

Indianapolis Museum of Art

Accountants' Report and Consolidated Financial Statements

June 30, 2011 and 2010

Indianapolis Museum of Art

June 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Governors
Indianapolis Museum of Art
Indianapolis, Indiana

We have audited the accompanying consolidated statements of financial position of Indianapolis Museum of Art (Museum) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our 2011 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Museum of Art as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the Museum's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary information, including the consolidating information and the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

December 21, 2011

Indianapolis Museum of Art
Consolidated Statements of Financial Position
June 30, 2011 and 2010
(In Thousands)

Assets

	<u>2011</u>	<u>2010</u>
Cash	\$ 3,361	\$ 1,246
Accounts receivable	403	339
Contributions receivable	8,453	9,276
Government grant reimbursements receivable	500	257
Inventories	596	550
Prepaid expenses	679	396
Investments	354,099	313,659
Interests in charitable lead and remainder trusts	10,279	5,642
Unamortized bond issue costs	840	872
Library accessions	978	941
Property and equipment	129,541	131,688
Collections - Note 1	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 509,729</u>	<u>\$ 464,866</u>

Liabilities

Accounts payable	\$ 1,131	\$ 3,686
Accrued salaries, wages and employee benefits	911	849
Accrued pension expense	2,406	3,368
Deferred revenue	154	124
Other liabilities	1,562	1,526
Fair value of interest rate swap	2,324	2,691
Tax-exempt bonds payable	122,600	122,600
Total liabilities	<u>131,088</u>	<u>134,844</u>

Net Assets

Unrestricted	116,225	90,487
Temporarily restricted	133,453	122,240
Permanently restricted	128,963	117,295
Total net assets	<u>378,641</u>	<u>330,022</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 509,729</u>	<u>\$ 464,866</u>

Indianapolis Museum of Art
Consolidated Statements of Activities
Years Ended June 30, 2011 and 2010
(In Thousands)

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Gifts, grants and memberships				
Annual giving, including memberships	\$ 1,315	\$ -	\$ -	\$ 1,315
Other contributions	1,433	8,944	3,721	14,098
Grants	857	-	-	857
Revenue from activities				
Admissions, fees and sales	2,837	171	-	3,008
Investment return designated for current operations and art acquisitions	79	14,937	-	15,016
	<u>6,521</u>	<u>24,052</u>	<u>3,721</u>	<u>34,294</u>
Net assets released from restrictions	18,438	(18,438)	-	-
Total revenue, gains and other support	<u>24,959</u>	<u>5,614</u>	<u>3,721</u>	<u>34,294</u>
Expenses				
Curatorial	14,573	-	-	14,573
Educational	8,225	-	-	8,225
Horticultural	2,133	-	-	2,133
Museum stores	2,093	-	-	2,093
Total program services	<u>27,024</u>	<u>-</u>	<u>-</u>	<u>27,024</u>
Management and general	3,815	-	-	3,815
Fundraising	1,715	-	-	1,715
Total expenses	<u>32,554</u>	<u>-</u>	<u>-</u>	<u>32,554</u>
Change in Net Assets From Operations	(7,595)	5,614	3,721	1,740
Nonoperating Revenue (Expense)				
Investment return greater than amounts designated for current operations and art acquisitions	23,749	22,800	-	46,549
Changes in accumulated postretirement benefits arising during the period	382	-	-	382
Amortization included in net periodic pension cost	619	-	-	619
Change in fair value of interest rate swap agreement	367	-	-	367
Proceeds from sales of art	-	313	-	313
Purchases of art	(1,351)	-	-	(1,351)
Net assets released from restriction - art acquisition	1,251	(1,251)	-	-
Net asset reclassifications	8,316	(16,263)	7,947	-
	<u>25,738</u>	<u>11,213</u>	<u>11,668</u>	<u>48,619</u>
Change in Net Assets	25,738	11,213	11,668	48,619
Net Assets, Beginning of Year	<u>90,487</u>	<u>122,240</u>	<u>117,295</u>	<u>330,022</u>
Net Assets, End of Year	<u>\$ 116,225</u>	<u>\$ 133,453</u>	<u>\$ 128,963</u>	<u>\$ 378,641</u>

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,497	\$ -	\$ -	\$ 1,497
2,591	1,580	1,079	5,250
271	-	-	271
2,329	-	-	2,329
1,631	16,410	-	18,041
<u>8,319</u>	<u>17,990</u>	<u>1,079</u>	<u>27,388</u>
17,653	(17,653)	-	-
<u>25,972</u>	<u>337</u>	<u>1,079</u>	<u>27,388</u>
15,993	-	-	15,993
5,303	-	-	5,303
891	-	-	891
1,939	-	-	1,939
<u>24,126</u>	<u>-</u>	<u>-</u>	<u>24,126</u>
3,781	-	-	3,781
1,162	-	-	1,162
<u>29,069</u>	<u>-</u>	<u>-</u>	<u>29,069</u>
(3,097)	337	1,079	(1,681)
11,475	4,809	-	16,284
(796)	-	-	(796)
179	-	-	179
(2,691)	-	-	(2,691)
-	453	-	453
(1,569)	-	-	(1,569)
876	(876)	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,377	4,723	1,079	10,179
<u>86,110</u>	<u>117,517</u>	<u>116,216</u>	<u>319,843</u>
<u>\$ 90,487</u>	<u>\$ 122,240</u>	<u>\$ 117,295</u>	<u>\$ 330,022</u>

Indianapolis Museum of Art
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010
(In Thousands)

	2011	2010
Operating Activities		
Change in net assets	\$ 48,619	\$ 10,179
Items not requiring (providing) cash		
Depreciation and amortization of bond issue costs	6,227	6,028
Noncash contributions	(90)	(222)
Acquisition and sales of art, net	1,038	1,116
Contributions restricted for long-term investment	(6,678)	(4,637)
Realized gains on investments	(11,665)	(1,508)
Unrealized gains on investments	(48,514)	(33,582)
Change in fair value of interest rate swap agreement	(367)	2,691
Changes in		
Accounts receivable	(307)	(153)
Contributions receivable	720	205
Prepaid expenses and other assets	(329)	(153)
Interests in charitable lead and remainder trusts	(4,506)	2,244
Accounts payable	(805)	1,293
Accrued expenses and other liabilities	(896)	728
Net cash used in operating activities	(17,553)	(15,771)
Investing Activities		
Acquisitions of art	(1,351)	(1,569)
Proceeds from sale of art	313	453
Purchases of property and equipment	(5,735)	(6,334)
Purchases of investments	(202,645)	(225,954)
Sales and maturities of investments	222,450	244,435
Net cash provided by investing activities	13,032	11,031
Financing Activities		
Proceeds from contributions restricted for		
Investment in endowment	4,624	2,947
Investment in art and property and equipment	158	871
Investment subject to annuity and trust agreements	(25)	(6)
Investment subject to various purchases	1,917	825
Payments on capital lease obligations	(38)	(27)
Net cash provided by financing activities	6,636	4,610
Increase (Decrease) in Cash and Cash Equivalents	2,115	(130)
Cash, Beginning of Year	1,246	1,376
Cash, End of Year	\$ 3,361	\$ 1,246
Supplemental Information		
Interest paid	\$ 1,885	\$ 1,966
Property and equipment in accounts payable	139	1,889

