



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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2012 and 2011

WITH

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To 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, 2012 and 2011, and the related consolidated statements of activities 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, 2010, has been derived from the OKCMOA's 2010 financial statements and, in our report dated October 5, 2010, we expressed an unqualified opinion on those financial statements.

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 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, 2012 and 2011, 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 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, 2012, 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.



October 10, 2012

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
Assets		
Cash	\$ 1,109,606	\$ 1,568,799
Grants and accounts receivable	25,485	128,756
Inventory, net	307,563	284,243
Prepaid expenses and other assets	338,052	227,984
Restricted cash	942,887	645,162
Grants and accounts receivable with restrictions	141,832	176,034
Investments	3,411,419	3,418,631
Investments with restrictions	11,145,201	11,207,223
Beneficial interest in assets held by OCCF	4,010,241	3,655,609
Property, plant and equipment, net	16,995,014	17,515,241
Art and library collections (see Note 2)		
	\$ 38,427,300	\$ 38,827,682
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 69,171	\$ 141,473
Accrued liabilities	254,877	206,176
Note payable	835,000	835,000
	1,159,048	1,182,649
Total liabilities		
Net assets:		
Unrestricted	21,028,091	21,577,116
Temporarily restricted	6,942,176	7,010,326
Permanently restricted	9,297,985	9,057,591
	37,268,252	37,645,033
Total net assets		
	\$ 38,427,300	\$ 38,827,682
Total liabilities and net assets		

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2012

(and Summarized Totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	Summarized Totals for 2011
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 276,053	\$ 21,878	\$ 230,394	\$ 528,325	\$ 431,487
Corporate and other	568,762	155,000	-	723,762	584,594
Allied Arts	378,882	-	-	378,882	359,326
Grants and foundations	631,548	302,000	10,000	943,548	909,057
	1,855,245	478,878	240,394	2,574,517	2,284,464
Fundraising events	446,113	-	-	446,113	476,736
Memberships	409,095	-	-	409,095	408,755
Admissions	727,395	-	-	727,395	533,737
Museum store sales	286,693	-	-	286,693	250,032
Museum of Art Café sales	1,232,522	-	-	1,232,522	1,131,127
Museum of Art Café catering sales	284,215	-	-	284,215	292,560
Museum parking fees	113,445	-	-	113,445	88,942
In-kind donations	21,496	-	-	21,496	25,695
Miscellaneous	145,998	-	-	145,998	103,679
Investment income	507,278	121,174	-	628,452	646,754
Net unrealized/realized gains on investments	70,156	54,072	-	124,228	2,609,745
Funds released from restrictions	722,274	(722,274)	-	-	-
Total revenues, gains and other support	6,821,925	(68,150)	240,394	6,994,169	8,852,226
Expenses					
Programming	2,073,635	-	-	2,073,635	1,633,566
Museum store	283,067	-	-	283,067	254,260
Museum of Art Café	1,381,192	-	-	1,381,192	1,311,973
Museum Parking	31,944	-	-	31,944	30,771
Management and general	1,036,184	-	-	1,036,184	845,467
Fundraising and development	855,457	-	-	855,457	627,245
Security, building and grounds	966,554	-	-	966,554	921,785
Art accessioned	45,164	-	-	45,164	20,000
Depreciation	697,753	-	-	697,753	714,055
Total expenses	7,370,950	-	-	7,370,950	6,359,122
Changes in net assets	(549,025)	(68,150)	240,394	(376,781)	2,493,104
Net assets, beginning of year	21,577,116	7,010,326	9,057,591	37,645,033	35,151,929
Net assets, end of year	\$ 21,028,091	\$ 6,942,176	\$ 9,297,985	\$ 37,268,252	\$ 37,645,033

