minimal.

At June 30, 2010 and 2009, cash includes \$545,421 and \$710,287, respectively, of contributions restricted by the donor for specific purposes.

The Westheimer Family Endowment represents funds designated for use in the Museum's programs and operations by the Museum's Board of Directors. At June 30, 2009, the balance of the Westheimer Family Endowment was \$1,000,000 which was included in unrestricted cash in the consolidated statements of financial position. In 2010, the Museum invested these funds in accordance with its investment policy.

Receivables

The Museum has receivables, reflected as grants and accounts receivable, grants and accounts receivable with restrictions, and campaign pledges receivable in the accompanying consolidated statements of financial position, which represent promises to give that have been made by donors, but have not yet been received by the Museum. The Museum provides an allowance for doubtful accounts based upon a review of the current status of its receivables. At June 30, 2010 and 2009, respectively, no allowance for doubtful accounts was deemed necessary by the Museum.

Due to the nature of these pledges, significant increases and decreases in net assets may occur. These significant fluctuations can arise as contributions and are recognized as support in the period in which they are pledged, but the expenses incurred with such contributions may occur in a different period.

Inventories

Inventories, which include products for sale in the Museum store, food and beverage items in the Café, and miscellaneous supplies, are stated at the lower of cost or market determined by the first-in, first-out method.

Investments

Investments, which include money market instruments, equity securities, U.S. government securities, and corporate bonds and debentures, are stated at estimated fair value (based on quoted market prices) with unrealized gains and losses reported in the consolidated statement of activities for the year. Donated investment instruments are initially recorded at estimated fair value at the date of donation.

Property, plant and equipment

Property, plant and equipment is recorded at historical cost or estimated 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. Maintenance and repair costs are expensed as incurred, while renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the consolidated statement of activities for the period.

Art and library collections

The Museum's art and library collections, which were acquired through purchases and contributions since the Museum's inception, are not capitalized and recognized as assets on 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.

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.

The Museum records contributions made by donors on their behalf to a not-for-profit organization or charitable trust as an asset, unless the donor has explicitly granted the recipient organization variance power. However, the Museum records contributions made to a not-for-profit organization or charitable trust as an asset regardless if variance power exists, if the Museum has designated itself as beneficiary. Variance power is defined as the unilateral power to redirect the use of the assets to another beneficiary.

Income tax status

The Museum is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. As a result, as long as the Museum maintains its tax exemption, it will not be subject to income tax. Café income taxes are accounted for under the asset and liability method.

The Financial Standards Board issued new guidance on accounting for uncertainty in income taxes. The Museum adopted this new guidance for the year ended June 30, 2010. Management evaluated the Museum's tax positions and concluded that the Museum had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Museum is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2007.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires OKCMOA 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 OKCMOA to credit risk, consist of grants and accounts receivable, grants and accounts receivable with restrictions, campaign pledges receivable and investments. Credit risk for all of OKCMOA's receivables is concentrated because the majority of the balances are receivable from individuals located within the same geographic region.

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 statements of financial position and the consolidated statements of activities.

Advertising expense

All advertising costs are expensed as incurred. Advertising expenses were approximately \$284,000 and \$359,000 for the years ended June 30, 2010 and 2009, respectively.

Nature of comparative totals for 2008

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Alone, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Note 3 – Donated Services

OKCMOA 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 \$40,000 for both the fiscal years 2010 and 2009, 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 – Grants and Accounts Receivable with Restrictions

Grants and accounts receivable with restrictions are available for the following purposes at June 30:

	2010	2009
Temporary restrictions:		
Exhibit furnishings	\$ 189,263	\$ 248,260
Personnel benefits	500	4,000
Other	26,788	29,353
Permanent restrictions:		
Acquisitions	15,000	25,000
	<u>\$ 231,551</u>	<u>\$ 306,613</u>

Grants and accounts receivable restricted for personnel benefits are from various members of the Board of Trustees.

