

The Gilcrease Museum Management Trust

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018



The Gilcrease Museum Management Trust
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
The University of Tulsa
Tulsa, Oklahoma

We have audited the accompanying financial statements of The Gilcrease Museum Management Trust (the Trust), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gilcrease Museum Management Trust as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2019, the Trust adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BKD, LLP

Tulsa, Oklahoma
December 11, 2019

The Gilcrease Museum Management Trust
Statements of Financial Position
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Equity in pooled cash	\$ 4,504,664	\$ 2,323,593
Inventories	189,064	186,563
Prepaid expenses and deferred charges	99,432	254,944
Contributions receivable, net – current	2,321,524	1,553,864
Total current assets	7,114,684	4,318,964
Contributions receivable, net	7,507,833	7,539,399
Investments	19,114,694	15,595,748
Beneficial interest in funds held by others	65,134	64,135
Equipment, net	186,590	204,168
Total assets	\$ 33,988,935	\$ 27,722,414

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 38,900	\$ 71,509
Accrued expenses	216,083	184,558
Deferred revenue	9,750	20,225
Postretirement benefit obligation – current	12,722	13,618
Total current liabilities	277,455	289,910
Postretirement Benefit Obligation	163,806	206,448
Total liabilities	441,261	496,358
Net Assets		
Without donor restrictions	1,230,904	563,585
With donor restrictions	32,316,770	26,662,471
Total net assets	33,547,674	27,226,056
Total liabilities and net assets	\$ 33,988,935	\$ 27,722,414

The Gilcrease Museum Management Trust
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues, Gains and Other Support			
Gifts, grants and pledges	\$ 1,835,213	\$ 7,064,019	\$ 8,899,232
Contributed services	332,207	-	332,207
Management fee from the City	3,230,734	-	3,230,734
Sales and services of educational departments and public services	307,799	-	307,799
Museum shop sales	337,546	-	337,546
Research services and sponsored projects	256,630	-	256,630
Endowment income, net of fees	739,733	446,070	1,185,803
Nonendowment income	-	548	548
Change in beneficial interest in funds held by others	-	998	998
Other	120,518	-	120,518
	<u>7,160,380</u>	<u>7,511,635</u>	<u>14,672,015</u>
Net assets released from restrictions	<u>1,857,336</u>	<u>(1,857,336)</u>	<u>-</u>
Total revenues, gains and other support	<u>9,017,716</u>	<u>5,654,299</u>	<u>14,672,015</u>
Expenses			
Museum operations	1,367,423	-	1,367,423
Curatorial	1,125,052	-	1,125,052
Visitor services	801,443	-	801,443
Programs	417,900	-	417,900
Special exhibitions	291,537	-	291,537
Museum shop	400,551	-	400,551
Administrative	1,403,259	-	1,403,259
Development	499,303	-	499,303
Marketing	430,103	-	430,103
Collection management	285,759	-	285,759
Other	508,867	-	508,867
	<u>7,531,197</u>	<u>-</u>	<u>7,531,197</u>
Operating Income	1,486,519	5,654,299	7,140,818
Nonoperating Activities			
Collection items purchased not capitalized	<u>(819,200)</u>	<u>-</u>	<u>(819,200)</u>
Change in Net Assets	667,319	5,654,299	6,321,618
Net Assets, Beginning of Year	<u>563,585</u>	<u>26,662,471</u>	<u>27,226,056</u>
Net Assets, End of Year	<u>\$ 1,230,904</u>	<u>\$ 32,316,770</u>	<u>\$ 33,547,674</u>