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

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

General

Indianapolis Museum of Art (Museum) was incorporated as a not-for-profit organization in May 1892, under the laws of the State of Indiana.

The consolidated financial statements include the accounts of the Indianapolis Museum of Art and Oldfields, LLC, its wholly owned subsidiary. Oldfields, LLC was established during 2004 to hold certain real estate. The consolidated financial statements also include the Museum's affiliated organizations: Alliance of the Indianapolis Museum of Art, EthnoArt Society, the Contemporary Art Society, the Decorative Arts Society, the Horticultural Society and the Asian Art Society. The affiliated organizations are special interest groups within the Museum membership which operate for the benefit of the Museum donating cash and services of volunteers to various Museum activities. No amounts are included in the consolidated financial statements for services of volunteers.

The Museum provides art education opportunities for its members and the general public through the acquisition, preservation and exhibition of its permanent collections. The Museum's primary sources of revenue and support are contributions and earnings on investments.

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Museum has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Museum in perpetuity.

Cash

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2011, the Museum's cash accounts exceeded federally insured limits by approximately \$1,249,000.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Investments and Investment Return

Investments are carried at fair value. For those investments without quoted market prices, the fair value was provided by the managers of the investments funds. These estimated values are subject to uncertainty, and therefore, may differ significantly from the value that would have been used had a market for such investments existed. Such differences could be material. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses.

Investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Museum maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Museum provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

Furnishings and equipment	10 years
Buildings and grounds	50 years
Land improvements	20 years

Long-Lived Asset Impairment

The Museum evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2011 or 2010.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Collections - Art Objects

According to the Museum's policy, collections include all works of art, historical treasures, library accessions and similar assets that are (a) held for public service rather than financial gain, (b) protected, kept unencumbered, cared for and preserved, and (c) subject to the Museum's policy that requires the proceeds of items that are sold to be used to acquire other items for collections. The collections, which have been acquired through purchases and contributions since the Museum's inception, are not recognized as an asset on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted or temporarily restricted net assets in the year in which the items are acquired. Proceeds from deaccessions or insurance recoveries, if any, are reflected as increases in the appropriate net asset class.

Income Taxes

The Museum is exempt from federal income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. The Museum is not considered to be a private foundation. However, the Museum is subject to federal income tax on any unrelated business taxable income.

The Museum files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Museum is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2008.

Contributions Receivable

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received.

While contributions, including promises to give, are required to be recorded as revenue in the year received, expenses funded by such contributions normally occur in subsequent years. This means fluctuations between years in the amount of contributions received or receivable can have a significant impact on the total change in net assets of the Museum, as can the timing of program expenses which result therefrom. Management reviews promises to give and writes off any promises at the time they become uncollectible past their due date. The Museum has estimated an allowance for uncollectible promises to give of \$175,000 as of June 30, 2011 and 2010.

Receivables From Charitable Lead and Remainder Trusts

The Museum is the beneficiary under various charitable lead and remainder trusts for which it is not the trustee. The Museum's beneficial interest in these trusts is recorded at fair value, measured by the present value of the estimated expected future benefits to be received when the trust assets are distributed. At June 30, 2011 and 2010, the Museum's beneficial interest in lead and remainder trusts administered by outside parties is \$9,936,000 and \$5,327,000, respectively.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Support and Revenue

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 reported in the consolidated statements of activities as net assets released from restrictions. 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 temporarily restricted and then released from restriction.

Donated Property and Equipment

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 regarding how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions as the donated or acquired long-lived assets are placed in service.

Government Grants

Support funded by grants is recognized as the Museum performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional Expenses

In 2011, expenses have been classified as program services, management and general, fund raising and membership development based on the actual direct expenditures and cost allocations based upon estimates of salaries incurred by Museum personnel. In 2010, the cost allocations were based upon estimates of space occupied by Museum personnel.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual date of transfer.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Subsequent Events

Effective October 1, 2011, the Museum restructured a portion of their interest rate swap agreement. The new agreement provides for the Museum to receive interest from the counterparty at LIBOR times 70% and to pay interest to the counterparty a fixed rate of 1.89% on a notional amount of \$15,000,000. The restructuring agreement has an expiration date of September 1, 2016.

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Contributions Receivable

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 878	\$ 501	\$ 1,379
Due in one to five years	673	2,000	2,673
Due in more than five years	8,878	609	9,487
	<u>10,429</u>	<u>3,110</u>	<u>13,539</u>
Discount	(4,450)	(461)	(4,911)
Allowance	(175)	-	(175)
	<u>\$ 5,804</u>	<u>\$ 2,649</u>	<u>\$ 8,453</u>
	2010		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 380	\$ 1,500	\$ 1,880
Due in one to five years	600	2,000	2,600
Due in more than five years	9,056	1,477	10,533
	<u>10,036</u>	<u>4,977</u>	<u>15,013</u>
Discount	(4,738)	(824)	(5,562)
Allowance	(175)	-	(175)
	<u>\$ 5,123</u>	<u>\$ 4,153</u>	<u>\$ 9,276</u>

Discount rates ranged from 0.75 to 8.2 percent in 2011 and 2010.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Note 3: Investments

The fair value of the Museum's investments are as follows:

	2011	2010
Savings accounts	\$ 163	\$ 135
Certificates of deposit	246	243
Short-term investments	5,433	12,407
Corporate bonds	1,204	2,550
Corporate stocks		
Domestic	27,129	25,852
International	3,691	15,864
Mutual funds		
Equity - domestic	365	365
Equity - international	36,958	14,032
Fixed income	19,429	12,740
Alternative investments		
Equity - international	45,181	32,761
Fixed income	10,973	20,976
Absolute return marketable alternatives	42,296	44,880
Equity-oriented marketable alternatives	61,468	50,078
Inflation hedging	61,662	44,701
Private equity/Venture capital	35,002	34,055
Real estate held for investment	2,899	2,020
	<u>\$ 354,099</u>	<u>\$ 313,659</u>
Total	<u>\$ 354,099</u>	<u>\$ 313,659</u>

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended June 30, 2011 and 2010:

	2011		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest (net of expenses of \$3,709)	\$ 495	\$ 891	\$ 1,386
Net realized gains on investments	4,040	7,625	11,665
Net unrealized gains on investments	19,293	29,221	48,514
Total return on investments	<u>23,828</u>	<u>37,737</u>	<u>61,565</u>
Investment return designated for			
Current operations	(197)	(14,215)	(14,412)
Art acquisitions	118	(722)	(604)
	<u>23,749</u>	<u>22,800</u>	<u>46,549</u>
Investment return greater than amounts designated for current operations and art acquisitions	<u>\$ 23,749</u>	<u>\$ 22,800</u>	<u>\$ 46,549</u>

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

	Unrestricted	2010 Temporarily Restricted	Total
Dividends and interest (net of expenses of \$4,280)	\$ (230)	\$ (535)	\$ (765)
Net realized gains on investments	475	1,033	1,508
Net unrealized gains on investments	12,861	20,721	33,582
Total return on investments	13,106	21,219	34,325
Investment return designated for			
Current operations	(1,471)	(15,469)	(16,940)
Art acquisitions	(160)	(941)	(1,101)
Investment return greater than amounts designated for current operations and art acquisitions	\$ 11,475	\$ 4,809	\$ 16,284

Note 4: Property and Equipment

The Museum's property and equipment are as follows:

	2011	2010
Buildings and grounds	\$ 165,201	\$ 154,733
Furnishings and equipment	21,288	18,432
Land improvements	12,368	12,368
	198,857	185,533
Accumulated depreciation	(70,560)	(64,462)
	128,297	121,071
Land	922	922
Construction in progress	322	9,695
	\$ 129,541	\$ 131,688

Note 5: Tax-Exempt Bonds Payable

During 2001, the Indiana Finance Authority (the Authority) issued Variable Rate Demand Educational Facilities Revenue Bonds amounting to \$30,000,000, the proceeds of which were loaned to the Museum in order to finance and reimburse all or a portion of the costs of the acquisition, construction, installation, rehabilitation, renovation or enlargement of land, site improvements, infrastructure improvements, buildings, structures, machinery, equipment, furnishings or facilities comprising or being functionally related to the operation of the Museum. The bonds are due February 1, 2036, and are secured by a letter of credit.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

During 2002, the Authority issued an additional \$44,000,000 of Variable Rate Demand Educational Facilities Revenue Bonds, the proceeds of which were loaned to the Museum to continue the construction projects noted above. These bonds are due February 1, 2037, and are also secured by a letter of credit. The outstanding balance at June 30, 2011 and 2010 was \$41,600,000.

During 2004, the Authority issued an additional \$51,000,000 of Variable Rate Demand Educational Facilities Revenue Bonds, the proceeds of which were loaned to the Museum to continue the construction projects noted above. These bonds are due February 1, 2039, and are also secured by a letter of credit.

The bonds are subject to remarketing agreements. In the event of a remarketing failure, the bonds would be repaid through a draw on the letter of credit. The interest rate applicable to such a loan would be prime rate, and would be in effect until the bonds could be remarketed. In the event the bonds could not be remarketed, repayment of the advance could be deferred until the earlier of 180 days or maturity of the letter of credit. The letters of credit were set to expire September 15, 2011. Subsequent to year-end, they were extended to September 15, 2014.

Under the Indenture, the bond issues may operate in one or more of four Modes of Operation provided that certain requirements are met. The four modes generally have different operating features, including different demand features, purchase features, redemption provisions, interest periods and interest payment dates. At June 30, 2011, the bonds were operating under the floating rate mode whereby the interest rate is adjusted weekly and interest is payable monthly. At June 30, 2011, the interest rate on these bonds was 0.08%.

Costs associated with executing the loan and other agreements with the aforementioned parties have been classified as unamortized bond issue costs in the accompanying consolidated financial statements and are being amortized over the life of the bonds using a method that approximates the level yield method.

The bonds are subject to certain covenants, including a financial coverage ratio. At June 30, 2011, the Museum was in compliance with this covenant.

Note 6: Derivative Financial Instruments

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Museum entered into an interest rate swap agreement for a portion of its floating rate debt in September 2009. Through June 30, 2011, the agreements provide for the Museum to receive interest from the counterparty at LIBOR times 70% and to pay interest to the counterparty at a range of fixed rates between 1.971% and 2.911% on the notional amount of \$55,000,000. Under the agreements, the Museum pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements have expirations ranging from 2014 and 2024.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

The table below presents certain information regarding the Museum's interest rate swap agreement:

	2011	2010
Fair value of interest rate swap agreements	\$ 2,324	\$ 2,691
Statement of financial position location of fair value amount	Liability	Liability
Gain (loss) recognized in change in net assets	367	(2,691)
Location of loss recognized in change in net assets	Nonoperating revenue (expense)	Nonoperating revenue (expense)

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2011	2010
Program activities		
Art purchases	\$ 11,135	\$ 7,067
Library accessions	-	296
Educational program activities	527	320
Other program activities	3,501	3,890
Facility operations and personnel	7,220	18,889
Unappropriated endowment earnings	100,309	85,673
For periods after June 30, 2011	10,761	6,105
	<u>\$ 133,453</u>	<u>\$ 122,240</u>

Note 8: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	2011	2010
Investment in perpetuity, the income of which is expendable to support		
Art purchases	\$ 19,885	\$ 18,998
Library accessions	-	368
Educational program activities	613	824
Other program activities	3,470	5,333
Facility operations and personnel	44,016	22,081
Any activity of the Museum	60,979	69,691
	<u>\$ 128,963</u>	<u>\$ 117,295</u>

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Note 9: Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2011	2010
Purpose restrictions accomplished		
Curatorial program expenses	\$ 1,274	\$ 518
Educational program expenses	378	269
Other program expenses	1,033	2,372
Time restrictions expired - passage of time	15,753	14,494
	18,438	17,653
Art acquisition	1,251	876
	\$ 19,689	\$ 18,529

Note 10: Net Asset Reclassifications

During the fiscal year 2011 and in conjunction with the implementation of its new endowment management software, Museum staff performed an in-depth review of all of the Museum's endowment funds. In so doing, Museum staff researched the original designations and/or restrictions assigned to each fund. Pursuant to this review, certain net assets were reclassified during the year. Reclassifications from temporarily restricted net assets to permanently restricted net assets, amounting to \$8,021,620, resulted from the discovery of additional donor-related documentation that supported a classification as permanently restricted. All other reclassifications were primarily due to changes in net assets released from restrictions. The net effect of the latter was to increase unrestricted net assets by \$8,316,000 and to decrease temporarily and permanently restricted net assets by \$8,241,380, and \$74,620, respectively.