Note 5 – Investments

In order 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:

	2010	2009
Investments:		
Young Endowment	\$ 1,066,450	\$ 895,307
Museum Legacy Endowment	(62,503)	(528,210)
Westheimer Family Endowment	986,118	-
	<u>1,990,065</u>	<u>367,097</u>
Investments with restrictions:		
Museum Acquisitions Trust	50,151	50,048
Beaux Arts Acquisitions Trust	180,066	139,595
Thatcher Hoffman Smith Film Endowment	639,695	585,910
Sarkeys Foundation Arts Education Endowment	478,690	429,833
Sonic America's Drive-In Arts Education Endowment	243,493	219,132
Museum Legacy Endowment	5,285,977	5,085,977
Donald W. Reynolds Visual Arts Center Building Maintenance Endowment	3,239,050	2,979,467
Records Family Endowment	287,259	258,382
Retirement fund	-	226,934
	<u>10,404,381</u>	<u>9,975,278</u>
	<u>\$12,394,446</u>	<u>\$10,342,375</u>

¹² In May 2009, the Board of Directors approved an inter-fund borrowing from the Raymond A. and Verna N. Young Endowment fund to operating cash in the amount of \$500,000. The purpose of the inter-fund borrowing was to address budget shortfalls and cash flow needs. Principal payments are to be repaid through budget surpluses over a term of five years. Interest expense on the borrowing is to be paid through operations. The remaining deficit shown above is a result of decreases in the investment's fair value due to market fluctuations (see Note 10). Subsequent to year-end, \$240,000 was paid from operating cash and applied to the inter-fund balance.

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.
- The retirement fund included funds solicited from donors to provide deferred compensation primarily for a select group of management and highly compensated employees. The retirement fund was temporarily restricted for this purpose. During the year ended June 30, 2010, the fund was paid and closed upon the retirement of these employees.

Investment income is reported net of related investment expenses. Investment expense was \$25,254 and \$29,614 for the years ended June 30, 2010 and 2009, respectively.

Note 6 – 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 market value:

	2010	2009
Recognized in the Museum's financial statements as beneficial interest in assets held by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	\$ 122,775	\$ 115,230
Fee Milligan Operating Endowment	1,590,585	1,196,397
The James C. and Virginia W. Meade Collections Endowment	949,881	845,416
Carolyn A. Hill Collections Endowment	241,632	202,407
	<u>2,904,873</u>	<u>2,659,450</u>
Funds held by OCCF with variance power retained by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	3,442,517	3,226,907
Oklahoma City Museum of Art Acquisitions Fund	70,612	66,103
Pauline Morrison Ledbetter Fund	231,873	207,913
	<u>3,745,002</u>	<u>3,500,923</u>
Total funds held by OCCF on behalf or for the benefit of the Museum	<u>\$ 6,649,875</u>	<u>\$ 6,160,373</u>
Investment income distributed to the Museum by OCCF	<u>\$ 282,451</u>	<u>\$ 298,411</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 market value of the entire Affiliated Fund, which includes the beneficial interest Endowment funds, was \$6,347,390 and \$5,886,357, at June 30, 2010 and 2009, 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 \$3,442,517 and \$3,226,907 at June 30, 2010 and 2009, 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. By approval of OCCF, the expendable balance in the Designated Fund was \$19,338 and \$16,582 at June 30, 2010 and 2009, respectively, and is recorded in grants and accounts receivable in the consolidated statements of financial position.

In August 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 the 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 May 2007, the OCCF received a direct gift of \$250,000 to establish the Pauline Morrison Ledbetter Fund to benefit OKCMOA. 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 and the gift was made directly to OCCF, the endowment is not recorded in the statement of financial position of OKCMOA. By approval of OCCF, the expendable balance in the Pauline Morrison Ledbetter Fund was \$7,450 and \$12,771 at June 30, 2009 and 2008, respectively, and is recorded in grants and accounts receivable in the consolidated statements of financial position.

In December 2008, the Museum established an endowment agreement with the 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 7 – Fair Value Measurements

During 2009, the Museum adopted the framework for measuring fair value in accordance with accounting standards that establishes a 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 securities.
- Level 2 – other significant observable inputs (including quoted prices for similar securities).
- Level 3 – significant unobservable inputs (including the Museum's own assumptions in determining the value of investments).