See Notes to Financial Statements

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues, Gains and Other Support			
Gifts, grants and pledges	\$ 3,785,985	\$ 2,612,428	\$ 6,398,413
Contribution from the University	2,986	-	2,986
Contributed services	326,038	-	326,038
Management fee from the City	3,066,341	-	3,066,341
Sales and services of educational departments and and public services	224,521	-	224,521
Museum shop sales	314,548	-	314,548
Research services and sponsored projects	41,085	2,980	44,065
Endowment income, net of fees	613,697	507,815	1,121,512
Nonendowment income	-	11	11
Change in beneficial interest in funds held by others	-	2,497	2,497
Other	138,622	-	138,622
	<u>8,513,823</u>	<u>3,125,731</u>	<u>11,639,554</u>
Net assets released from restrictions	<u>985,654</u>	<u>(985,654)</u>	<u>-</u>
Total revenues, gains and other support	<u>9,499,477</u>	<u>2,140,077</u>	<u>11,639,554</u>
Expenses			
Museum operations	1,325,818	-	1,325,818
Curatorial	847,352	-	847,352
Visitor services	800,178	-	800,178
Programs	401,576	-	401,576
Special exhibitions	346,979	-	346,979
Museum shop	346,601	-	346,601
Administrative	953,804	-	953,804
Development	498,586	-	498,586
Marketing	535,658	-	535,658
Collection management	198,945	-	198,945
Other	424,434	-	424,434
	<u>6,679,931</u>	<u>-</u>	<u>6,679,931</u>
Total expenses	<u>6,679,931</u>	<u>-</u>	<u>6,679,931</u>
Operating Income	2,819,546	2,140,077	4,959,623
Nonoperating Activities			
Collection items purchased not capitalized	(9,033)	-	(9,033)
Change in Net Assets	2,810,513	2,140,077	4,950,590
Net Assets, Beginning of Year	<u>(2,246,928)</u>	<u>24,522,394</u>	<u>22,275,466</u>
Net Assets, End of Year	<u>\$ 563,585</u>	<u>\$ 26,662,471</u>	<u>\$ 27,226,056</u>

The Gilcrease Museum Management Trust
Statement of Functional Expenses
Year Ended June 30, 2019

	2019											2018 Total	
	Museum Operations	Curatorial	Visitor Services	Programs	Special Exhibitions	Museum Shop	Administrative	Development	Marketing	Collection Management	Other		Total
Salaries and wages	\$ 275,094	\$ 560,942	\$ 601,836	\$ 235,031	\$ 103,729	\$ 145,972	\$ 741,038	\$ 234,340	\$ 118,893	\$ 183,513	\$ 205,650	\$ 3,406,038	\$ 3,248,515
Other benefits	89,876	188,818	182,389	63,834	30,077	41,313	192,864	78,964	39,354	61,259	54,377	1,023,125	932,849
Other professional services	406,634	284,208	2,673	48,958	34,054	4,547	167,534	22,483	40,961	10,358	45,460	1,067,870	945,533
Depreciation	-	-	-	-	-	-	55,531	-	-	-	-	55,531	64,344
Supplies and other expenses	595,819	91,084	14,545	70,077	123,677	208,719	246,292	163,516	230,895	30,629	203,380	1,978,633	1,488,690
Total	<u>\$ 1,367,423</u>	<u>\$ 1,125,052</u>	<u>\$ 801,443</u>	<u>\$ 417,900</u>	<u>\$ 291,537</u>	<u>\$ 400,551</u>	<u>\$ 1,403,259</u>	<u>\$ 499,303</u>	<u>\$ 430,103</u>	<u>\$ 285,759</u>	<u>\$ 508,867</u>	<u>\$ 7,531,197</u>	<u>\$ 6,679,931</u>

The Gilcrease Museum Management Trust
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 6,321,618	\$ 4,950,590
Items not requiring (providing) operating cash flows		
Depreciation	55,531	64,344
Change in allowance for doubtful accounts and amortized discount	192,759	(139,075)
Loss on disposal of equipment	-	8,257
Net realized and unrealized gains on investments	(1,185,803)	(1,121,512)
Change in beneficial interest in funds held by others	(998)	(2,497)
Contributions and pledges received for endowment	(3,726,824)	(2,146,895)
Changes in operating assets and liabilities		
Contributions receivable	228,386	312,555
Inventories	(2,501)	(16,151)
Prepaid expenses and deferred charges	155,512	(144,596)
Accounts payable	(32,609)	47,865
Accrued expenses	31,525	13,975
Deferred revenue	(10,475)	(98,816)
Postretirement benefit obligation	(43,538)	(29,386)
Net cash provided by operating activities	1,982,583	1,698,658
Investing Activities		
Proceeds from sale of investments	818,394	955,348
Purchases of investments	(3,151,539)	(2,593,800)
Purchases of equipment	(37,953)	(34,994)
Collection items purchased not capitalized	(819,200)	(9,033)
Net cash used in investing activities	(3,190,298)	(1,682,479)
Financing Activities		
Contributions received for endowment	3,388,786	2,307,414
Net cash provided by financing activities	3,388,786	2,307,414
Increase in Equity in Pooled Cash	2,181,071	2,323,593
Equity in Pooled Cash, Beginning of Year	2,323,593	-
Equity in Pooled Cash, End of Year	\$ 4,504,664	\$ 2,323,593