Note 11: Endowment

The Museum's endowment consists of approximately 120 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). Temporarily restricted board-designated endowment funds include funds with purpose or time restrictions that the board has designated to function as endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Museum's governing body has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Museum and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Museum
7. Investment policies of the Museum

The composition of net assets by type of endowment fund at June 30, 2011 and 2010, was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (814)	\$ 112,036	\$ 120,132	\$ 231,354
Board-designated endowment funds	120,968	-	-	120,968
Total endowment funds	<u>\$ 120,154</u>	<u>\$ 112,036</u>	<u>\$ 120,132</u>	<u>\$ 352,322</u>

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (3,388)	\$ 108,542	\$ 108,685	\$ 213,839
Board-designated endowment funds	94,225	-	-	94,225
Total endowment funds	<u>\$ 90,837</u>	<u>\$ 108,542</u>	<u>\$ 108,685</u>	<u>\$ 308,064</u>

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Changes in endowment net assets for the years ended June 30, 2011 and 2010 was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 90,837	\$ 108,542	\$ 108,685	\$ 308,064
Investment return				
Investment income	464	632	-	1,096
Net appreciation	21,112	37,548	-	58,660
Total investment return	21,576	38,180	-	59,756
Contributions	212	92	4,642	4,946
Appropriation of endowment assets for expenditure	(79)	(14,937)	-	(15,016)
Reclassification of restrictions	6,598	(14,545)	7,947	-
Transfers for underwater funds	2,574	(2,574)	-	-
Transfers out of endowment	(1,564)	(2,722)	(1,142)	(5,428)
Endowment net assets, end of year	\$ 120,154	\$ 112,036	\$ 120,132	\$ 352,322

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 84,812	\$ 102,908	\$ 105,738	\$ 293,458
Investment return				
Investment income	(254)	(535)	-	(789)
Net appreciation	11,466	23,593	-	35,059
Total investment return	11,212	23,058	-	34,270
Contributions	417	825	2,947	4,189
Removal of board designation	(5,812)	-	-	(5,812)
Appropriation of endowment assets for expenditure	(1,631)	(16,410)	-	(18,041)
Transfers for underwater funds	1,839	(1,839)	-	-
Endowment net assets, end of year	\$ 90,837	\$ 108,542	\$ 108,685	\$ 308,064

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2011 and 2010 consisted of:

	2011	2010
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 120,132</u>	<u>\$ 108,685</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	\$ 11,727	\$ 22,869
Without purpose restrictions	<u>100,309</u>	<u>85,673</u>
	<u>\$ 112,036</u>	<u>\$ 108,542</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Museum is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$814,000 and \$3,388,000 at June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for current operations, capital additions and artifact acquisitions supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Museum must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Museum's policies, endowment assets are invested in a manner that is intended to produce results that exceed the spending rate plus inflation. The Museum expects its endowment funds to provide an average rate of return of approximately 8.5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Museum targets a diversified asset allocation to assure no single security, class of securities or individual investment will have a disproportionate negative impact on the endowment's overall return.

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The Museum has a policy (the spending policy) of appropriating for current operations each year 5.5% of its endowment fund's average fair value for the 12 quarters ended December 31 of the previous year. For the years ended June 30, 2011 and 2010, the Board of Governors approved a temporary increase in the spending rate to support current operations. Based on the 12-quarter average market value, the approved spending rates for operations were 7.3% and 7.5% for the years ended June 30, 2011 and 2010, respectively. All other restricted funds currently spend at or below 5.5%. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Museum's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

For the separate funds in the art endowment, 5 percent of the average market value of such funds for the 12 quarters ending December 31 of the previous year is appropriated to support art acquisitions.

Note 12: Employee Benefits

The Museum has a defined-contribution employee's retirement savings plan covering all full-time employees meeting certain eligibility requirements. The Museum makes contributions to the plan to match employee contributions and pays the cost of administering the plan. Employee benefit expense under this plan was \$519,000 and \$487,000 for 2011 and 2010, respectively.

The Museum also has a noncontributory defined-benefit pension plan covering substantially all of its employees. Effective December 31, 2007, the Museum froze the defined-benefit plan and discontinued accrual of future benefits. The Museum's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Museum may determine to be appropriate from time to time. The amount the Museum expects to contribute to the plan in 2012 is \$146,000.

Information about the plan's funded status follows:

	<u>2011</u>	<u>2010</u>
Projected benefit obligation	\$ 8,754	\$ 8,969
Fair value of plan assets	<u>6,348</u>	<u>5,601</u>
Funded status	<u>\$ (2,406)</u>	<u>\$ (3,368)</u>

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Liabilities recognized in the consolidated statements of financial position:

	2011	2010
Accrued pension expense	\$ 2,406	\$ 3,368

The amount recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost is a net loss of \$2,146,000 and \$3,148,000 as of June 30, 2011 and 2010, respectively. The accumulated benefit obligation was approximately \$8,754,000 as of June 30, 2011 and \$8,969,000 as of June 30, 2010.

Other significant balances and costs are:

	2011	2010
Benefit cost	\$ 229	\$ 222
Employer contribution	190	424
Benefits paid	455	310

The following amounts have been recognized in the consolidated statements of activities for the years ended June 30, 2011 and 2010:

	2011	2010
Amounts arising during the year:		
Net gain (loss)	\$ 382	\$ (796)
Amounts reclassified as components of net periodic benefit cost of the year:		
Net gain	619	179
	\$ 1,001	\$ (617)

The estimated net gain for the defined-benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$89,000.

