# Indianapolis Museum of Art

Auditor’s Report and Consolidated Financial Statements

June 30, 2015 and 2014

# Indianapolis Museum of Art
## June 30, 2015 and 2014

## Contents

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# Independent Auditor's Report

Board of Governors
Indianapolis Museum of Art
Indianapolis, Indiana

We have audited the accompanying consolidated financial statements of Indianapolis Museum of Art and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Museum of Art and its subsidiary as of June 30, 2015 and 2014, 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.

BKD, LLP

Indianapolis, Indiana
December 17, 2015

# Indianapolis Museum of Art

## Consolidated Statements of Financial Position

## June 30, 2015 and 2014

(In Thousands)

### Assets

| | 2015 | 2014 |
|---|---|---|
| Cash | $ 1,737 | $ 3,595 |
| Accounts receivable | 520 | 367 |
| Contributions receivable, net | 3,012 | 3,083 |
| Government grant reimbursements receivable | 183 | 69 |
| Inventories | 626 | 571 |
| Prepaid expenses | 376 | 1,726 |
| Investments | 371,326 | 381,747 |
| Estate notes and charitable lead trusts | 13,791 | 13,620 |
| Unamortized bond issue costs | 546 | 592 |
| Library accessions | 1,120 | 1,100 |
| Property and equipment | 108,338 | 113,081 |
| Collections - Note 1 | - | - |
| Total assets | $ 501,575 | $ 519,551 |

### Liabilities

| | 2015 | 2014 |
|---|---|---|
| Accounts payable | $ 789 | $ 861 |
| Accrued salaries, wages and employee benefits | 1,166 | 1,063 |
| Deferred revenue | 997 | 503 |
| Other liabilities | 1,481 | 1,441 |
| Accrued pension expense | 1,035 | 2,652 |
| Fair value of interest rate swap agreements | 3,202 | 3,540 |
| Tax-exempt bonds payable (including bond premium of $1,847 in 2015 and $1,939 in 2014) | 121,002 | 122,104 |
| Total liabilities | 129,672 | 132,164 |

### Net Assets

| | 2015 | 2014 |
|---|---|---|
| Unrestricted | 106,017 | 113,552 |
| Temporarily restricted | 129,049 | 139,452 |
| Permanently restricted | 136,837 | 134,383 |
| Total net assets | 371,903 | 387,387 |
| Total liabilities and net assets | $ 501,575 | $ 519,551 |

# Indianapolis Museum of Art

## Consolidated Statements of Activities
## Years Ended June 30, 2015 and 2014
(In Thousands)

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenue, Gains and Other Support** | | | | |
| Gifts, grants and memberships | | | | |
| Annual giving, including memberships | $ 2,393 | $ - | $ - | $ 2,393 |
| Other contributions | 2,385 | 1,779 | 1,854 | 6,018 |
| Government grants | 171 | 92 | - | 263 |
| Revenue from activities | | | | |
| Admissions, fees and sales | 2,689 | 50 | - | 2,739 |
| Investment return designated for current operations and art acquisitions | 8,999 | 14,051 | - | 23,050 |
| | 16,637 | 15,972 | 1,854 | 34,463 |
| Net assets released from restrictions | 14,430 | (14,430) | - | - |
| Total revenue, gains and other support | 31,067 | 1,542 | 1,854 | 34,463 |
| **Expenses** | | | | |
| Curatorial | 7,903 | - | - | 7,903 |
| Educational | 5,854 | - | - | 5,854 |
| Horticultural | 1,587 | - | - | 1,587 |
| Museum stores | 1,731 | - | - | 1,731 |
| Management and general | 2,014 | - | - | 2,014 |
| Fundraising | 1,879 | - | - | 1,879 |
| Total expenses | 20,968 | - | - | 20,968 |
| **Change in Net Assets Before Depreciation and Interest** | 10,099 | 1,542 | 1,854 | 13,495 |
| Depreciation | 6,409 | - | - | 6,409 |
| Interest | 3,541 | - | - | 3,541 |
| Total depreciation and interest | 9,950 | - | - | 9,950 |
| **Change in Net Assets From Operations** | 149 | 1,542 | 1,854 | 3,545 |
| **Nonoperating Revenue (Expense)** | | | | |
| Investment return greater than amounts designated for current operations and art acquisitions | (7,903) | (8,930) | - | (16,833) |
| Other transfers | - | (600) | 600 | - |
| Changes in projected benefit obligation arising during the period | 259 | - | - | 259 |
| Amortization included in net periodic pension cost | (171) | - | - | (171) |
| Change in fair value of interest rate swap agreements | 338 | - | - | 338 |
| Loss on refinancing | - | - | - | - |
| Change in split interest agreements | 12 | (400) | - | (388) |
| Proceeds from sales of art | - | 124 | - | 124 |
| Purchases of art | (2,358) | - | - | (2,358) |
| Net assets released from restriction - art acquisition | 2,139 | (2,139) | - | - |
| **Change in Net Assets** | (7,535) | (10,403) | 2,454 | (15,484) |
| **Net Assets, Beginning of Year** | 113,552 | 139,452 | 134,383 | 387,387 |
| **Net Assets, End of Year** | $ 106,017 | $ 129,049 | $ 136,837 | $ 371,903 |