The Gilcrease Museum Management Trust

Notes to Financial Statements

June 30, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Gilcrease Museum Management Trust (the Trust) was created on February 12, 2008, for the purpose of providing a source of funds, both operating and endowment, that will ensure the continued maintenance, operation, expansion and existence of the Gilcrease Museum (the Museum). The University of Tulsa (the University) as the trustee of the Trust entered into a Management Agreement (the Agreement) commencing July 1, 2008, with the City of Tulsa (the City) and the Board of Trustees of the Thomas Gilcrease Institute of American History and Art to manage and operate the Museum for the benefit of the City and to center the Museum with the University's academic mission and scholarly programs. The Agreement terminates June 30, 2028, and will be automatically extended for an additional consecutive 10-year period unless it is terminated in writing by either party. The accounts of the Trust are included as part of the University's consolidated financial statements due to the University's control and economic interest in the Trust.

Basis of Financial Statements

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

With Donor Restrictions – Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Generally, the donors of these assets permit the Trust to use all or part of the income earned on related investments for general or specific purposes. Such net assets also include the Trust's beneficial interests in irrevocable agreements held by others.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

The Gilcrease Museum Management Trust

Notes to Financial Statements

June 30, 2019 and 2018

Operating Income

The operating income reflected in the accompanying statements of activities excludes collection items purchased but not capitalized.

Collections

Pursuant to the terms of the Agreement, works of art in the Museum's collection are the property of the City, including works of art acquired during the term of the Agreement, whether by purchase, gift, bequest or donation directly to the Museum, the City or the University for the benefit of the Museum. If the University acquires artwork for the benefit of the Museum, it must transfer its title and interest in the artwork to the City. As such, collection items are not recognized as assets on the accompanying statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the accompanying financial statements. Nothing in the Agreement prevents the University from soliciting, purchasing or receiving donations of works of art for the University's own collections.

Equity in Pooled Cash

The Trust participates in a cash management pool with the University. The University's cash and cash equivalents are deposited in various financial institutions. The Trust's interest in the pool is shown as equity in pooled cash on the accompanying statements of financial position.

Inventories

The museum shop merchandise is stated at the lower of cost or net realizable value on the first-in, first-out basis.

Contributions and Contributions Receivable

Contributions are initially recorded at fair value. Unconditional promises to give are recorded net of an allowance for doubtful receivables estimated based on such factors as prior collections history, types of contributions and the nature of the fundraising activity. Amounts due in more than one year are recorded at net realizable discounted cash flow using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Gifts of land, buildings and equipment and other long-lived assets are recorded at their estimated fair value on the date of gift and reported as support without donor restrictions unless explicit donor stipulations specify how or how long the donated assets must be used, in which case the gift is reported as donor-restricted support.

The Gilcrease Museum Management Trust

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June 30, 2019 and 2018

Conditional promises to give are recorded when conditions are substantially met or the likelihood of not meeting the condition is remote.

Investments

The Trust's investments in common stocks and mutual funds with readily determinable fair values and investments in debt securities, including corporate obligations, commercial paper and U.S. Treasury obligations, are reported at fair value in the accompanying statements of financial position. Nonmarketable investments in hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. The investment in pooled funds is recorded at NAV to determine the fair value of the investments. Other investments are reported at amounts that are not materially different from their fair value.

The Trust's investments are exposed to various risks, such as fluctuating interest rates, credit quality and overall market volatility and uncertainty regarding the time required to realize returns from alternative investments that are not traded in public markets. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of activities. Significant fluctuations in fair values could occur from year to year, and the amounts the Trust will ultimately realize could differ materially.