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended June 30, 2011

(and Summarized Totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	Summarized Totals for 2010
Revenues, Gains and Other Support					
Contributed income:					
Individuals	\$ 156,200	\$ 6,665	\$ 268,622	\$ 431,487	\$ 245,208
Corporate and other	459,090	122,904	2,600	584,594	365,599
Allied Arts	359,326	-	-	359,326	356,020
Grants and foundations	511,775	342,082	55,200	909,057	1,166,102
	1,486,391	471,651	326,422	2,284,464	2,132,929
Fundraising events	476,736	-	-	476,736	407,732
Memberships	408,755	-	-	408,755	433,951
Admissions	533,737	-	-	533,737	514,864
Museum store sales	250,032	-	-	250,032	261,492
Museum of Art Café sales	1,131,127	-	-	1,131,127	1,078,080
Museum of Art Café catering sales	292,560	-	-	292,560	192,488
Museum parking fees	88,942	-	-	88,942	44,557
In-kind donations	25,695	-	-	25,695	128,694
Miscellaneous	103,679	-	-	103,679	114,228
Investment income	508,716	138,038	-	646,754	658,828
Net unrealized/realized gains on investments	1,789,539	820,206	-	2,609,745	1,159,298
Funds released from restrictions	144,915	(144,915)	-	-	-
Total revenues, gains and other support	7,240,824	1,284,980	326,422	8,852,226	7,127,141
Expenses					
Programming	1,633,566	-	-	1,633,566	1,574,551
Museum store	254,260	-	-	254,260	270,402
Museum of Art Café	1,311,973	-	-	1,311,973	1,202,349
Museum Parking	30,771	-	-	30,771	21,309
Management and general	845,467	-	-	845,467	1,033,125
Fundraising and development	627,245	-	-	627,245	640,089
Security, building and grounds	921,785	-	-	921,785	835,680
Art accessioned	20,000	-	-	20,000	237,046
Depreciation	714,055	-	-	714,055	749,192
Total expenses	6,359,122	-	-	6,359,122	6,563,743
Changes in net assets	881,702	1,284,980	326,422	2,493,104	563,398
Net assets, beginning of year	20,695,414	5,725,346	8,731,169	35,151,929	34,588,531
Net assets, end of year	\$21,577,116	\$ 7,010,326	\$ 9,057,591	\$37,645,033	\$35,151,929

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ (376,781)	\$ 2,493,104
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	697,753	714,055
Net unrealized/realized gain on investments	(124,228)	(2,609,745)
Contributions restricted for long-term purposes	(240,394)	(326,422)
Changes in operating assets and liabilities:		
Grants and accounts receivable	103,271	(53,685)
Inventory	(23,320)	(21,074)
Prepaid expenses and other assets	(110,068)	3,442
Grants and accounts receivable with restrictions	34,202	55,517
Accounts payable	(72,302)	76,752
Accrued liabilities	48,701	(160,785)
Net cash provided by (used in) operating activities	(63,166)	171,159
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(177,531)	(131,752)
Purchases of investments	(317,126)	(423,805)
Proceeds from sale of investments	400,136	243,206
Purchases of investments with restrictions	(548,109)	(407,893)
Proceeds from sale of investments with restrictions	303,934	216,093
Decrease in restricted cash	(297,725)	(99,741)
Net cash used in investing activities	(636,421)	(603,892)
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes	240,394	326,422
Net cash provided by financing activities	240,394	326,422
Net decrease in cash	(459,193)	(106,311)
Cash, beginning of year	1,568,799	1,675,110
Cash, end of year	\$ 1,109,606	\$ 1,568,799
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 23,232	\$ 23,465
Cash paid for taxes	\$ -	\$ -

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

Note 1 – Organization

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

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

The Museum is the sole owner of the Museum of Art Cafe, Inc. (the Café). 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 in the consolidated financial statements.

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, 2012 and 2011, unrestricted net assets of \$2,888,036 and \$2,926,862, 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, 2012 and 2011, the Museum had cash contributions of \$942,887 and \$645,162, respectively, restricted by donors for specific purposes.

Receivables

The Museum has receivables, reflected as grants and accounts receivable and grants and accounts receivable with restrictions 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, 2012 and 2011, 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, exchange traded funds and U.S. government and agency securities, are stated at estimated fair value (based on quoted market prices) with unrealized gains and losses reported in the consolidated statement of activities. Donated investments are initially recorded at 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 year.

Art and library collections

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

Contributions to the Museum

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

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

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

Income tax status

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

The accounting for income taxes may, at times, involve some degree of uncertainty, and as such, lead to uncertain tax positions having been taken. 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 prior to 2009.

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.

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, and investments.

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

Advertising expense

All advertising costs are expensed as incurred. Advertising expenses were approximately \$258,000 and \$248,000 for the years ended June 30, 2012 and 2011, respectively.

