



OKLAHOMA CITY MUSEUM OF ART, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2017 and 2016

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	6
Notes to Consolidated Financial Statements.....	7
Supplemental Information:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities	19

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 subsidiaries (the Museum) which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Museum as of June 30, 2017 and 2016, and the consolidated results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information as of and for the year ended June 30, 2017, is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Oklahoma City, Oklahoma
October 4, 2017

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 2,895,070	\$ 3,223,421
Grants and accounts receivable	329,370	475,823
Inventory, net	289,634	219,851
Prepaid expenses:		
Exhibits	28,101	1,716,283
Other	73,346	72,559
Investments	17,287,338	16,587,050
Beneficial interest in assets held by others	4,927,710	4,566,051
Cash restricted to investment in property and equipment	510,827	510,827
Property and equipment, net	14,283,363	14,830,108
Art and library collections (see Note 2)		
Total assets	<u>\$ 40,624,759</u>	<u>\$ 42,201,973</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 244,002	\$ 196,343
Accrued liabilities	206,994	196,667
Long-term debt	633,425	681,867
Total liabilities	1,084,421	1,074,877
Net assets:		
Unrestricted	21,469,271	23,620,519
Temporarily restricted	8,702,229	8,152,739
Permanently restricted	9,368,838	9,353,838
Total net assets	<u>39,540,338</u>	<u>41,127,096</u>
Total liabilities and net assets	<u>\$ 40,624,759</u>	<u>\$ 42,201,973</u>

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2017
(and Summarized Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	Summarized Totals for 2016
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 366,139	\$ 6,500	\$ 5,000	\$ 377,639	\$ 195,171
Corporate and other	317,815	178,625	-	496,440	675,352
Allied Arts	388,056	-	-	388,056	415,160
Grants and foundations	565,681	159,000	10,000	734,681	1,250,065
	<u>1,637,691</u>	<u>344,125</u>	<u>15,000</u>	<u>1,996,816</u>	<u>2,535,748</u>
Fundraising events	656,242	-	-	656,242	617,655
Memberships	552,347	-	-	552,347	517,796
Admissions	673,713	-	-	673,713	537,270
Museum store sales	410,422	-	-	410,422	436,824
Museum of Art Café, Inc. sales	1,541,373	-	-	1,541,373	1,725,064
Museum Parking, LLC fees	189,794	-	-	189,794	293,440
In-kind donations	411,288	-	-	411,288	302,775
Miscellaneous	78,333	-	-	78,333	118,075
Investment income	524,111	120,531	-	644,642	929,200
Net gains (losses) on investments	744,115	890,472	-	1,634,587	(267,204)
Funds released from restrictions	805,638	(805,638)	-	-	-
Total revenues, gains and other support	<u>8,225,067</u>	<u>549,490</u>	<u>15,000</u>	<u>8,789,557</u>	<u>7,746,643</u>
Expenses					
Programming	3,494,915	-	-	3,494,915	2,716,497
Museum store	387,514	-	-	387,514	457,835
Museum of Art Café, Inc.	1,657,328	-	-	1,657,328	1,645,994
Museum Parking, LLC	33,094	-	-	33,094	35,901
Management and general	1,363,240	-	-	1,363,240	1,421,110
Fundraising and development	1,392,149	-	-	1,392,149	1,175,526
Security, building and grounds	1,247,678	-	-	1,247,678	1,179,778
Art accessioned	144,000	-	-	144,000	280,202
Depreciation	656,397	-	-	656,397	658,294
Total expenses	<u>10,376,315</u>	<u>-</u>	<u>-</u>	<u>10,376,315</u>	<u>9,571,137</u>
Changes in net assets	(2,151,248)	549,490	15,000	(1,586,758)	(1,824,494)
Net assets, beginning of year	23,620,519	8,152,739	9,353,838	41,127,096	42,951,590
Net assets, end of year	<u>\$ 21,469,271</u>	<u>\$ 8,702,229</u>	<u>\$ 9,368,838</u>	<u>\$ 39,540,338</u>	<u>\$ 41,127,096</u>

See notes to consolidated financial statements.