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Significant assumptions include:

	<u>2011</u>	<u>2010</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.67%	5.45%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	5.45%	6.20%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	0.00%	0.00%

The Museum has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2011:

2012	\$	394
2013		426
2014		424
2015		505
2016		512
2017 - 2019		2,810

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common and preferred stocks, bonds, debentures, mortgages, certain notes of indebtedness or ownership, U.S. Government, State, and certain municipal securities, share or savings accounts in any bank, savings and loan or building and loan, any common trust fund, any group trust, any pooled fund, certain insurance contracts, and real, personal and mixed properties of all kinds.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2011 are as follows:

	<u>Range</u>
Equity securities	60 - 70%
Debt securities	25 - 35%
Other	0 - 10%

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At June 30, 2011 and 2010, plan assets by category are as follows:

	2011	2010
Equity securities	62%	55%
Debt securities	34	38
Other	4	7
	100%	100%

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents (which consist of money market mutual funds), equity mutual funds and fixed income mutual funds.

The fair values of Museum's pension plan assets at June 30, 2011 and 2010, by asset class are as follows:

	2011 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 255	\$ 255	\$ -	\$ -
Mutual funds				
Equity	3,943	3,943	-	-
Fixed income	2,150	2,150	-	-
Total	\$ 6,348	\$ 6,348	\$ -	\$ -

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	2010			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 372	\$ 372	\$ -	\$ -
Mutual funds				
Equity	3,076	3,076	-	-
Fixed income	2,153	2,153	-	-
Total	\$ 5,601	\$ 5,601	\$ -	\$ -

Note 13: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- 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

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Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, savings accounts, certificates of deposit, short-term investments, corporate stocks and certain mutual funds. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. For investments, other than alternative investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include corporate bonds. Real estate held for investment is valued based on appraisals of the property and is also classified within Level 2 of the valuation hierarchy. As a practical expedient, the fair value of certain alternative investments is determined using the net asset value (or its equivalent) provided by the fund assuming the Museum can redeem such investments at the net asset value per share at June 30 or within the near term. These Level 2 alternative investments include equity and fixed income comingled funds, absolute return marketable alternatives, equity-oriented marketable alternatives and inflation hedging and private equity/venture capital investments. For alternative investments that are not redeemable at net asset value at June 30 or in the near term, the net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair value and are classified within Level 3 of the valuation hierarchy. These Level 3 securities include equity-oriented marketable alternatives, inflation hedging and private equity/venture capital securities.

Charitable Lead Trusts Held by the Museum

Fair value is based on quoted market prices of the investments held within the trust. Due to the nature of the valuation inputs, the interest is classified within Level 1 of the hierarchy.

Interest in Remainder Trusts

Because annual investment statements for these trusts are not being provided to the Museum, these interests are classified within Level 3 of the hierarchy.

Interest Rate Swap Agreements

Fair value is estimated by the counterparty using a proprietary model. The interest rate swaps are classified within Level 3 of the valuation hierarchy.

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The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and 2010:

	2011			
	Fair Value Measurements Using			
	Quoted Prices	in Active	Significant	Significant
	Fair	Markets for	Other	Unobservable
	Value	Identical	Observable	Inputs
		Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Investments				
Savings accounts	\$ 163	\$ 163	\$ -	\$ -
Certificates of deposit	246	246	-	-
Short-term investments	5,433	5,433	-	-
Corporate bonds	1,204	-	1,204	-
Corporate stocks				
Domestic	27,129	27,129	-	-
International	3,691	3,691	-	-
Mutual funds				
Equity - domestic	365	365	-	-
Equity - international	36,958	36,958	-	-
Fixed income	19,429	19,429	-	-
Alternative investments				
Equity - international comingled funds	45,181	-	45,181	-
Fixed income comingled funds	10,973	-	10,973	-
Absolute return marketable alternatives	42,296	-	42,296	-
Equity-oriented marketable alternatives	61,468	-	54,372	7,096
Inflation hedging	61,662	-	39,399	22,263
Private equity/venture capital	35,002	-	-	35,002
Real estate held for investment	2,899	-	2,899	-
Total investments	354,099	93,414	196,324	64,361
Charitable lead trust held by the Museum	343	343	-	-
Interests in charitable lead and remainder trusts	9,936	-	-	9,936
	<u>\$ 364,378</u>	<u>\$ 93,757</u>	<u>\$ 196,324</u>	<u>\$ 74,297</u>
Liabilities				
Interest rate swap	\$ (2,324)	\$ -	\$ -	\$ (2,324)

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	2010			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 720	\$ 720	\$ -	\$ -
Investments				
Savings accounts	135	135	-	-
Certificates of deposit	243	243	-	-
Short-term investments	12,407	12,407	-	-
Corporate bonds	2,550	-	2,550	-
Corporate stocks				
Domestic	25,852	25,852	-	-
International	15,864	15,864	-	-
Mutual funds				
Equity - domestic	365	365	-	-
Equity - international	14,032	14,032	-	-
Fixed income	12,740	12,740	-	-
Alternative investments				
Equity - international comingled funds	32,761	-	32,761	-
Fixed income comingled funds	20,976	-	20,976	-
Absolute return marketable alternatives	44,880	-	44,880	-
Equity-oriented marketable alternatives	50,078	-	45,323	4,755
Inflation hedging	44,701	-	27,987	16,714
Private equity/venture capital	34,055	-	9,955	24,100
Real estate held for investment	2,020	-	2,020	-
Total investments	<u>313,659</u>	<u>81,638</u>	<u>186,452</u>	<u>45,569</u>
Charitable lead trust held by the Museum	315	315	-	-
Interests in charitable lead and remainder trusts	<u>5,327</u>	<u>-</u>	<u>-</u>	<u>5,327</u>
	<u>\$ 320,021</u>	<u>\$ 82,673</u>	<u>\$ 186,452</u>	<u>\$ 50,896</u>
Liabilities				
Interest rate swap	<u>\$ (2,691)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,691)</u>