Subsequent events

Management has evaluated subsequent events through October 10, 2012, the date the financial statements were available to be issued.

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 \$50,000 for both fiscal years 2012 and 2011, 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:

	2012	2011
Temporary restrictions:		
Exhibit furnishings	\$ 90,283	\$ 137,363
Personnel benefits	-	500
Other	51,549	38,171
	<u>\$ 141,832</u>	<u>\$ 176,034</u>

Note 5 – 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:

	2012	2011
Investments:		
Young Endowment ⁽¹⁾	\$ 1,647,510	\$ 1,531,259
Museum Legacy Endowment	653,384	751,769
Westheimer Family Endowment	1,110,525	1,135,603
	<u>3,411,419</u>	<u>3,418,631</u>
Investments with restrictions:		
Museum Acquisitions Trust	3,481	44,292
Beaux Arts Acquisitions Trust	283,104	232,520
Thatcher Hoffman Smith Film Endowment	758,770	755,070
Sarkeys Foundation Arts Education Endowment	556,039	567,808
Sonic America's Drive-In Arts Education Endowment	280,407	286,197
Museum Legacy Endowment	5,285,977	5,285,977
Donald W. Reynolds Visual Arts Center		
Building Maintenance Endowment	3,640,713	3,693,649
Records Family Endowment	336,710	341,710
	<u>11,145,201</u>	<u>11,207,223</u>
	<u>\$ 14,556,620</u>	<u>\$ 14,625,854</u>

⁽¹⁾ 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. During the years ended June 30, 2012 and 2011, \$370,000 was paid from operating cash and applied to the inter-fund balance. Subsequent to June 30, 2012, the final outstanding amount of \$130,000 was applied to the inter-fund balance from operating cash.

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.

Investment income is reported net of related investment expenses. Investment expense was \$30,039 and \$28,713 for the years ended June 30, 2012 and 2011, 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:

	2012	2011
Recognized in the Museum's financial statements as beneficial interest in assets held by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	\$ 168,505	\$ 172,948
Fee-Milligan Operating Endowment	1,778,435	1,825,916
The James C. and Virginia W. Meade Collections Endowment	1,169,814	1,145,754
Carolyn A. Hill Collections Endowment	750,030	510,991
James C. Meade Friends Lecture Series Endowment Fund	143,457	-
	<u>4,010,241</u>	<u>3,655,609</u>
Funds held by OCCF with variance power retained by OCCF:		
Oklahoma City Museum of Art Affiliated Fund	3,907,994	3,961,893
Oklahoma City Museum of Art Acquisitions Fund	63,372	61,578
Pauline Morrison Ledbetter Fund	281,322	262,363
	<u>4,252,688</u>	<u>4,285,834</u>
Total funds held by OCCF on behalf or for the benefit of the Museum	<u>\$ 8,262,929</u>	<u>\$ 7,941,443</u>
Investment income distributed to the Museum by OCCF	<u>\$ 262,920</u>	<u>\$ 273,908</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 \$7,918,235 and \$7,617,502, at June 30, 2012 and 2011, respectively. As a result of OCCF's variance power over the funds contributed by unrelated donors, the Museum has not recorded the remaining value of the Affiliated Fund of \$4,252,688 and \$4,285,834 at June 30, 2012 and 2011, respectively, as an asset in the accompanying consolidated statements of financial position. Investment income distributed to the Museum from OCCF is classified as unrestricted support in the consolidated statements of activities.

In addition, OCCF maintains an account for funds designated for Museum acquisitions of art (the Designated Fund). Earnings are not distributed but, rather, are retained in the Designated Fund under the control of OCCF until requested by the Museum for an acquisition of art. The expendable balance in the Designated Fund was \$27,868 and \$22,908 at June 30, 2012 and 2011, 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 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, 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, the endowment is not recorded in the statement of financial position of OKCMOA. The expendable balance in the Pauline Morrison Ledbetter Fund was \$23,682 and \$15,263 at June 30, 2012 and 2011, 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 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

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

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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

	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 1,309,134	\$ -	\$ -	\$ 1,309,134
Exchange traded funds	7,713,936	-	-	7,713,936
U.S. government and agency securities	-	5,533,551	-	5,533,551
Beneficial interest in assets held at OCCF ⁽²⁾	-	4,010,241	-	4,010,241
Total assets at fair value	\$ 9,023,070	\$ 9,543,792	\$ -	\$ 18,566,862