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | $ 1,815 | $ - | $ - | $ 1,815 |
| | 1,464 | 1,717 | 2,204 | 5,385 |
| | 449 | - | - | 449 |
| | 3,764 | - | - | 3,764 |
| | 6,987 | 14,435 | - | 21,422 |
| | 14,479 | 16,152 | 2,204 | 32,835 |
| | 14,799 | (14,799) | - | - |
| | 29,278 | 1,353 | 2,204 | 32,835 |
| | 8,463 | - | - | 8,463 |
| | 5,469 | - | - | 5,469 |
| | 1,642 | - | - | 1,642 |
| | 1,862 | - | - | 1,862 |
| | 1,975 | - | - | 1,975 |
| | 1,627 | - | - | 1,627 |
| | 21,038 | - | - | 21,038 |
| | 8,240 | 1,353 | 2,204 | 11,797 |
| | 6,344 | - | - | 6,344 |
| | 3,320 | - | - | 3,320 |
| | 9,664 | - | - | 9,664 |
| | (1,424) | 1,353 | 2,204 | 2,133 |
| | 12,802 | 20,681 | - | 33,483 |
| | - | (2,050) | 2,050 | - |
| | 54 | - | - | 54 |
| | (173) | - | - | (173) |
| | 306 | - | - | 306 |
| | (317) | - | - | (317) |
| | (3) | (592) | - | (595) |
| | - | - | - | - |
| | (439) | - | - | (439) |
| | 311 | (311) | - | - |
| | 11,117 | 19,081 | 4,254 | 34,452 |
| | 102,435 | 120,371 | 130,129 | 352,935 |
| | $ 113,552 | $ 139,452 | $ 134,383 | $ 387,387 |

# Indianapolis Museum of Art

## Consolidated Statements of Cash Flows
## Years Ended June 30, 2015 and 2014
(In Thousands)

| | 2015 | 2014 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (15,484) | $ 34,452 |
| Items not requiring (providing) cash | | |
| Loss on bond refinancing | - | 317 |
| Depreciation | 6,409 | 6,344 |
| Noncash contributions | (127) | (133) |
| Acquisition and sales of art, net | 2,234 | 439 |
| Contributions restricted for long-term investment | (3,377) | (4,134) |
| Realized losses on investments | (25,527) | (14,738) |
| Unrealized (gains) losses on investments | 19,011 | (41,558) |
| Change in fair value of interest rate swap agreement | (338) | (306) |
| Changes in | | |
| Accounts receivable | (153) | 10 |
| Contributions receivable | 71 | 742 |
| Prepaid expenses and other assets | 1,135 | (788) |
| Estate notes and charitable lead trusts | (171) | 223 |
| Accounts payable | (72) | 136 |
| Accrued expenses and other liabilities | (956) | 223 |
| Net cash used in operating activities | (17,345) | (18,771) |
| **Investing Activities** | | |
| Acquisitions of art | (2,358) | (439) |
| Proceeds from sale of art | 124 | - |
| Purchases of property and equipment | (1,686) | (873) |
| Purchases of investments | (33,213) | (35,989) |
| Sales and maturities of investments | 50,277 | 55,446 |
| Net cash provided by investing activities | 13,144 | 18,145 |
| **Financing Activities** | | |
| Proceeds from contributions restricted for | | |
| Investments in endowment | 2,456 | 2,474 |
| Investments in art and property and equipment | 866 | 583 |
| Investments subject to various purchases | 55 | 1,077 |
| Issuance of bonds | - | 55,140 |
| Retirement of bonds | - | (55,000) |
| Principal payments on bonds | (1,010) | (1,030) |
| Cost incurred from long-term debt issuance | - | (140) |
| Payments on capital lease obligations | (24) | (24) |
| Net cash provided by financing activities | 2,343 | 3,080 |
| **Increase (Decrease) in Cash** | (1,858) | 2,454 |
| **Cash, Beginning of Year** | 3,595 | 1,141 |
| **Cash, End of Year** | $ 1,737 | $ 3,595 |
| **Supplemental Information** | | |
| Interest paid | $ 3,549 | $ 2,818 |
| Property and equipment in accounts payable | 201 | 12 |