Income and gains or losses on investments are generally reported as follows:

- Increases in net assets with donor restrictions if the terms of the gift that gave rise to the investment or applicable law require income and gains or losses be added to the principal of a permanent endowment
- Increases in net assets with donor restrictions if the terms of the gift or applicable law impose restrictions on the use of the income
- Increases in net assets without donor restrictions in all other cases

Beneficial Interest in Funds Held by Others

Beneficial interest in funds held by others represents amounts held for the beneficial interest of the Trust under irrevocable perpetual agreements between donors and third-party trustees or agents. The Trust's interest is recorded at the fair value of the net assets of the funds held by others, with net increases or decreases in net assets being reported as changes to net assets with donor restrictions. The amounts the Trust will ultimately realize could differ materially, and significant fluctuations in fair values could occur from year to year.

Equipment

Equipment is stated at cost less accumulated depreciation or, if received as a gift, at fair value or appraised value on the date received less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of the equipment (5 to 20 years). Equipment

The Gilcrease Museum Management Trust

Notes to Financial Statements

June 30, 2019 and 2018

was valued at \$681,005 and \$625,610 and accumulated depreciation was \$494,415 and \$421,442 at June 30, 2019 and 2018, respectively. Depreciation expense was \$55,531 and \$64,344 for the years ended June 30, 2019 and 2018, respectively.

Pursuant to the Agreement, the City owns the Museum's building and property and is responsible for structural maintenance, improvements and repairs in excess of \$5,000 to the Museum's property during the contract term.

Contributed Services

Contributed services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. The Trust received contributed services from the University of \$332,207 and \$326,038 for the years ended June 30, 2019 and 2018, respectively. The contributed services are based on costs incurred by the University that are allocated based on budgeted expenses.

Expenses and Other Activity

Expenses are reported as decreases in net assets without donor restrictions. Net assets with donor restrictions for which donor-imposed conditions are met are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Net assets released from restrictions represent satisfaction of purpose restrictions or passage of the stipulated time period on expenditures made pursuant to donor specifications.

The costs of providing the various programs and supporting activities of the Trust have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated based on total personnel costs or other systematic bases. The accompanying statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated based on total personnel costs or other systematic bases.

Advertising Costs

Advertising costs are expensed as incurred and are included within expenses on the accompanying statements of activities. For the years ended June 30, 2019 and 2018, advertising costs were \$218,255 and \$203,323, respectively.

Income Taxes

The Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined not to be a private foundation under Section 509(a) of the Code. As a result, as long as the Trust maintains its tax exemption, it will not be subject to income tax.

The Gilcrease Museum Management Trust

Notes to Financial Statements

June 30, 2019 and 2018

Subsequent Events

Subsequent events have been evaluated through December 11, 2019, which is the date the financial statements were available to be issued.

Changes in Accounting Principles

Revenue Recognition

On July 1, 2018, the Trust adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption to all contracts with customers at July 1, 2018.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Trust expects to be entitled in exchange for those goods or services.

The amount to which the Trust expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in changes in disclosures in the notes to financial statements.

Not-for-Profit Reporting

In 2019, the Trust adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets. There were no material underwater donor-restricted endowments at June 30, 2019 or 2018.

Statements of Activities and Functional Expenses

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

The Gilcrease Museum Management Trust

Notes to Financial Statements

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Notes to Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Amounts and purposes of Board of Trustee designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Contributions Received and Made

On July 1, 2018, the Trust adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective approach to all contribution and grant agreements either not completed or entered into after the effective date.

ASU 2018-08 was issued to help entities in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions or if the transactions are considered reciprocal and should be accounted for as exchange transactions (under Accounting Standards Codification (ASC) 606). Additionally, ASU 2018-08 assists in determining whether a contribution is conditional or unconditional.

Adoption of ASU 2018-08 did not have a material impact on the accompanying financial statements.