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 957,583	\$ -	\$ -	\$ 957,583
Exchange traded funds	7,986,768	-	-	7,986,768
U.S. government and agency securities	-	5,681,503	-	5,681,503
Beneficial interest in assets held at OCCF ⁽²⁾	-	3,655,609	-	3,655,609
Total assets at fair value	\$ 8,944,351	\$ 9,337,112	\$ -	\$ 18,281,463

⁽²⁾ See Note 6 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 8 – Property, Plant and Equipment

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

	2012	2011
Land	\$ 901,909	\$ 901,909
Building and improvements	20,662,219	20,639,783
Furniture and fixtures	1,486,765	1,448,026
Equipment	1,363,787	1,247,436
	24,414,680	24,237,154
Accumulated depreciation	(7,419,666)	(6,721,913)
	\$ 16,995,014	\$ 17,515,241

Note 9 – Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Art acquisition	\$ 638,958	\$ 568,852
Art education endowment	86,096	103,655
Building maintenance endowment	3,640,713	3,693,649
Film endowment	78,384	89,684
General Museum endowment	1,946,940	1,998,864
Museum operations	28,870	33,870
Programming	522,215	521,752
	<u>\$ 6,942,176</u>	<u>\$ 7,010,326</u>

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

	2012	2011
Art acquisition	\$ 1,763,145	\$ 1,537,751
Art education endowment	750,350	750,350
Capital campaign-Museum endowment	5,796,264	5,796,264
Film endowment	680,386	665,386
Museum operations	307,840	307,840
	<u>\$ 9,297,985</u>	<u>\$ 9,057,591</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.

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 54% equities and 46% 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, 2012:

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 2,926,862	\$ 3,920,858	\$ 7,519,840	\$ 14,367,560
Adjusted endowment fund net assets investment return:				
Investment income	45,470	108,612	-	154,082
Net appreciation	30,704	54,072	-	84,776
	3,003,036	4,083,542	7,519,840	14,606,418
Contributions	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	(115,000)	(249,480)	-	(364,480)
Endowment fund net assets, end of year	\$ 2,888,036	\$ 3,834,062	\$ 7,534,840	\$ 14,256,938

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,920,858	\$ 7,519,840	\$ 11,440,698
Board-designated endowment funds	2,926,862	-	-	2,926,862
Total funds	\$ 2,926,862	\$ 3,920,858	\$ 7,519,840	\$ 14,367,560

Changes in endowment fund net assets for the year ended June 30, 2011, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets, beginning of year	\$ 2,429,875	\$ 3,239,050	\$ 7,520,590	\$ 13,189,515
Adjusted endowment fund net assets investment return:				
Investment income	61,638	100,778	-	162,416
Net appreciation	468,349	775,116	-	1,243,465
	2,959,862	4,114,944	7,520,590	14,595,396
Contributions	-	-	14,250	14,250
Appropriation of endowment assets for expenditure	(33,000)	(194,086)	-	(227,086)
Transfers to OCCF	-	-	(15,000)	(15,000)
Endowment fund net assets, end of year	\$ 2,926,862	\$ 3,920,858	\$ 7,519,840	\$ 14,367,560

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state law requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2012 or June 30, 2011.

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 was originally scheduled to mature October 1, 2012, with interest payable monthly at the 30 day LIBOR rate plus 2.5% (2.74% at June 30, 2012). Subsequent to June 30, 2012, the note was extended to April 1, 2013.

Note 12 – Employee Benefits

Museum and 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 Oklahoma City Museum of Art 401(k) Retirement Plan (the Plan). In addition to employee elective deferrals into the 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 Plan are paid out of the principal or interest of the Plan assets. The Museum may pay any such expenses of the Plan at its discretion. During the years ended June 30, 2012 and 2011, the Museum approved matching or other retirement contributions of \$65,380 and \$59,906, respectively, to the Plan.

Note 13 – Commitments

During the years ended June 30, 2012 and 2011, the Museum entered into contractual agreements with certain art exhibit leasing organizations for future exhibits. Exhibit lease commitments for the year ending June 30, 2013, are \$711,700. The Museum is soliciting contributions and other sources of support to fund these commitments.