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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Absolute Return Marketable Alternatives	Equity- Oriented Marketable Alternatives	Inflation Hedging	Private Equity/ Venture Capital	Interest in Remainder Trusts	Fair Value of Interest Rate Swap
Balance, January 1, 2009	\$ 23,589	\$ 16,141	\$ 15,380	\$ 19,291	\$ 5,504	\$ -
Total unrealized gains (losses)	-	442	(768)	612	(177)	-
Purchases, issuances and settlements	-	-	2,102	4,197	-	-
Loss on interest rate swap	-	-	-	-	-	(2,691)
Transfers out of Level 3	(23,589)	(11,828)	-	-	-	-
Balance, June 30, 2010	-	4,755	16,714	24,100	5,327	(2,691)
Total unrealized gains	-	95	4,711	4,852	564	-
Purchases	-	6,497	838	6,050	4,045	-
Gain on interest rate swap	-	-	-	-	-	367
Transfers out of Level 3	-	(4,251)	-	-	-	-
Balance, June 30, 2011	<u>\$ -</u>	<u>\$ 7,096</u>	<u>\$ 22,263</u>	<u>\$ 35,002</u>	<u>\$ 9,936</u>	<u>\$ (2,324)</u>
Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) related to assets and liabilities still held at June 30, 2010	<u>\$ -</u>	<u>\$ 442</u>	<u>\$ (768)</u>	<u>\$ 612</u>	<u>\$ (177)</u>	<u>\$ -</u>
Total gains for the period included in change in net assets attributable to the change in unrealized gains (losses) related to assets and liabilities still held at June 30, 2011	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ 4,711</u>	<u>\$ 4,852</u>	<u>\$ 564</u>	<u>\$ -</u>

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The following tables present information regarding funds with fair value that is determined using the net asset value (or its equivalent) provided by the fund.

	Fair Value	Unfunded Commitments	2011 Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Investments				
Alternative investments				
Equity - international (a)	\$ 45,181	\$ -	daily	6-7 days
Fixed income (b)	10,973	-	daily	0-7 days
Absolute return marketable alternatives (c)	42,296	-	quarterly to 1 year	30 - 180 days
Equity-oriented marketable alternatives (d)	61,468	-	quarterly to 3 years	30 - 180 days
Inflation hedging (e)	61,662	12,243	monthly to not available	10 days to not available
Private equity/Venture capital (f)	35,002	32,558	not available	
	<u>\$ 256,582</u>	<u>\$ 44,801</u>		

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Investments				
Alternative investments				
Equity - international (a)	\$ 32,761	\$ -	daily	6-7 days
Fixed income (b)	20,976	-	daily	0-7 days
Absolute return marketable alternatives (c)	44,880	-	quarterly to 1 year	30 - 180 days
Equity-oriented marketable alternatives (d)	50,078	-	quarterly to 3 years	30 - 180 days
Inflation hedging (e)	44,701	19,065	monthly to not available	10 days to not available
Private equity/Venture capital (f)	34,055	23,732	not available	
	<u>\$ 227,451</u>	<u>\$ 42,797</u>		

- (a) International equity mutual funds are commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at net asset value (NAV).
- (b) Fixed income mutual funds are commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at NAV.

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- (c) Absolute return marketable alternative funds consist of funds of funds and limited partnerships that seek to achieve maximum capital appreciation through diversified investments. Many of the funds had lock-up periods, which have expired. Redemptions vary between quarterly and annually with notice periods between 30 days and 180 days. The fair values of these funds are estimated using NAV.
- (d) Equity-oriented marketable alternative funds consist of funds of funds and limited partnerships that seek to achieve capital appreciation primarily through trading, investing in and selling equity securities. Many of the funds had lock-up periods, which have expired. Redemptions vary between quarterly, annually and every three years with notice periods between 30 days and 180 days. The fair value of these funds are estimated using NAV.
- (e) Inflation hedging funds consist of real estate funds, natural resources and hedge funds. Real estate funds totaling \$14,772,000 at June 30, 2011, invest across the major four categories of commercial real estate: office, industrial, multi-family and retain. These are limited partnerships with 10 to 12 year lives and cannot be sold. The underlying investments in the real estate funds are valued using comparable sales, dividend discount and income approach methods. Distributions are made as underlying investments are sold.

Natural resource funds totaling \$7,491,000 at June 30, 2011, primarily invest in mid-stream and down-stream oil and gas opportunities and timber opportunities. Most partnerships have a 10 to 12 year life and valuation techniques include, but are not limited to, the income approach and public market equivalent methods. Funds cannot be sold, but distributions are received as underlying investments are liquidated.

Hedge funds totaling \$39,399,000 at June 30, 2011, consist of credit and equity funds. Underlying equity positions are valued using market quotes or dealer pricing. These funds can be redeemed either monthly or annually.

- (f) Private equity/venture capital funds consist of venture capital and special situations. The venture capital funds have lives that range from 10 to 12 years and cannot be sold. Distributions are received as individual portfolio holdings are liquidated.

Special situations funds seek to exploit debt opportunities across several sectors and is geographically diversified. These funds have lives that range from 10 to 12 years and the Museum will receive distributions from the underlying funds.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position at amounts other than fair value.

Cash and cash equivalents - the carrying amount approximates fair value because of the short maturities of these instruments.

Contributions receivable - the carrying amount is a reasonable estimate of fair value.

Tax-exempt bonds payable - the carrying amount is a reasonable estimate of fair value.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(Table Dollar Amounts in Thousands)

Note 14: Concentrations and Contingencies

Approximately 76% of total contributions were received from four donors in 2011 and approximately 37% of total contributions were received from two donors in 2010.

The Museum is subject to claims and lawsuits which arise primarily in the ordinary course of conducting operations. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Museum.

Current Economic Conditions

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Museum.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue or investment return could have an adverse impact on the Museum's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Museum's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Indianapolis Museum of Art

Consolidating Statement of Financial Position by Funds

June 30, 2011

(In Thousands)

Assets

	Current	Affiliated	Plant and	Charitable	Endowment	Tax-Exempt	Contributions	Construction	IMA	Art		
	Funds	Organizations'	Art Objects	Lead Trust	Funds	Bond Funds	Receivable	Fund	Lab	Decapitalization	Eliminations	Total
	Funds	Funds	Funds	Fund	Funds	Funds	Funds	Fund	Fund	Fund	Fund	Fund
Cash	\$ 3,248	\$ 91	\$ -	\$ 22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,361
Accounts receivable	403	-	-	-	-	-	-	-	-	-	-	403
Contributions receivable	-	-	-	-	-	-	8,839	-	-	(386)	-	8,453
Government grant reimbursements receivable	500	-	-	-	-	-	-	-	-	-	-	500
Inventories	596	-	-	-	-	-	-	-	-	-	-	596
Prepaid expenses	679	-	-	-	-	-	-	-	-	-	-	679
Investments	-	409	-	66	350,725	-	2,899	-	-	-	-	354,099
Interests in charitable lead and remainder trusts	-	-	-	343	-	-	9,936	-	-	-	-	10,279
Unamortized bond issue costs	-	-	-	-	-	840	-	-	-	-	-	840
Art objects	-	-	171,018	-	-	-	-	-	-	(171,018)	-	-
Library accessions	-	-	978	-	-	-	-	-	-	-	-	978
Buildings and grounds, net	-	-	122,704	-	-	-	-	-	-	-	-	122,704
Furnishing and equipment, net	-	-	6,516	-	-	-	-	-	-	-	-	6,516
Construction in progress	-	-	321	-	-	-	-	-	-	-	-	321
Due from funds	316,247	257	24,735	-	206,108	127,232	-	12,092	444	-	(687,115)	-
Collections	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 321,673	\$ 757	\$ 326,272	\$ 431	\$ 556,833	\$ 128,072	\$ 21,674	\$ 12,092	\$ 444	\$ (171,404)	\$ (687,115)	\$ 509,729