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, 2010:

	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 644,166	\$ -	\$ -	\$ 644,166
Equity investments	6,741,918	-	-	6,741,918
Fixed income securities	-	5,008,362	-	5,008,362
Beneficial interest in assets held at OCCF ¹	-	2,904,873	-	2,904,873
Total assets at fair value	<u>\$ 7,386,084</u>	<u>\$ 7,913,235</u>	<u>\$ -</u>	<u>\$ 15,299,319</u>

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 995,453	\$ -	\$ -	\$ 995,453
Equity investments	5,226,532	-	-	5,226,532
Fixed income securities	-	4,120,390	-	4,120,390
Beneficial interest in assets held at OCCF ¹	-	2,659,450	-	2,659,450
Total assets at fair value	<u>\$ 6,221,985</u>	<u>\$ 6,779,840</u>	<u>\$ -</u>	<u>\$ 13,001,825</u>

¹ See Note 6 for description of these assets measured at fair value.

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 8 – Property, Plant and Equipment

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

	2010	2009
Land	\$ 901,909	\$ 61,586
Building and improvements	20,627,806	20,627,806
Furniture and fixtures	1,391,473	1,391,472
Equipment	1,192,031	1,179,382
	<u>24,113,219</u>	<u>23,260,246</u>
Accumulated depreciation	(6,015,675)	(5,266,484)
	<u>\$ 18,097,544</u>	<u>\$ 17,993,762</u>

Note 9 – Temporarily and Permanently Restricted Net Assets

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

	2010	2009
Programming	\$ 534,997	\$ 248,260
Art acquisition	237,939	70,240
General Museum endowment	1,713,360	1,611,627
Employee retirement	-	230,934
Building maintenance endowment	3,239,050	2,979,468
	<u>\$ 5,725,346</u>	<u>\$ 5,140,529</u>

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

	2010	2009
Film endowment	\$ 651,136	\$ 636,136
Art education endowment	750,350	750,350
Capital campaign-Museum endowment	5,796,264	5,796,264
Museum operations	307,840	307,840
Art acquisition	1,225,579	1,221,579
	<u>\$ 8,731,169</u>	<u>\$ 8,712,169</u>

As described in Note 5, 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. For the years ended June 30, 2010 and 2009, there was no interest income earned on permanently restricted endowments.

Note 10 – 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 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 as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (122,692)	\$ 3,239,050	\$ 7,520,590	\$ 10,636,948
Board-designated endowment funds	2,552,567	-	-	2,552,567
Total funds	<u>\$ 2,429,875</u>	<u>\$ 3,239,050</u>	<u>\$ 7,520,590</u>	<u>\$ 13,189,515</u>

Changes in endowment fund net assets for the year ended June 30, 2010, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 1,666,027	\$ 3,206,401	\$ 7,515,590	\$ 12,388,018
Adjusted endowment fund net assets investment return:				
Investment income	201,063	85,723	-	286,786
Net appreciation	647,458	282,981	-	930,439
	<u>2,514,548</u>	<u>3,575,105</u>	<u>7,515,590</u>	<u>13,605,243</u>
Contributions	74,883	4,000	15,000	93,883
Appropriation of endowment assets for expenditure	(499,611)	-	-	(499,611)
Transfers to OCCF	-	-	(10,000)	(10,000)
Transfers to operating funds	340,055	(340,055)	-	-
Endowment fund net assets, end of year	<u>\$ 2,429,875</u>	<u>\$ 3,239,050</u>	<u>\$ 7,520,590</u>	<u>\$ 13,189,515</u>

Endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (729,280)	\$ 3,206,401	\$ 7,515,590	\$ 9,992,711
Board-designated endowment funds	2,395,307	-	-	2,395,307
Total funds	\$ 1,666,027	\$ 3,206,401	\$ 7,515,590	\$ 12,388,018