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2016
(and Summarized Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	Summarized Totals for 2015
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 192,671	\$ 2,500	\$ -	\$ 195,171	\$ 651,066
Corporate and other	443,352	232,000	-	675,352	763,583
Allied Arts	415,160	-	-	415,160	411,614
Grants and foundations	616,565	633,500	-	1,250,065	3,792,725
	<u>1,667,748</u>	<u>868,000</u>	<u>-</u>	<u>2,535,748</u>	<u>5,618,988</u>
Fundraising events	617,655	-	-	617,655	716,287
Memberships	517,796	-	-	517,796	512,707
Admissions	537,270	-	-	537,270	412,513
Museum store sales	436,824	-	-	436,824	265,425
Museum of Art Café, Inc. sales	1,725,064	-	-	1,725,064	1,604,523
Museum Parking, LLC fees	293,440	-	-	293,440	190,248
In-kind donations	302,775	-	-	302,775	254,277
Miscellaneous	118,075	-	-	118,075	148,551
Investment income	800,319	128,881	-	929,200	674,743
Net gains (losses) on investments	(224,405)	(42,799)	-	(267,204)	441,417
Funds released from restrictions	1,866,612	(1,866,612)	-	-	-
	<u>8,659,173</u>	<u>(912,530)</u>	<u>-</u>	<u>7,746,643</u>	<u>10,839,679</u>
Expenses					
Programming	2,716,497	-	-	2,716,497	2,138,595
Museum store	457,835	-	-	457,835	285,212
Museum of Art Café, Inc.	1,645,994	-	-	1,645,994	1,560,136
Museum Parking, LLC	35,901	-	-	35,901	38,879
Management and general	1,421,110	-	-	1,421,110	1,330,042
Fundraising and development	1,175,526	-	-	1,175,526	1,009,943
Security, building and grounds	1,179,778	-	-	1,179,778	1,092,606
Art accessioned	280,202	-	-	280,202	13,000
Depreciation	658,294	-	-	658,294	666,665
	<u>9,571,137</u>	<u>-</u>	<u>-</u>	<u>9,571,137</u>	<u>8,135,078</u>
Total expenses	<u>9,571,137</u>	<u>-</u>	<u>-</u>	<u>9,571,137</u>	<u>8,135,078</u>
Changes in net assets	(911,964)	(912,530)	-	(1,824,494)	2,704,601
Net assets, beginning of year	24,532,483	9,065,269	9,353,838	42,951,590	40,246,989
	<u>\$ 23,620,519</u>	<u>\$ 8,152,739</u>	<u>\$ 9,353,838</u>	<u>\$ 41,127,096</u>	<u>\$ 42,951,590</u>
Net assets, end of year	<u>\$ 23,620,519</u>	<u>\$ 8,152,739</u>	<u>\$ 9,353,838</u>	<u>\$ 41,127,096</u>	<u>\$ 42,951,590</u>

OKLAHOMA CITY MUSEUM OF ART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (1,586,758)	\$ (1,824,494)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	656,397	658,294
Net (gains) losses on investments	(1,634,587)	267,204
Changes in operating assets and liabilities:		
Grants and accounts receivable	146,453	364,747
Inventory	(69,783)	63,553
Prepaid expenses	1,687,395	(1,142,934)
Accounts payable	47,659	(5,529)
Accrued liabilities	10,327	38,839
	<hr/>	<hr/>
Net cash used in operating activities	(742,897)	(1,580,320)
Cash Flows from Investing Activities		
Purchases of property and equipment	(109,652)	(134,276)
Purchases of investments	(1,477,238)	(347,393)
Proceeds from sales of investments	2,049,878	814,920
	<hr/>	<hr/>
Net cash provided by investing activities	462,988	333,251
Cash Flows from Financing Activities		
Debt principal payments	(48,442)	(46,602)
	<hr/>	<hr/>
Net decrease in cash	(328,351)	(1,293,671)
Cash, beginning of year	3,223,421	4,517,092
	<hr/>	<hr/>
Cash, end of year	<u>\$ 2,895,070</u>	<u>\$ 3,223,421</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 23,483</u>	<u>\$ 25,324</u>

OKLAHOMA CITY MUSEUM OF ART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

Note 1 – Organization

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. Its mission is to enrich lives through the visual arts. Its purpose is to create a cultural legacy in art and education for current and future generations to experience at the Museum and carry with them throughout their lives.

The Museum is the sole owner of Museum of Art Café, Inc. (the Café), which is located in the Donald W. Reynolds Visual Arts Center and provides full-service lunch and dinner in a casually elegant dining atmosphere. It is also the sole owner of Museum Parking, LLC, which was formed to acquire a parcel of land functioning as a parking lot in the vicinity of the Museum. Museum Parking, LLC leases the parking lot to a third-party operator.