Note 2: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2019			2018		
	Less than 1 Year	1-5 Years	More than 5 Years	Less than 1 Year	1-5 Years	More than 5 Years
Unconditional promises	\$ 2,502,919	\$ 8,901,332	\$ 537,000	\$ 1,674,583	\$ 7,248,333	\$ 2,475,000
Less unamortized discount and allowance for doubtful accounts	<u>(181,395)</u>	<u>(1,522,282)</u>	<u>(408,217)</u>	<u>(120,719)</u>	<u>(1,363,537)</u>	<u>(820,397)</u>
	<u>\$ 2,321,524</u>	<u>\$ 7,379,050</u>	<u>\$ 128,783</u>	<u>\$ 1,553,864</u>	<u>\$ 5,884,796</u>	<u>\$ 1,654,603</u>

Noncurrent contributions receivable are due in varying amounts and dates through fiscal year 2029. Contributions that are expected to be received in more than one year have been discounted to estimated present value using a rate of 5%.

Three contributions receivable made up approximately 70% and 87% of contributions receivable at June 30, 2019 and 2018, respectively.

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Notes to Financial Statements
June 30, 2019 and 2018

Note 3: Investments, Funds Held by Others and Endowment Net Assets

At June 30, the fair value of endowment assets, including beneficial interest in funds held by others for the Trust’s benefit, consisted of the following:

	2019	2018
Equity in pooled cash	\$ 200,000	\$ -
Investments	19,114,694	15,595,748
Contributions receivable	7,969,600	7,631,561
Beneficial interest in funds held by others	65,134	64,135
	\$ 27,349,428	\$ 23,291,444

Endowment investments include perpetual endowments and gifts, gains and term endowments included in net assets with donor restrictions.

The Trust’s endowment consists of 10 donor-restricted individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Upon termination of the Trust, a portion of the endowment may not revert to the University.

Endowment investments not transferred to the Trust from the Gilcrease Museum Endowment Trust are commingled with the University’s endowment funds. The Trust has not adopted an investment or spending policy and is currently operating under the University’s policies, as described below. Endowment investments transferred from the Gilcrease Museum Endowment Trust, having a fair value of \$155,597 and \$158,932 at June 30, 2019 and 2018, respectively, are maintained separately from the University’s endowment investments. The Trust receives quarterly distributions of interest and dividends from these funds.

Interpretation of Relevant Laws

The Trust interprets the *Uniform Prudent Management of Institutional Funds Act of 2006* (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the governing body appropriates such amounts for expenditures. Most of these net assets are also subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund

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Notes to Financial Statements
June 30, 2019 and 2018

- 2) The purposes of the Trust and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Trust
- 7) The investment policies of the Trust

Funds with Deficiencies

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 UPMIFA requires the Trust to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2019. Deficiencies of this nature, which are reported in net assets without donor restrictions, were \$100 as of June 30, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions and continued appropriation for certain programs that were deemed prudent by the University's Board of Trustees.

In accordance with the terms of donor gift instruments, the Trust is permitted to reduce the balance of several restricted endowments below the original amount of the gift. Subsequent investment gains are then used to restore the balance up to the fair value of the original amount of the gift.

Strategies Employed for Achieving Objectives

Certain of the Trust's external investment managers are authorized to use specified derivative financial instruments in managing the assets under their control, subject to restrictions and limitations adopted by the University's Board of Trustees. From time to time, the managers may enter into forward currency contracts to hedge currency exchange risk on investments in foreign securities and other future contracts to adjust asset allocation for a more efficient portfolio. The managers settle these contracts on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Changes in the fair value of the derivative contracts are included in investment income and are not significant for the years ended June 30, 2019 and 2018.

Spending Policy and how the Investment Objectives Relate to Spending Policy

The Trust's spending policy has two components. The first component uses the previous year's spending rate and adjusts it for inflation, which is defined as the previous calendar year's Consumer Price Index increase plus 1%. This component is 70% of the calculation. The second component uses the average endowment market value as of September 30 and December 31 of the preceding year and multiplies the result by a fixed percentage. This percentage was 5% for the years ended June 30, 2019 and 2018. The second component is the remaining 30% of the calculation.