Changes in endowment fund net assets for the year ended June 30, 2009, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 1,812,509	\$ 3,852,572	\$ 7,218,845	\$ 12,883,926
Adjusted endowment fund net assets investment return:				
Investment income	187,774	192,473	-	380,247
Net depreciation	(1,077,538)	(598,912)	-	(1,676,450)
	922,745	3,446,133	7,218,845	11,587,723
Contributions	-	-	46,745	46,745
Appropriation of endowment assets for expenditure	(496,923)	-	-	(496,923)
Transfers to operating funds	240,205	(240,205)	-	-
Transfers to create board-designated endowment funds	1,000,000	-	-	1,000,000
Transfers to create investment fund	-	250,473	-	250,473
Transfers to permanent fund ³	-	(250,000)	250,000	-
Endowment fund net assets, end of year	\$ 1,666,027	\$ 3,206,401	\$ 7,515,590	\$ 12,388,018

³ Historically, this fund has been classified as a temporarily restricted fund, however, in 2009 the Museum received further direction from the donor, resulting in this fund being reclassified as a permanently restricted fund as of June 30, 2009.

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. In accordance with accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$122,692 and \$729,280 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Note 11 – Note Payable

In August 2009, Museum Parking, LLC, a wholly-owned subsidiary of the Museum, entered into an agreement to purchase a tract of land in the vicinity of the Museum's building currently functioning as a parking facility. The purchase was financed through a local bank. The promissory note for \$835,000 matures October 1, 2012, with interest payable monthly at the 30 day LIBOR rate plus 2.5% (2.85% at June 30, 2010).

Note 12 – Allocation of Expenses

OKCMOA allocates salaries and wages 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.

Note 13 – Employee Benefits

The Museum maintained a 403(b) Employee Salary Reduction Plan (the 403(b) Plan) which allowed employees to make savings contributions with pre-tax dollars. All full-time OKCMOA employees over age 18 were eligible to participate. Under the 403(b) Plan, the Museum did not make any contributions on behalf of participants. During 2010 all funds held in the Plan were distributed to plan participants.

In 2006, the Museum solicited contributions to enhance retirement benefits for its employees. During 2010 and 2009, the Museum did not receive any pledges in support of this program. At June 30, 2010 and 2009, \$500 and \$4,000, respectively, of these pledges are included in grants and contributions receivable with restrictions (see Note 4).

Effective January 1, 2006, the Museum established the Oklahoma City Museum of Art 457(b) Deferred Compensation Plan (the 457(b) Plan), which is intended to provide deferred compensation primarily for a select group of management and highly compensated employees covered by the 457(b) Plan. Eligible participants may make elective deferrals and the Museum, upon approval of the Board of Trustees, may make employer contributions. During the years ended June 30, 2010 and 2009, the Museum approved elective deferrals of \$16,500 and \$66,876, respectively, to the 457(b) Plan.

Effective January 1, 2007, the Museum established the Oklahoma City Museum of Art 401(k) Retirement Plan (the 401(k) Plan), which is offered to all employees of the Museum and the Café. Employees who have completed one year of credited service (as defined) and are at least 21 years of age are eligible to participate in the 401(k) Plan. In addition to employee elective deferrals into the 401(k) Plan, the Museum may make a matching contribution at the discretion of the Board of Trustees. Matching and other contributions by the Museum vest gradually over a six-year period. All reasonable expenses incurred in administering the 401(k) Plan are paid out of the principal or interest of the 401(k) Plan assets. The Museum may pay any such expenses of the 401(k) Plan at its discretion. During the years ended June 30, 2010 and 2009, the Museum approved matching or other retirement contributions of \$52,259 and \$73,036, respectively, to the 401(k) Plan.

Note 14 – Museum of Art Café

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 funds were advanced to the Café in 2010 or 2009.

Note 15 – Commitments

During the years ended June 30, 2010 and 2009, the Museum entered into contractual agreements with certain art exhibit leasing organizations for future exhibits. Exhibit lease commitments for the year ending June 30, 2011, are \$99,600. The Museum is soliciting contributions and other sources of support to fund these commitments.

Note 16 – Subsequent Events

Management has evaluated all subsequent events occurring since June 30, 2010, through October 5, 2010, the date of the independent auditors' report. There have been no subsequent events that would require changes to the accompanying financial statements or disclosures therein.