Liabilities and Fund Balances

Liabilities												
Accounts payable	\$ 942	\$ 4	\$ 185	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,131
Accrued salaries, wages and employee benefits	911	-	-	-	-	-	-	-	-	-	-	911
Accrued pension expense	2,406	-	-	-	-	-	-	-	-	-	-	2,406
Deferred revenue	154	-	-	-	-	-	-	-	-	-	-	154
Other liabilities	553	-	119	234	383	273	-	-	-	-	-	1,562
Fair value of interest rate swap	-	-	-	-	-	2,324	-	-	-	-	-	2,324
Tax-exempt bonds payable	-	-	-	-	-	122,600	-	-	-	-	-	122,600
Due to other funds	322,244	95	26,136	-	204,131	22,296	-	112,166	47	-	(687,115)	-
Total liabilities	327,210	99	26,440	234	204,514	147,493	-	112,166	47	-	(687,115)	131,088
Fund Balances												
Operating fund	959	-	-	-	-	(19,421)	-	-	397	-	-	(18,065)
Temporarily restricted - current unrestricted	1,276	-	-	-	-	-	12,843	-	-	(386)	-	13,733
Unrestricted - current restricted	(7,772)	-	-	-	-	-	-	-	-	-	-	(7,772)
Alliance	-	215	-	-	-	-	-	-	-	-	-	215
Societies	-	443	-	-	-	-	-	-	-	-	-	443
Temporarily restricted plant - art	-	-	6,869	-	-	-	-	-	-	-	-	6,869
Temporarily restricted plant - capital	-	-	707	-	-	-	-	-	-	-	-	707
Unrestricted plant - art	-	-	(1,191)	-	-	-	-	-	-	-	-	(1,191)
Unrestricted plant - capital	-	-	362	-	-	-	-	(100,074)	-	-	-	(99,712)
Expended plant and art objects	-	-	293,085	-	-	-	-	-	-	(171,018)	-	122,067
Temporarily restricted - CLAT	-	-	-	109	-	-	-	-	-	-	-	109
Unrestricted - CLAT	-	-	-	88	-	-	-	-	-	-	-	88
Permanently restricted endowment - art	-	-	-	-	12,186	-	-	-	-	-	-	12,186
Permanently restricted endowment - other	-	-	-	-	107,946	-	8,831	-	-	-	-	116,777
Temporarily restricted endowment - art	-	-	-	-	2,998	-	-	-	-	-	-	2,998
Temporarily restricted endowment - other	-	-	-	-	109,037	-	-	-	-	-	-	109,037
Unrestricted endowment - art	-	-	-	-	14	-	-	-	-	-	-	14
Unrestricted endowment - other	-	-	-	-	120,138	-	-	-	-	-	-	120,138
Total fund balances	(5,537)	658	299,832	197	352,319	(19,421)	21,674	(100,074)	397	(171,404)	-	378,641
Total liabilities and fund balances	\$ 321,673	\$ 757	\$ 326,272	\$ 431	\$ 556,833	\$ 128,072	\$ 21,674	\$ 12,092	\$ 444	\$ (171,404)	\$ (687,115)	\$ 509,729

Indianapolis Museum of Art

Consolidating Statement of Activities by Funds

Year Ended June 30, 2011

(In Thousands)

	Current Funds										Total
	Unrestricted	Restricted and Designated	Affiliated Organizations' Funds	Plant and Art Objects Funds	Charitable Lead Trust Fund	Endowment Funds	Tax-Exempt Bond Fund	Contributions Receivable	IMA Lab	Construction Fund	
Revenue, Gains and Other Support											
Gifts, grants and memberships											
Annual giving, including memberships	\$ 1,274	\$ -	\$ 41	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,315
Other contributions	1,123	2,256	37	2,775	(25)	4,116	-	3,816	-	-	14,098
Grants	228	394	-	91	-	-	-	-	-	144	857
Revenue from activities											
Admissions, fees and miscellaneous sales	2,352	318	-	13	-	-	-	-	325	-	3,008
Investment return designated for current operations and art acquisitions	12,570	1,531	-	915	-	-	-	-	-	-	15,016
	17,547	4,499	78	3,794	(25)	4,116	-	3,816	325	144	34,294
Released from designation	1,812	5,216	(3)	(3,537)	-	(5,430)	-	2,019	124	(201)	-
Total revenue, gains and other support	<u>19,359</u>	<u>9,715</u>	<u>75</u>	<u>257</u>	<u>(25)</u>	<u>(1,314)</u>	<u>-</u>	<u>5,835</u>	<u>449</u>	<u>(57)</u>	<u>34,294</u>
Expenses											
Director's office	667	-	-	-	-	-	-	-	-	-	667
Curatorial	5,741	2,290	-	-	-	-	-	-	-	-	8,031
Educational	1,111	9	-	-	-	-	-	-	-	-	1,120
Development and membership	690	16	-	-	-	-	-	-	-	-	706
Public information	1,829	83	-	-	-	-	-	-	-	40	1,952
Horticultural	978	2	-	-	-	-	-	-	-	-	980
Retail	1,207	-	-	-	-	-	-	-	-	-	1,207
Operations	2,838	146	50	375	13	-	2,471	-	163	-	6,056
Affiliated organizations	59	8	-	-	-	-	-	-	-	-	67
Depreciation	-	-	-	6,098	-	-	-	-	-	-	6,098
Physical plant and security	5,665	5	-	-	-	-	-	-	-	-	5,670
Total expenses	<u>20,785</u>	<u>2,559</u>	<u>50</u>	<u>6,473</u>	<u>13</u>	<u>-</u>	<u>2,471</u>	<u>-</u>	<u>163</u>	<u>40</u>	<u>32,554</u>
Change in Net Assets From Operations	(1,426)	7,156	25	(6,216)	(38)	(1,314)	(2,471)	5,835	286	(97)	1,740
Nonoperating Income (Expense)											
Investment return in excess of amounts designated for current operations and art acquisitions	39	-	3	-	58	45,569	-	880	-	-	46,549
Gain on underfunded pension plan	382	-	-	-	-	-	-	-	-	-	382
Amortization of prior service cost	619	-	-	-	-	-	-	-	-	-	619
Gain on interest rate swap	-	-	-	-	-	-	367	-	-	-	367
Proceeds from sales of art	-	-	-	313	-	-	-	-	-	-	313
Purchases of art	-	-	-	(1,351)	-	-	-	-	-	-	(1,351)
Change in Net Assets	(386)	7,156	28	(7,254)	20	44,255	(2,104)	6,715	286	(97)	48,619
Net Assets, Beginning of Year	1,345	(13,652)	630	135,682	177	308,064	(17,317)	14,959	111	(99,977)	330,022
Net Assets, End of Year	<u>\$ 959</u>	<u>\$ (6,496)</u>	<u>\$ 658</u>	<u>\$ 128,428</u>	<u>\$ 197</u>	<u>\$ 352,319</u>	<u>\$ (19,421)</u>	<u>\$ 21,674</u>	<u>\$ 397</u>	<u>\$ (100,074)</u>	<u>\$ 378,641</u>