Under the Café's operating statement, all costs and expenses of the Café's operations are the responsibility of the Café. However, if the Café incurs operating costs in excess of revenues from its operations (measured on a cash basis), the Museum may advance funds to the Café. No such funds were advanced to the Café in 2012 or 2011. During 2012 the Museum made a capital investment of approximately \$66,000 to the Café for the purchase of fixed assets.

SUPPLEMENTAL INFORMATION

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2012

	Museum *	Café	Eliminating Entries	Total
Assets				
Cash	\$ 953,141	\$ 156,465	\$ -	\$ 1,109,606
Grants and accounts receivable	10,160	25,463	(10,138)	25,485
Inventory	254,391	53,172	-	307,563
Prepaid expenses and other assets	315,878	22,174	-	338,052
Other restricted cash	942,887	-	-	942,887
Grants and accounts receivable with restrictions	141,832	-	-	141,832
Investments	3,689,864	-	(278,445)	3,411,419
Investments with restrictions	11,145,201	-	-	11,145,201
Beneficial interest in assets held by OCCF	4,010,241	-	-	4,010,241
Property, plant and equipment, net	16,891,097	103,917	-	16,995,014
Art and library collections (see Note 2)				
Total assets	\$ 38,354,692	\$ 361,191	\$ (288,583)	\$ 38,427,300
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 55,994	\$ 23,315	\$ (10,138)	\$ 69,171
Accrued liabilities	195,446	59,431	-	254,877
Note payable	835,000	-	-	835,000
Total liabilities	1,086,440	82,746	(10,138)	1,159,048
Net assets:				
Unrestricted	21,028,091	278,445	(278,445)	21,028,091
Temporarily restricted	6,942,176	-	-	6,942,176
Permanently restricted	9,297,985	-	-	9,297,985
Total net assets	37,268,252	278,445	(278,445)	37,268,252
Total liabilities and net assets	\$ 38,354,692	\$ 361,191	\$ (288,583)	\$ 38,427,300

* Includes Museum Parking, LLC

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

CONSOLIDATING SCHEDULE, STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Museum *	Café	Eliminating Entries	Total
Revenues, Gains and Other Support				
Contributed income:				
Individuals	\$ 528,325	\$ -	\$ -	\$ 528,325
Corporate and other	723,762	-	-	723,762
Allied Arts	378,882	-	-	378,882
Grants and foundations	943,548	-	-	943,548
	<u>2,574,517</u>	-	-	<u>2,574,517</u>
Fundraising events	446,113	-	-	446,113
Memberships	409,095	-	-	409,095
Admissions	740,595	-	(13,200)	727,395
Museum store sales	286,693	-	-	286,693
Museum of Art Café sales	-	1,232,522	-	1,232,522
Museum of Art Café catering sales	-	284,215	-	284,215
Parking income	113,445	-	-	113,445
In-kind donations	21,496	-	-	21,496
Miscellaneous	214,690	20,003	(88,695)	145,998
Investment income	628,452	-	-	628,452
Net earnings on investment in Café	37,551	-	(37,551)	-
Net realized losses on investments	124,228	-	-	124,228
	<u>5,596,875</u>	<u>1,536,740</u>	<u>(139,446)</u>	<u>6,994,169</u>
Expenses				
Programming	2,073,635	-	-	2,073,635
Museum store	283,067	-	-	283,067
Museum of Art Café	-	1,483,087	(101,895)	1,381,192
Museum Parking	31,944	-	-	31,944
Management and general	1,036,184	-	-	1,036,184
Fundraising and development	855,457	-	-	855,457
Security, building and grounds	966,554	-	-	966,554
Art accessioned	45,164	-	-	45,164
Depreciation	681,651	16,102	-	697,753
	<u>5,973,656</u>	<u>1,499,189</u>	<u>(101,895)</u>	<u>7,370,950</u>
Change in net assets	(376,781)	37,551	(37,551)	(376,781)
Net assets, beginning of year	37,645,033	173,940	(173,940)	37,645,033
Contributed capital from Museum to Café	-	66,954	(66,954)	-
	<u>\$ 37,268,252</u>	<u>\$ 278,445</u>	<u>\$ (278,445)</u>	<u>\$ 37,268,252</u>

* Includes Museum Parking, LLC

See independent auditors' report.