Note 2 – Summary of Significant Accounting Policies

Consolidated financial statements

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

Basis of accounting and reporting

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, 2017 and 2016, unrestricted net assets of \$3,268,131 and \$3,199,655, respectively, were designated for specific purposes by the Museum's Board of Trustees (see Note 8).
- 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

Cash consists of cash on hand and deposits in banks. The Museum maintains its cash in accounts which typically exceeds federally insured amounts. Excess amounts were \$2,411,322 and \$2,661,320 at June 30, 2017 and 2016, respectively. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

Investments are stated at fair value (based on quoted market prices) with gains and losses reported in the consolidated statement of activities. Donated investments are initially recorded at fair value at the date of donation.

Property and equipment

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

Art and library collections

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

Contributions to the Museum

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

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

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

Income tax status

The Museum is a nonprofit organization and is exempt from income taxes under Internal Revenue Code Section 501. However, the Museum is subject to federal income tax on any unrelated business taxable income.

Allocation of expenses

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

Use of estimates

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

Concentration of credit risk

Financial instruments, which potentially subject the Museum to credit risk, consist of grants and accounts receivable and investments. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the investment account balances and the amounts reported in the consolidated financial statements.

Recent accounting pronouncement

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* (ASU). 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 consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through October 4, 2017, 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:

	2017	2016
Young Endowment	\$ 2,015,096	\$ 1,973,098
Westheimer Family Endowment	1,253,037	1,226,557
Museum Acquisitions Trust	4,156	4,154
Beaux Arts Acquisitions Trust	293,244	382,902
Thatcher Hoffman Smith Film Endowment	912,582	884,937
Sarkeys Foundation Arts Education Endowment	625,437	612,350
Sonic America's Drive-In Arts Education Endowment	317,552	307,998
Museum Legacy Endowment	6,871,969	6,527,323
Donald W. Reynolds Visual Arts Center Building Maintenance Endowment	4,612,417	4,295,153
Records Family Endowment	381,848	372,578
	<u>\$ 17,287,338</u>	<u>\$ 16,587,050</u>

Investments 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.
- 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 to support 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.
- The Records Family Endowment was established as a permanent endowment to support Museum operations. The principal amount of these funds will not be expended. Distributions of interest and unrealized gains generated by the endowment principal may be used for general Museum operations.

Note 4 – Contributions to Oklahoma City Community Foundation

A separate fund, 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 statements of financial position.

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

	2017	2016
Recognized in the Museum's financial statements as beneficial interest in assets held by others:		
Oklahoma City Museum of Art Affiliated Fund	\$ 194,241	\$ 184,368
Fee-Milligan Operating Endowment	2,048,068	1,943,985
The James C. and Virginia W. Meade Acquisitions Fund for 18 th and 19 th Century American Art	1,425,890	1,289,200
Carolyn A. Hill Collections Endowment	1,079,326	975,858
James C. Meade Friends Lecture Series Endowment Fund	180,185	172,640
	<u>4,927,710</u>	<u>4,566,051</u>
Funds held by OCCF with variance power retained by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	4,605,709	4,342,685
Oklahoma City Museum of Art Acquisitions Fund	92,352	83,823
Pauline Morrison Ledbetter Fund	343,184	353,851
	<u>5,041,245</u>	<u>4,780,359</u>
Total funds held by OCCF	<u>\$ 9,968,955</u>	<u>\$ 9,346,410</u>
Investment income distributed to the Museum by OCCF	<u>\$ 323,285</u>	<u>\$ 566,616</u>

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

The fair value of the entire Affiliated Fund, which includes the beneficial interest Endowment funds, was \$9,533,419 and \$8,908,736 at June 30, 2017 and 2016, 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 \$5,041,245 and \$4,780,359 at June 30, 2017 and 2016, respectively, as an asset in the accompanying consolidated statements of financial position. Investment income distributed to the Museum from OCCF is classified as unrestricted support in the consolidated statements of activities.

In addition, OCCF maintains an account for funds designated for Museum acquisitions of art (the Designated Fund). Earnings are not distributed but, rather, are retained in the Designated Fund under the control of OCCF until requested by the Museum for an acquisition of art. The expendable balance in the Designated Fund is recorded in grants and accounts receivable in the consolidated statements of financial position.

In 2006, the Museum entered into an endowment agreement with James C. and Virginia W. Meade (the Meades) to establish a permanent endowment named "*The James C. and Virginia W. Meade Acquisitions Fund for 18th and 19th Century American Art*" for the purpose of supporting acquisitions for the Museum's collections and furtherance of the Museum's mission. Under the terms of this agreement (and a related agreement between the Meades, the Museum and the OCCF), the Meades pledged \$1,000,000 to the Museum to be contributed over a three-year period and invested in the Affiliated Fund at OCCF. The annual distribution from the fund will generally be 5% of the average market value based upon certain restrictions intended to protect and preserve the original corpus of the endowment.