## 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, the Asian Art Society, the Contemporary Art Society, the Design Arts Society, the Fashion Arts Society and the Horticultural 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*

At June 30, 2015, the Museum's cash accounts exceeded federally insured limits by approximately $1,661,000.

### *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 investment 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, 2015 or 2014.

### *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.

### *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 $100,000 and $175,000 as of June 30, 2015 and 2014, respectively.

### *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.

(Table Dollar Amounts in Thousands)

### *Estate Notes and Charitable Lead Trusts*

The Museum is the beneficiary under various estate notes and charitable lead trusts.

Estate notes represent an irrevocable pledge (or debt) against a donor's estate, to the extent the pledge is not satisfied during the donor's lifetime. Estate notes are initially recorded at fair value determined by using the discounted present value of the amounts to be received in the future. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. Discount rates utilized were 1.70% to 8.23% for 2015 and 1.91% to 8.23% for 2014.

Charitable lead trusts are arrangements in which a donor establishes and funds a trust to provide distributions to a designated beneficiary organization for a specified period of time. Upon termination of the trust, the remainder of the trust assets are paid to the donor or to another beneficiary designated by the donor. Charitable lead trusts administered by the Museum are recorded at fair value only upon initial recognition, while those being administered by third parties are adjusted to fair value annually using discount rates based on current market conditions.

The following schedule summarizes estate notes and charitable lead trusts for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Estate notes | $ 20,422 | $ 20,022 |
| Discount | (10,143) | (10,241) |
| | 10,279 | 9,781 |
| Charitable lead trusts | 3,512 | 3,839 |
| | $ 13,791 | $ 13,620 |

### *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, or as 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.

(Table Dollar Amounts in Thousands)

### *Functional Expenses*

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.

### *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 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

### *Subsequent Events*

Subsequent to the statement of financial position date, the Museum received notification that it would receive a $10 million grant to fund capital investments to better welcome and engage more guests and to improve programs.

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

## Note 2: Contributions Receivable

| | 2015 Temporarily Restricted | 2015 Permanently Restricted | 2015 Total |
|---|---|---|---|
| Due within one year | $ 1,119 | $ 500 | $ 1,619 |
| Due in one to five years | 1,098 | 500 | 1,598 |
| | 2,217 | 1,000 | 3,217 |
| Discount | (38) | (67) | (105) |
| Allowance | (100) | - | (100) |
| | $ 2,079 | $ 933 | $ 3,012 |

(Table Dollar Amounts in Thousands)

| | 2014 Temporarily Restricted | 2014 Permanently Restricted | 2014 Total |
|---|---|---|---|
| Due within one year | $ 751 | $ 620 | $ 1,371 |
| Due in one to five years | 1,065 | 1,000 | 2,065 |
| | 1,816 | 1,620 | 3,436 |
| Discount | (47) | (131) | (178) |
| Allowance | (175) | - | (175) |
| | $ 1,594 | $ 1,489 | $ 3,083 |

Discount rates utilized ranged from 0.32% to 4.72% for 2015 and 0.18% to 4.90% for 2014.