Indianapolis Museum of Art
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Entity Program	CFDA Number	Grant or Identifying Number	Amount
Institute for Museum and Library Services (Direct Funding)			
Museums for America	45.301	MA-04-09-0120-09	\$ 51,455
Institute for Museum and Library Services/University of Maryland			
National Leadership Grants	45.312	LG-30-08-0117-08	34,208
U.S. Department of State (Direct Funding)			
Venice Art Biennale	19.XXX	S-LMAQM-10-GR-050-VT	350,000
Venice Art Biennale	19.XXX	S-IT700-11-GR-058	10,000
Total U.S. Department of State			<u>360,000</u>
National Endowment for the Arts (Direct Funding)			
Promotion of the Arts	45.024	10-4400-7103	54,730
Promotion of the Arts	45.024	10-4229-7079	143,693
Total National Endowment for the Arts			<u>198,423</u>
			<u>\$ 644,086</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Indianapolis Museum of Art and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Indianapolis Museum of Art provided no federal awards to subrecipients.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Governors
Indianapolis Museum of Art
Indianapolis, Indiana

We have audited the consolidated financial statements of Indianapolis Museum of Art (Museum) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Museum's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Museum's consolidated financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Museum's management in a separate letter dated December 21, 2011.

This report is intended solely for the information and use of the governing body, management and others within the Museum and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 21, 2011

Independent Accountants' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Governors
Indianapolis Museum of Art
Indianapolis, Indiana

Compliance

We have audited the compliance of Indianapolis Museum of Art (Museum) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The Museum's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Museum's management. Our responsibility is to express an opinion on the compliance of Indianapolis Museum of Art based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Museum's compliance with those requirements.

As described in item 11-01 in the accompanying schedule of findings and questioned costs, the Museum did not comply with requirements regarding procurement that are applicable to its Venice Art Biennale program. Compliance with such requirements is necessary, in our opinion, for the Museum to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Indianapolis Museum of Art complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Indianapolis Museum of Art is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Museum's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 11-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Museum's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Museum's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the governing body, management, others within the Museum, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 21, 2011

Indianapolis Museum of Art
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting disclosed:
 Significant deficiency(ies)? Yes No
 Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs disclosed:
 Significant deficiency(ies)? Yes No
 Material weakness(es)? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The Museum's major program was:

Cluster/Program	CFDA Number
Venice Art Biennale	19.XXX

Indianapolis Museum of Art
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Indianapolis Museum of Art
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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11-01	<p>Federal Agency: U.S. Department of State</p> <p>CFDA Title and Number: 19.XXX - Venice Art Biennale</p> <p>Award Number(s): S-LMAQM-10-GR-050-VT, S-IT700-11-GR-058</p> <p>Award Period: August 23, 2010 to January 30, 2012</p> <p>Criteria or Specific Requirement: Per 22 CFR Part 145, organizations receiving financial assistance directly from the Department of State are required to follow the standards set forth therein for the procurement of supplies and other expendable property, equipment, real property and other services with federal funds. These standards are provided in order to ensure such materials and services are obtained in a cost effective manner and in compliance with the provisions of applicable federal statutes and executive orders.</p> <p>Condition: Documentation to support compliance with the above requirements was not available. Additionally, while the Museum maintains written procurement procedures, they do not contain some of the procedures outlined in §145.44 of 22 CFR Part 145.</p> <p>Context: We tested a sample of three vendor files (out of a population of three) for procurements exceeding \$100,000 to evaluate compliance with the applicable procurement requirements, noting for each procurement that the file did not contain a complete history of the procurement, including the rationale for the method of procurement, justification for lack of competition when competitive bids or offers were not obtained, selection of contract type (if applicable), contractor/vendor selection or rejection and the basis for the contract or purchase price. Also, signed contracts did not contain the required clauses referenced in §145.48 of 22 CFR Part 145.</p>	None
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Indianapolis Museum of Art
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

Reference Number	Finding	Questioned Costs
	<p>Cause: The Museum was unaware of the requirements and, therefore, did not establish appropriate policies and procedures to ensure compliance in this area.</p> <p>Effect: By not documenting the significant history of each procurement, modifying existing procurement policies to reflect federal requirements or including the required clauses in written contracts, the Museum cannot ensure the most cost effective procurement process or protect the interests of the U.S. Federal Government.</p> <p>Recommendation: We recommend the Museum revise its procurement policies and contract language, as appropriate, to include the required federal compliance elements. Also, under future circumstances, the Museum should be sure to confirm the applicability of all associated compliance requirements and revise its control procedures accordingly prior to expending amounts under federal awards.</p> <p>Views of Responsible Officials and Planned Corrective Action: We are in the process of revising our procurement policies and contract language to include the required federal compliance elements. When we receive future federal awards, we will review all compliance requirements required for the awards and revise procedures as necessary to ensure compliance.</p>	