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

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

Note 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 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 at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,584,094	\$ -	\$ -	\$ 1,584,094
Exchange traded funds	9,100,041	-	-	9,100,041
U.S. government and agency securities	-	6,603,203	-	6,603,203
Beneficial interest in assets held at OCCF ⁽¹⁾	-	4,927,710	-	4,927,710
Total assets at fair value	<u>\$ 10,684,135</u>	<u>\$ 11,530,913</u>	<u>\$ -</u>	<u>\$ 22,215,048</u>

⁽¹⁾ See Note 4 for description of these assets measured at fair value.

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,696,383	\$ -	\$ -	\$ 1,696,383
Exchange traded funds	8,683,768	-	-	8,683,768
U.S. government and agency securities	-	6,206,899	-	6,206,899
Beneficial interest in assets held at OCCF ⁽¹⁾	-	4,566,051	-	4,566,051
Total assets at fair value	<u>\$ 10,380,151</u>	<u>\$ 10,772,950</u>	<u>\$ -</u>	<u>\$ 21,153,101</u>

⁽¹⁾ See Note 4 for description of these assets measured at fair value.

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

Market volatility

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

Note 6 – Property and Equipment

Property and equipment consists of the following at June 30:

	2017	2016
Land	\$ 901,909	\$ 901,909
Building and improvements	20,768,764	20,753,895
Furniture and fixtures	1,571,401	1,540,832
Equipment	1,779,191	1,714,976
	25,021,265	24,911,612
Accumulated depreciation	(10,737,902)	(10,081,504)
	<u>\$ 14,283,363</u>	<u>\$ 14,830,108</u>

Note 7 – Temporarily and Permanently Restricted Net Assets

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

	2017	2016
Art acquisition	\$ 1,236,030	\$ 1,113,115
Art education endowment	192,640	169,998
Building maintenance endowment	4,612,417	4,295,154
Film endowment	172,196	159,551
General Museum (OCCF)	2,242,309	2,128,353
Museum operations endowment	74,009	64,739
Programming	172,628	221,829
	<u>\$ 8,702,229</u>	<u>\$ 8,152,739</u>

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

	2017	2016
Art acquisition (OCCF)	\$ 1,773,998	\$ 1,773,998
Art education endowment	750,350	750,350
Capital campaign - Museum endowment	5,796,264	5,796,264
Film endowment	740,386	725,386
Museum operations endowment	307,840	307,840
	<u>\$ 9,368,838</u>	<u>\$ 9,353,838</u>

As described in Note 3, the investment income on the Thatcher Hoffman Smith Film Endowment and the Sarkeys Foundation Arts Education Endowment can be expended for the stated purposes of each endowment. The investment income and unrealized gains on the Museum Legacy Endowment can be expended for general Museum operations.

Note 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 5,051,262	\$ 7,594,840	\$12,646,102
Board-designated endowment funds	3,268,131	-	-	3,268,131
Total funds	<u>\$ 3,268,131</u>	<u>\$ 5,051,262</u>	<u>\$ 7,594,840</u>	<u>\$15,914,233</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 3,199,655	\$ 4,689,442	\$ 7,579,840	\$ 15,468,937
Adjusted endowment fund net assets investment return:				
Investment income	48,559	106,219	-	154,778
Net appreciation	176,917	512,400	-	689,317
	3,425,131	5,308,061	7,579,840	16,313,032
Contributions	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	(157,000)	(256,799)	-	(413,799)
Endowment fund net assets, end of year	<u>\$ 3,268,131</u>	<u>\$ 5,051,262</u>	<u>\$ 7,594,840</u>	<u>\$ 15,914,233</u>

Endowment net asset composition by type of fund at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 4,689,442	\$ 7,579,840	\$ 12,269,282
Board-designated endowment funds	3,199,655	-	-	3,199,655
Total funds	<u>\$ 3,199,655</u>	<u>\$ 4,689,442</u>	<u>\$ 7,579,840</u>	<u>\$ 15,468,937</u>

Changes in endowment fund net assets for the year ended June 30, 2016, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 3,288,795	\$ 4,848,229	\$ 7,579,840	\$ 15,716,864
Adjusted endowment fund net assets investment return:				
Investment income	50,763	114,621	-	165,384
Net appreciation	15,097	15,356	-	30,453
	3,354,655	4,978,206	7,579,840	15,912,701
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(155,000)	(288,764)	-	(443,764)
Endowment fund net assets, end of year	<u>\$ 3,199,655</u>	<u>\$ 4,689,442</u>	<u>\$ 7,579,840</u>	<u>\$ 15,468,937</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, 2017 or 2016.