## Note 3: Investments

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

| | 2015 | 2014 |
|---|---|---|
| Certificates of deposit | $ 128 | $ 195 |
| Short-term investments | 8,028 | 7,486 |
| Corporate stocks | | |
| Domestic | 24,254 | 24,686 |
| International | 4,536 | 4,477 |
| Mutual funds | | |
| Equity - international | 35,685 | 39,534 |
| Fixed income | 20,104 | 15,169 |
| Alternative investments | | |
| Equity - international | 53,596 | 54,073 |
| Fixed income | 9,679 | 10,238 |
| Absolute return marketable alternatives | 53,606 | 52,619 |
| Equity-oriented marketable alternatives | 42,962 | 50,074 |
| Inflation hedging | 50,340 | 55,986 |
| Private equity/venture capital | 63,640 | 62,442 |
| Real estate held for investment | 4,768 | 4,768 |
| Total | $ 371,326 | $ 381,747 |

(Table Dollar Amounts in Thousands)

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended June 30, 2015 and 2014:

| | 2015 | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** |
| Dividends and interest (net of expenses of $3,352) | $ (179) | $ (120) | $ (299) |
| Net realized gains on investments | 9,065 | 16,462 | 25,527 |
| Net unrealized losses on investments | (7,790) | (11,221) | (19,011) |
| Total return on investments | 1,096 | 5,121 | 6,217 |
| Investment return designated for | | | |
| Current operations | (8,974) | (13,034) | (22,008) |
| Art acquisitions | (25) | (1,017) | (1,042) |
| Investment return less than amounts designated for current operations and art acquisitions | $ (7,903) | $ (8,930) | $ (16,833) |

| | 2014 | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** |
| Dividends and interest (net of expenses of $4,077) | $ (502) | $ (889) | $ (1,391) |
| Net realized gains on investments | 5,328 | 9,410 | 14,738 |
| Net unrealized gains on investments | 14,963 | 26,595 | 41,558 |
| Total return on investments | 19,789 | 35,116 | 54,905 |
| Investment return designated for | | | |
| Current operations | (6,959) | (13,566) | (20,525) |
| Art acquisitions | (28) | (869) | (897) |
| Investment return greater than amounts designated for current operations and art acquisitions | $ 12,802 | $ 20,681 | $ 33,483 |

(Table Dollar Amounts in Thousands)

## Note 4: Property and Equipment

The Museum's property and equipment are as follows:

| | 2015 | 2014 |
|---|---|---|
| Buildings and grounds | $ 167,341 | $ 166,992 |
| Furnishings and equipment | 23,087 | 22,399 |
| Land improvements | 12,958 | 12,388 |
| | 203,386 | 201,779 |
| Accumulated depreciation | (96,030) | (89,620) |
| | 107,356 | 112,159 |
| Construction in progress | 60 | - |
| Land | 922 | 922 |
| | $ 108,338 | $ 113,081 |

## Note 5: Tax-Exempt Bonds Payable

| | 2015 | 2014 |
|---|---|---|
| Facility Revenue Refunding Bonds, Series 2013A (A) | $ 26,105 | $ 26,105 |
| Facility Revenue Refunding Bonds, Series 2013B (B) | 37,910 | 38,920 |
| Facility Revenue Refunding Bonds, Series 2014 (C) | 55,140 | 55,140 |
| Unamortized premium on Series 2013B Bonds | 1,847 | 1,939 |
| | $ 121,002 | $ 122,104 |

(A) During 2013, the Indiana Finance Authority (the Authority) issued $26,105,000 of Educational Facilities Revenue Refunding Bonds, Series 2013A, the proceeds of which were loaned to the Museum to refund a portion of the 2001 bonds and cover bond issuance costs. These bonds were issued at an initial fixed interest rate of 1.27% through January 31, 2018. After this date, the bonds may be remarketed and bear either a fixed or floating interest rate. The bonds have a final maturity date of February 1, 2036.