SUPPLEMENTAL INFORMATION

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

**CONSOLIDATING SCHEDULE –
STATEMENT OF FINANCIAL POSITION INFORMATION**

June 30, 2010

	Museum *	Café	Eliminating Entries	Total
Assets				
Cash	\$ 1,569,392	\$ 105,718	\$ -	\$ 1,675,110
Grants and accounts receivable	50,995	35,213	(11,137)	75,071
Inventory	210,868	52,301	-	263,169
Prepaid expenses and other assets	214,162	17,264	-	231,426
Other restricted cash	545,421	-	-	545,421
Grants and accounts receivable with restrictions	231,551	-	-	231,551
Investments	2,149,497	-	(159,432)	1,990,065
Investments with restrictions	10,404,381	-	-	10,404,381
Beneficial interest in assets held by OCCF	2,904,873	-	-	2,904,873
Property, plant and equipment, net	18,080,921	16,623	-	18,097,544
Total assets	<u>\$ 36,362,061</u>	<u>\$ 227,119</u>	<u>\$ (170,569)</u>	<u>\$ 36,418,611</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 35,216	\$ 40,642	\$ (11,137)	\$ 64,721
Accrued liabilities	347,156	19,805	-	366,961
Note payable	835,000	-	-	835,000
Total liabilities	<u>1,217,372</u>	<u>60,447</u>	<u>(11,137)</u>	<u>1,266,682</u>
Net assets:				
Unrestricted	20,688,174	166,672	(159,432)	20,695,414
Temporarily restricted	5,725,346	-	-	5,725,346
Permanently restricted	8,731,169	-	-	8,731,169
Total net assets	<u>35,144,689</u>	<u>166,672</u>	<u>(159,432)</u>	<u>35,151,929</u>
Total liabilities and net assets	<u>\$ 36,362,061</u>	<u>\$ 227,119</u>	<u>\$ (170,569)</u>	<u>\$ 36,418,611</u>

* Includes Museum Parking, LLC

See independent auditors' report.

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

**CONSOLIDATING SCHEDULE –
STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS INFORMATION**

Year ended June 30, 2010

	Museum *	Café	Eliminating Entries	Total
Revenues, Gains and Other Support				
Contributed income:				
Individuals	\$ 245,208	\$ -	\$ -	\$ 245,208
Corporate and other	365,599	-	-	365,599
Allied Arts	356,020	-	-	356,020
Grants and foundations	1,166,102	-	-	1,166,102
	<u>2,132,929</u>	<u>-</u>	<u>-</u>	<u>2,132,929</u>
Fundraising events	407,732	-	-	407,732
Memberships	433,951	-	-	433,951
Admissions	514,864	-	-	514,864
Museum store sales	261,492	-	-	261,492
Museum of Art Café sales	-	1,078,080	-	1,078,080
Museum of Art Café catering sales	-	192,488	-	192,488
Parking income	44,557	-	-	44,557
In-kind donations	128,694	-	-	128,694
Miscellaneous	198,735	1,635	(86,142)	114,228
Investment income	658,828	-	-	658,828
Net realized losses on investments	1,159,298	-	-	1,159,298
	<u>5,941,080</u>	<u>1,272,203</u>	<u>(86,142)</u>	<u>7,127,141</u>
Expenses				
Programming	1,574,551	-	-	1,574,551
Museum store	270,402	-	-	270,402
Museum of Art Café	-	1,288,491	(86,142)	1,202,349
Museum Parking	21,309	-	-	21,309
Management and general	1,033,125	-	-	1,033,125
Fundraising and development	640,089	-	-	640,089
Security, building and grounds	835,680	-	-	835,680
Art accessioned	237,046	-	-	237,046
Depreciation	730,563	18,629	-	749,192
	<u>5,342,765</u>	<u>1,307,120</u>	<u>(86,142)</u>	<u>6,563,743</u>
Change in net assets	598,315	(34,917)	-	563,398
Net assets, beginning of year	34,546,374	201,589	(159,432)	34,588,531
Net assets, end of year	<u>\$ 35,144,689</u>	<u>\$ 166,672</u>	<u>\$ (159,432)</u>	<u>\$ 35,151,929</u>

* Includes Museum Parking, LLC