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In establishing this policy, the Trust considered the long-term expected return on its endowment. Accordingly, over the long term, the Trust expects the current spending policy to allow its endowment to grow at or near the inflation rate, as represented by the Consumer Price Index, before the effect of new gifts. This is consistent with the Trust's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts.

The annual withdrawal includes amounts for operations and amounts utilized in accordance with the terms of donor-restricted endowments.

The composition of endowment net assets by type of fund as of June 30 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Pure endowment funds	\$ -	\$ 27,081,123	\$ 27,081,123
Quasi-endowment funds	-	47,574	47,574
Term endowment funds	-	155,597	155,597
Beneficial interest in funds held by others	-	65,134	65,134
	<u>\$ -</u>	<u>\$ 27,349,428</u>	<u>\$ 27,349,428</u>
2018			
Pure endowment funds	\$ (100)	\$ 23,021,679	\$ 23,021,579
Quasi-endowment funds	-	46,798	46,798
Term endowment funds	-	158,932	158,932
Beneficial interest in funds held by others	-	64,135	64,135
	<u>\$ (100)</u>	<u>\$ 23,291,544</u>	<u>\$ 23,291,444</u>

Quasi-endowment funds include donor-restricted contributions that have been designated by the Board of Trustees as endowment net assets.

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Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	\$ -	\$ 20,689,502	\$ 20,689,502
Investment return			
Change in beneficial interest in funds held by others	-	2,497	2,497
Net realized and unrealized appreciation	613,697	507,815	1,121,512
Total investment return	613,697	510,312	1,124,009
Contributions	-	2,146,895	2,146,895
Change in donor restrictions	-	104,836	104,836
Use of endowment assets for expenditures			
Annual transfer for operations	(613,797)	(160,001)	(773,798)
Endowment net assets, June 30, 2018	(100)	23,291,544	23,291,444
Investment return			
Change in beneficial interest in funds held by others	-	998	998
Net realized and unrealized appreciation	739,733	446,070	1,185,803
Total investment return	739,733	447,068	1,186,801
Contributions	-	3,726,825	3,726,825
Use of endowment assets for expenditures			
Annual transfer for operations	(739,633)	(116,009)	(855,642)
Endowment net assets, June 30, 2019	\$ -	\$ 27,349,428	\$ 27,349,428

Beneficial interest in funds held by others are resources that are neither in the possession of, nor under the control of, the Trust. They are held and administered by external fiscal trust agents with the income distributed to the Trust according to the terms of the gift instruments. Only the distributions from these funds are expendable. The Trust received no distributions during the years ended June 30, 2019 and 2018.

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Note 4: Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Recurring Measurements

The following table presents the Trust's assets that are measured at fair value on a recurring basis for each hierarchy level as of June 30:

	Total	Fair Value Measurements			Redemption or Liquidation	Days' Notice
		Level 1	Level 2	Level 3		
2019						
Cash and cash equivalents	\$ 21,628	\$ 21,628	\$ -	\$ -	N/A	N/A
Fixed income	27,757	27,757	-	-	N/A	N/A
Equities	88,959	88,959	-	-	N/A	N/A
Multistrategy hedge funds measured at NAV (A)	17,253	-	-	-	Monthly	90
Investment in pooled funds	<u>18,959,097</u>	<u>-</u>	<u>-</u>	<u>18,959,097</u>	N/A	N/A
Total investments	<u>\$ 19,114,694</u>	<u>\$ 138,344</u>	<u>\$ -</u>	<u>\$ 18,959,097</u>		
Beneficial interest in funds held by others	<u>\$ 65,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,134</u>	N/A	N/A
2018						
Cash and cash equivalents	\$ 4,288	\$ 4,288	\$ -	\$ -	N/A	N/A
Fixed income	60,069	60,069	-	-	N/A	N/A
Equities	75,410	75,410	-	-	N/A	N/A
Multistrategy hedge funds measured at NAV (A)	19,165	-	-	-	Monthly	90
Investment in pooled funds	<u>15,436,816</u>	<u>-</u>	<u>-</u>	<u>15,436,816</u>	N/A	N/A
Total investments	<u>\$ 15,595,748</u>	<u>\$ 139,767</u>	<u>\$ -</u>	<u>\$ 15,436,816</u>		
Beneficial interest in funds held by others	<u>\$ 64,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,135</u>	N/A	N/A