(B) During 2013, the Authority issued $39,950,000 of Educational Facilities Revenue Refunding Bonds, Series 2013B, the proceeds of which were loaned to the Museum to refund the 2002 bonds and cover bond issuance costs. The bonds consist of a mix of serial maturities and term bonds with sinking fund installments and bear fixed interest rates that range from 2.00% to 5.00%, depending on the maturity date. Principal payments commence on February 1, 2014 with a final maturity date of February 1, 2037. Bonds maturing on or after February 1, 2024 are subject to optional redemption at the discretion of the Museum at par beginning February 1, 2023. $28,245,000 of the 2013B bonds mature on or after February 1, 2024 and bear interest rates between 4.00% and 5.00%.

(Table Dollar Amounts in Thousands)

(C) During 2014, the Authority issued $55,139,500 of Educational Facilities Revenue Refunding Bonds, Series 2014, the proceeds of which were loaned to the Museum to refund the Series 2001 bonds, Series 2004 bonds and cover certain issuance costs. The bonds were issued at a floating rate equal to 70% of one-month LIBOR plus forty-five basis points (0.45%). The floating rate is effective through August 1, 2017. After this date, the bonds may be remarketed and bear either a fixed or floating interest rate. The bonds have a final maturity date of February 1, 2039.

Aggregate annual maturities of tax-exempt bonds payable at June 30, 2015 are:

| | | |
|---|---|---|
| 2016 | $ | 1,544 |
| 2017 | | 1,584 |
| 2018 | | 1,644 |
| 2019 | | 1,254 |
| 2020 | | 1,314 |
| Thereafter | | 113,662 |
| | $ | 121,002 |

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, 2015, the Museum was in compliance with these financial covenants.

## 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 has entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Museum to receive interest from the counterparty at LIBOR times 70% and to pay interest to the counterparty at fixed rates ranging between 1.890% 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 2016 to 2024.

(Table Dollar Amounts in Thousands)

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

| | 2015 | 2014 |
|---|---|---|
| Fair value of interest rate swap agreements | $ 3,202 | $ 3,540 |
| Statement of financial position location of fair value amount | Liability | Liability |
| Gain recognized in change in net assets | 338 | 306 |
| Location of gain 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:

| | 2015 | 2014 |
|---|---|---|
| Program activities | | |
| Curatorial program | $ 172 | $ 230 |
| Art purchases | 15,419 | 16,595 |
| Educational program activities | 1,106 | 1,422 |
| Other program activities | 6,366 | 5,491 |
| Facility operations and personnel | 6,226 | 7,708 |
| Unappropriated endowment earnings | 91,004 | 98,757 |
| For periods after June 30 | 8,756 | 9,249 |
| | $ 129,049 | $ 139,452 |

## Note 8: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

| | 2015 | 2014 |
|---|---|---|
| Investment in perpetuity, the income of which is expendable to support | | |
| Art purchases | $ 21,666 | $ 21,242 |
| Educational program activities | 613 | 613 |
| Other program activities | 3,470 | 3,470 |
| Facility operations and personnel | 47,416 | 46,057 |
| Any activity of the Museum | 63,672 | 63,001 |
| | $ 136,837 | $ 134,383 |

(Table Dollar Amounts in Thousands)

## 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.

| | 2015 | 2014 |
|---|---|---|
| Purpose restrictions accomplished | | |
| Curatorial program expenses | $ 500 | $ 372 |
| Educational program expenses | 180 | 313 |
| Other program expenses | 245 | 162 |
| Facility operations and personnel | 591 | 352 |
| Appropriation of accumulated endowment earnings | 12,831 | 13,364 |
| Time restrictions expired - passage of time | 83 | 236 |
| | 14,430 | 14,799 |
| Art acquisition | 2,139 | 311 |
| | $ 16,569 | $ 15,110 |

## Note 10: Endowment

The Museum's endowment consists of approximately 130 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). 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.

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

(Table Dollar Amounts in Thousands)

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, 2015 and 2014, was:

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ (800) | $ 107,244 | $ 130,078 | $ 236,522 |
| Board-designated endowment funds | 126,864 | - | - | 126,864 |
| Total endowment funds | $ 126,064 | $ 107,244 | $ 130,078 | $ 363,386 |

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ (520) | $ 116,236 | $ 127,622 | $ 243,338 |
| Board-designated endowment funds | 133,109 | - | - | 133,109 |
| Total endowment funds | $ 132,589 | $ 116,236 | $ 127,622 | $ 376,447 |