Note 9 – Commitments

During the years ended June 30, 2017 and 2016, the Museum entered into contractual agreements with certain art exhibit leasing organizations for future exhibits. Exhibit lease commitments at June 30, 2017, are \$148,000. The Museum is soliciting contributions and other sources of support to fund these commitments.

All costs and expenses of the Café's operations are the responsibility of the Café. However, if the Café incurs operating costs in excess of revenues from its operations (measured on a cash basis), the Museum may advance funds to the Café. No such funds were advanced to the Café in fiscal years 2017 or 2016.

SUPPLEMENTAL INFORMATION

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2017

	Museum*	Café	Eliminating Entries	Total
Assets				
Cash	\$ 2,855,801	\$ 39,269	\$ -	\$ 2,895,070
Grants and accounts receivable	448,589	87,971	(207,190)	329,370
Inventory, net	228,428	61,206	-	289,634
Prepaid expenses and other assets	85,002	16,445	-	101,447
Investments	17,228,152	-	59,186	17,287,338
Beneficial interest in assets held by others	4,927,710	-	-	4,927,710
Cash restricted to investment in property and equipment	510,827	-	-	510,827
Property and equipment, net Art and library collections	14,251,413	31,950	-	14,283,363
Total assets	\$ 40,535,922	\$ 236,841	\$ (148,004)	\$ 40,624,759
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 202,876	\$ 248,316	\$ (207,190)	\$ 244,002
Accrued liabilities	159,283	47,711	-	206,994
Long-term debt	633,425	-	-	633,425
Total liabilities	995,584	296,027	(207,190)	1,084,421
Net assets:				
Unrestricted	21,469,271	(59,186)	59,186	21,469,271
Temporarily restricted	8,702,229	-	-	8,702,229
Permanently restricted	9,368,838	-	-	9,368,838
Total net assets	39,540,338	(59,186)	59,186	39,540,338
Total liabilities and net assets	\$ 40,535,922	\$ 236,841	\$ (148,004)	\$ 40,624,759

* Includes Museum Parking, LLC

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

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Museum*	Café	Eliminating Entries	Total
Revenues, Gains and Other Support				
Contributed income:				
Individuals	\$ 377,639	\$ -	\$ -	\$ 377,639
Corporate and other	496,440	-	-	496,440
Allied Arts	388,056	-	-	388,056
Grants and foundations	734,681	-	-	734,681
	<u>1,996,816</u>	-	-	<u>1,996,816</u>
Fundraising events	656,242	-	-	656,242
Memberships	552,347	-	-	552,347
Admissions	673,713	-	-	673,713
Museum store sales	410,422	-	-	410,422
Museum of Art Café, Inc. sales	-	1,644,198	(102,825)	1,541,373
Museum Parking, LLC income	189,794	-	-	189,794
In-kind donations	411,288	-	-	411,288
Miscellaneous	199,516	958	(122,141)	78,333
Investment income	644,642	-	-	644,642
Net loss on investment in Café	(159,327)	-	159,327	-
Net gains on investments	1,634,587	-	-	1,634,587
	<u>7,210,040</u>	<u>1,645,156</u>	<u>(65,639)</u>	<u>8,789,557</u>
Expenses				
Programming	3,494,915	-	-	3,494,915
Museum store	387,514	-	-	387,514
Museum of Art Café, Inc.	-	1,779,469	(122,141)	1,657,328
Museum Parking, LLC	33,094	-	-	33,094
Management and general	1,466,065	-	(102,825)	1,363,240
Fundraising and development	1,392,149	-	-	1,392,149
Security, building and grounds	1,247,678	-	-	1,247,678
Art accessioned	144,000	-	-	144,000
Depreciation	631,383	25,014	-	656,397
	<u>8,796,798</u>	<u>1,804,483</u>	<u>(224,966)</u>	<u>10,376,315</u>
Change in net assets	(1,586,758)	(159,327)	159,327	(1,586,758)
Net assets, beginning of year	41,127,096	100,141	(100,141)	41,127,096
	<u>\$ 39,540,338</u>	<u>\$ (59,186)</u>	<u>\$ 59,186</u>	<u>\$ 39,540,338</u>

* Includes Museum Parking, LLC