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- (A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

Alternative investments measured at NAV per share include:

- **Hedge Funds – Multistrategy** – This category includes investments made primarily through private investment funds. The private investment funds invest across multiple sectors, including long/short equity, long-biased equity and credit. The private investment funds may employ leverage, sell securities short, purchase and sell options and invest in futures contracts. Investors may redeem monthly with 90 days' notice.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2019 and 2018. During 2019, the Trust implemented some of the provisions of ASU 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which reduced some disclosures reported in prior years.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset-pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Investment in Pooled Funds

The pooled investments that are reflected at NAV are directed by the University and consist of various equity securities, fixed income securities, private equities and hedge funds. Due to the nature of the valuation inputs, the investment in pooled funds is classified within Level 3 of the hierarchy.

Beneficial Interest in Funds Held by Others

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

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Note 5: Revenue from Contracts with Customers

Management Fee from the City

The Trust earns management fees from its contract with the City to manage the operations of the Museum. These fees are primarily earned ratably over time as the Trust provides the contracted monthly services. During the term of the Agreement, the City will pay the University an annual amount to partially offset a portion of the operating expenses to be incurred by the University in managing and operating the Museum. The City paid the University a management fee of \$3,230,734 and \$3,066,341 for the years ended June 30, 2019 and 2018, respectively.

Sales and Services of Educational Departments and Public Services

Performance obligations are determined based on the nature of the goods or services provided by the Trust in accordance with the contract. Sales and services of educational departments and public services revenue relate mostly to admissions and other miscellaneous sales from the Museum. These revenues are recognized as sales occur or services are performed as these goods or services were transferred at a point in time and the Trust does not believe it is required to provide additional goods or services related to that sale. Any other revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Trust believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Museum Shop Sales

Museum shop sales relate to point-in-time sales from the museum gift shop. These revenues are recognized as sales occur as these goods were transferred at a point in time and the Trust does not believe it is required to provide additional goods or services related to that sale.

Research Services and Sponsored Projects

The Trust receives sponsored research funding from various corporate and other private sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the Trust, the funding organization's mission or the public at large.

Revenues from exchange (reciprocal) transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred.

Revenues from nonexchange transactions (contributions) may be subject to conditions, in the form of a barrier to entitlement or a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional nonexchange transactions are recognized when the barrier is satisfied. In addition, the Trust has elected the accounting policy that conditional contributions having donor stipulations that are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

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Transaction Price and Recognition

The Trust determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided in accordance with the Trust's policy. The Trust determines its estimates of explicit price concessions based on its discount policies.

From time to time, the Trust will receive overpayments of customer balances resulting in amounts owed back to either the customers or third parties. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. The Trust had no refund liabilities at June 30, 2019 and 2018.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the customer's ability to pay are recorded as bad debt expense.

The Trust has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the Trust's line of business that provided the service.

For the years ended June 30, 2019 and 2018, the Trust recognized revenue of \$3,487,364 and \$3,110,406, respectively, from goods and services that transfer to the customer over time and \$645,345 and \$539,069, respectively, from goods and services that transfer to the customer at a point in time.

Financing Component

The Trust has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers and third parties for the effects of a significant financing component due to the Trust's expectation that the period between the time the service is provided to a customer and the time the customer or a third-party payer pays for that service will be one year or less.

However, the Trust does, in certain instances, enter into payment agreements with customers that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contract Costs

The Trust has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Trust otherwise would have recognized is one year or less in duration.

Note 6: Retirement Plans

Full-time staff are eligible after specified periods of employment to participate in a contributory retirement and annuity program provided through the University. The University and the Trust have no liability other than annual contributions. Annual contributions are based on a percentage

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of employee compensation. Individual contracts are issued under the program, and there is immediate vesting of both the Trust's and the employees' contributions. Trust contributions to these programs were approximately \$171,000 and \$112,000 during the years ended June 30, 2019 and 2018, respectively.