Changes in endowment net assets for the years ended June 30, 2015 and 2014 was:

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 132,589 | $ 116,236 | $ 127,622 | $ 376,447 |
| Investment return | | | | |
| Investment income | (194) | (120) | - | (314) |
| Net appreciation | 2,432 | 4,456 | - | 6,888 |
| Total investment return | 2,238 | 4,336 | - | 6,574 |
| Contributions | 516 | 443 | 1,856 | 2,815 |
| Appropriation of endowment assets for expenditure | (8,999) | (14,051) | - | (23,050) |
| Transfers for underwater funds | (280) | 280 | - | - |
| Other transfers | - | - | 600 | 600 |
| Endowment net assets, end of year | $ 126,064 | $ 107,244 | $ 130,078 | $ 363,386 |

(Table Dollar Amounts in Thousands)

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 119,175 | $ 97,404 | $ 123,098 | $ 339,677 |
| Investment return | | | | |
| Investment income | (498) | (889) | - | (1,387) |
| Net appreciation | 19,472 | 34,725 | - | 54,197 |
| Total investment return | 18,974 | 33,836 | - | 52,810 |
| Contributions | 656 | 202 | 2,474 | 3,332 |
| Appropriation of endowment assets for expenditure | (6,987) | (14,435) | - | (21,422) |
| Transfers for underwater funds | 771 | (771) | - | - |
| Other transfers | - | - | 2,050 | 2,050 |
| Endowment net assets, end of year | $ 132,589 | $ 116,236 | $ 127,622 | $ 376,447 |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2015 and 2014 consisted of:

| | 2015 | 2014 |
|---|---|---|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA | $ 130,078 | $ 127,622 |
| Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA | | |
| With purpose restrictions | $ 16,240 | $ 17,479 |
| Without purpose restrictions | 91,004 | 98,757 |
| | $ 107,244 | $ 116,236 |

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 $800,000 and $520,000 at June 30, 2015 and 2014, 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 annual average rate of return of approximately 5.5% above the rate of inflation. 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.

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, 2015 and 2014, the Board of Governors approved a temporary increase in the spending rate to support current operations. Based on the 12-quarter average market value of $223,047,910 and $219,687,000 for June 30, 2015 and 2014, respectively, the approved spending rates for operations were 6.44% and 6.84% for the years ended June 30, 2015 and 2014. All other restricted funds currently spend at or below 6.79%. 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 the rate of inflation. 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 donor-restricted art endowment, 5% 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.

(Table Dollar Amounts in Thousands)

## Note 11: Functional Expenses

Expenses by functional classification are as follows:

| | 2015 | 2014 |
|---|---|---|
| Program services | $ 25,341 | $ 25,167 |
| Management and general | 2,901 | 3,080 |
| Fundraising | 2,676 | 2,455 |
| | $ 30,918 | $ 30,702 |

## 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 approximately $445,000 and $250,000 for 2015 and 2014, 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. In 2015, the Museum adopted an amendment to eliminate the $10,000 limit on lump-sum payments for participants who retire prior to June 1, 2014. This lead to an increase in benefits paid out of the plan in 2015. 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 Museum does not expect to make any contributions to the plan in 2016.

Information about the plan's funded status follows:

| | 2015 | 2014 |
|---|---|---|
| Projected benefit obligation | $ 9,444 | $ 10,503 |
| Fair value of plan assets | 8,409 | 7,851 |
| Funded status | $ (1,035) | $ (2,652) |

(Table Dollar Amounts in Thousands)

Liabilities recognized in the consolidated statements of financial position:

| | 2015 | 2014 |
|---|---|---|
| Accrued pension expense | $ 1,035 | $ 2,652 |

The amount recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost is a net loss of $3,101,000 and $3,012,000 as of June 30, 2015 and 2014, respectively. The accumulated benefit obligation was approximately $9,444,000 as of June 30, 2015 and $10,503,000 as of June 30, 2014.

Other significant balances and costs are:

| | 2015 | 2014 |
|---|---|---|
| Benefit cost | $ 29 | $ 125 |
| Employer contribution | 2,256 | 329 |
| Benefits paid | 1,872 | 413 |

The following amounts have been recognized in the consolidated statements of activities for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Amounts arising during the year: | | |
| Net loss | $ (781) | $ (54) |
| Curtailment gain | 522 | - |
| Amounts reclassified as components of net periodic benefit cost of the year: | | |
| Net gain | 171 | 173 |
| | $ (88) | $ 119 |

The estimated net loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $196,000.

(Table Dollar Amounts in Thousands)

Significant assumptions include:

| | 2015 | 2014 |
|---|---|---|
| Weighted-average assumptions used to determine benefit obligations: | | |
| Discount rate | 4.05% | 3.95% |
| Weighted-average assumptions used to determine benefit costs: | | |
| Discount rate | 3.95% | 4.48% |
| Expected return on plan assets | 7.00% | 7.00% |
| 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, 2015:

| | |
|---|---|
| 2016 | $ 513 |
| 2017 | 552 |
| 2018 | 549 |
| 2019 | 542 |
| 2020 | 518 |
| 2021 - 2025 | 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 2015 are as follows:

| | Range |
|---|---|
| Equity securities | 60 - 70% |
| Debt securities | 25 - 35% |
| Other | 0 - 10% |

(Table Dollar Amounts in Thousands)

At June 30, 2015 and 2014, plan assets by category were as follows:

| | 2015 | 2014 |
|---|---|---|
| Equity securities | 61% | 65% |
| Debt securities | 26% | 28% |
| Other | 13% | 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 the Museum's pension plan assets at June 30, 2015 and 2014, by asset class are as follows:

| | | 2015 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 | $ 1,122 | $ 1,122 | $ - | $ - |
| Mutual funds | | | | |
| Equity | 5,132 | 5,132 | - | - |
| Fixed income | 2,155 | 2,155 | - | - |
| Total | $ 8,409 | $ 8,409 | $ - | $ - |

(Table Dollar Amounts in Thousands)

| | | 2014 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 | $ 575 | $ 575 | $ - | $ - |
| Mutual funds | | | | |
| Equity | 5,099 | 5,099 | - | - |
| Fixed income | 2,177 | 2,177 | - | - |
| Total | $ 7,851 | $ 7,851 | $ - | $ - |

## Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. 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 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

(Table Dollar Amounts in Thousands)

### *Recurring Measurements*

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, 2015 and 2014:

| | | 2015 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 | | | | |
| Investments | | | | |
| Certificates of deposit | $ 128 | $ 128 | $ - | $ - |
| Short-term investments | 8,028 | 8,028 | - | - |
| Corporate stocks | | | | |
| Domestic | 24,254 | 24,254 | - | - |
| International | 4,536 | 4,536 | - | - |
| Mutual funds | | | | |
| Equity - international | 35,685 | 35,685 | - | - |
| Fixed income | 20,104 | 20,104 | - | - |
| Alternative investments | | | | |
| Equity - international comingled funds | 53,596 | - | 53,596 | - |
| Fixed income comingled funds | 9,679 | - | 9,679 | - |
| Absolute return marketable alternatives | 53,606 | - | 53,606 | - |
| Equity-oriented marketable alternatives | 42,962 | - | 42,962 | - |
| Inflation hedging | 50,340 | - | 29,991 | 20,349 |
| Private equity/venture capital | 63,640 | - | 6,300 | 57,340 |
| Real estate held for investment | 4,768 | - | 4,768 | - |
| Total investments | 371,326 | 92,735 | 200,902 | 77,689 |
| Interest in charitable lead trust | 2,959 | - | - | 2,959 |
| | $ 374,285 | $ 92,735 | $ 200,902 | $ 80,648 |
| Liabilities | | | | |
| Interest rate swap | $ (3,202) | $ - | $ - | $ (3,202) |