Note 7: Postretirement Benefits

Museum employees participate in the University's postretirement benefit plan, which allows employees meeting age and service requirements to receive postretirement benefits in the form of insurance coverage for themselves and their dependents until they reach the age of 70. The postretirement benefit accrual of \$176,528 and \$220,066 represents an allocation based on museum employees' compensation to the University's total employees' compensation postretirement benefit cost as of June 30, 2019 and 2018, respectively. The following table sets forth the funded status of the postretirement benefit plan at June 30 based on the Museum's allocation of the University's total funded status:

	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation		
Retirees	\$ 32,546	\$ 37,032
Fully eligible plan participants	40,533	49,375
Other active plan participants	<u>103,449</u>	<u>133,659</u>
Accumulated postretirement benefit obligation	176,528	220,066
Plan assets at fair value	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation in excess of plan assets	176,528	220,066
Current portion of postretirement benefit accrual	<u>(12,722)</u>	<u>(13,618)</u>
Total long-term portion of postretirement benefit accrual	<u>\$ 163,806</u>	<u>\$ 206,448</u>

Postretirement benefit expense for the year ended June 30, 2019, was \$10,302 and included \$10,636 service cost, \$6,758 interest cost and \$7,092 amortization of prior service costs. Postretirement benefit expense for the year ended June 30, 2018, was \$16,018 and included \$14,312 service cost, \$8,508 interest cost and \$6,802 amortization of prior service costs.

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered medical care benefits was assumed for the year ended June 30, 2019; the rate was assumed to decrease 0.5% per year to 4.5% for 2023 and remain at that level thereafter. The medical care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed medical care cost trend by 1.0% in each year would increase the accumulated postretirement benefit obligation as of June 30, 2019, by \$14,508 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year ended June 30, 2019, by \$2,226; decreasing the assumed medical care cost trend by 1.0% in each year would decrease the accumulated postretirement benefit obligation as of June 30, 2019, by \$12,850 and the aggregate of

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the service and interest cost components of the net periodic postretirement benefit cost for the year ended June 30, 2019, by \$1,817.

The weighted discount rate used in determining the accumulated postretirement benefit obligation was 3.32% and 4.07% for the years ended June 30, 2019 and 2018, respectively.

Gross benefit payments, based on the Trust's allocation of the University's total expected future service, are expected to be paid as follows:

	Postretirement Benefits
2020	\$ 18,138
2021	\$ 19,167
2022	\$ 19,504
2023	\$ 20,221
2024	\$ 15,365
2025–2029	\$ 74,012

Contributions expected to be paid to the plan are consistent with the benefits above.

Note 8: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	2019	2018
Restricted for time or purpose		
Capital construction	\$ 18,812	\$ 21,892
Operating	5,216,835	3,618,800
Perpetual	27,081,123	23,021,679
Underwater endowments	-	100
	<u>\$ 32,316,770</u>	<u>\$ 26,662,471</u>

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Net Assets Without Donor Restrictions

Net assets without donor restrictions are designated for the following purposes at June 30:

	2019	2018
Undesignated	\$ (103,261)	\$ (749,536)
Designated by the Board for operating reserve	1,147,575	1,108,953
Net investment in plant	186,590	204,168
	\$ 1,230,904	\$ 563,585

Note 9: Liquidity and Availability

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Total financial assets	\$ 33,513,849
Externally imposed restrictions	
Beneficial interest in funds held by others	65,134
Endowment investments	19,114,694
Restricted for operating or capital expenditures	5,167,342
Contributions receivable	7,969,600
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,197,079

The Trust does not have a formal liquidity policy. However, the Trust forecasts and monitors its future cash flows on a monthly basis in order to ensure continued prudent levels of liquidity.

Note 10: Significant Estimates and Concentrations

Credit Risk

The Trust participates in a cash management pool with the University. The University has certain concentrations of credit risk with financial institutions in the form of uninsured cash, time deposits and other short-term investments that typically may exceed limits from the Federal Deposit Insurance Corporation.

For purposes of evaluating credit risk, the stability of financial institutions conducting business with the University is periodically reviewed, and management of the University believes that credit risk related to these balances is minimal.

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Contribution Revenue

Approximately 24% of all contributions were received from two donors in 2019. Approximately 31% of all contributions were received from two donors in 2018.