(Table Dollar Amounts in Thousands)

| | | 2014 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 | | | | |
| Investments | | | | |
| Certificates of deposit | $ 195 | $ 195 | $ - | $ - |
| Short-term investments | 7,486 | 7,486 | - | - |
| Corporate stocks | | | | |
| Domestic | 24,686 | 24,686 | - | - |
| International | 4,477 | 4,477 | - | - |
| Mutual funds | | | | |
| Equity - international | 39,534 | 39,534 | - | - |
| Fixed income | 15,169 | 15,169 | - | - |
| Alternative investments | | | | |
| Equity - international comingled funds | 54,073 | - | 54,073 | - |
| Fixed income comingled funds | 10,238 | - | 10,238 | - |
| Absolute return marketable alternatives | 52,619 | - | 52,619 | - |
| Equity-oriented marketable alternatives | 50,074 | - | 50,074 | - |
| Inflation hedging | 55,986 | - | 29,034 | 26,952 |
| Private equity/venture capital | 62,442 | - | 5,887 | 56,555 |
| Real estate held for investment | 4,768 | - | 4,768 | - |
| Total investments | 381,747 | 91,547 | 206,693 | 83,507 |
| Interest in charitable lead trust | 3,369 | - | - | 3,369 |
| | $ 385,116 | $ 91,547 | $ 206,693 | $ 86,876 |
| Liabilities | | | | |
| Interest rate swap | $ (3,540) | $ - | $ - | $ (3,540) |

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Fair value determinations for Level 3 measurements are the responsibility of the Controller's office. For investments, the Controller's office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. For charitable lead trust held by a third party, the Controller calculates the estimated fair value utilizing a discounted cash flow model. For interest rate swap agreements, the Controller utilizes a pricing specialist to generate fair value measurements on an annual basis. The Controller's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using quoted market prices of securities 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 securities are classified in Level 2.

The value of certain investments, classified as alternative investments, is determined using the net asset value (or its equivalent) as a practical expedient. Investments for which the Museum expects to have the ability to redeem its investment with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Museum does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

### *Charitable Lead Trust Held by a Third Party*

The fair value is estimated using a discounted cash flow model. Due to the nature of the valuation inputs, the interest is 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.

(Table Dollar Amounts in Thousands)

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:

| | Equity-Oriented Marketable Alternatives | Inflation Hedging | Private Equity/ Venture Capital | Interest in Charitable Lead Trusts | Fair Value of Interest Rate Swap |
|---|---|---|---|---|---|
| Balance, July 1, 2013 | $ 693 | $ 29,313 | $ 51,427 | $ 3,970 | $ (3,845) |
| Total unrealized gains (losses) | - | 1,177 | 8,475 | (601) | - |
| Purchases | - | 3,276 | 14,448 | - | - |
| Settlements | (693) | (6,814) | (11,918) | - | - |
| Gain on interest rate swap | - | - | - | - | 305 |
| Transfers out of Level 3 | - | - | (5,877) | - | - |
| Balance, June 30, 2014 | - | 26,952 | 56,555 | 3,369 | (3,540) |
| Total unrealized gains (losses) | - | (2,649) | 8,129 | (410) | - |
| Purchases | - | 988 | 6,660 | - | - |
| Settlements | - | (4,942) | (14,004) | - | - |
| Gain on interest rate swap | - | - | - | - | 338 |
| Balance, June 30, 2015 | $ - | $ 20,349 | $ 57,340 | $ 2,959 | $ (3,202) |
| 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, 2014 | $ - | $ 1,177 | $ 8,475 | $ (601) | $ - |
| 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, 2015 | $ - | $ (2,649) | $ 8,129 | $ (410) | $ - |

### *Unobservable (Level 3) Inputs*

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

| | Fair Value at June 30, 2015 | Valuation Technique | Unobservable Inputs | Range (Weighted-Average) |
|---|---|---|---|---|
| Inflation hedging | $ 20,349 | Net asset value or its equivalent | Lack of redeemability/liquidity in the following 12 months | 0% |
| Private equity/venture capital | 57,340 | Net asset value or its equivalent | Lack of redeemability/liquidity in the following 12 months | 0% |
| Interest in charitable lead trust | 2,959 | Discounted cash flow model | Discount rates utilized | 1.60% |
| Interest rate swap | (3,202) | Proprietary model | Forward looking interest rate curves and discount rates utilized | Not available |

(Table Dollar Amounts in Thousands)

| | Fair Value at June 30, 2014 | Valuation Technique | Unobservable Inputs | Range (Weighted-Average) |
|---|---|---|---|---|
| Inflation hedging | $ 26,952 | Net asset value or its equivalent | Lack of redeemability/liquidity in the following 12 months | 0% |
| Private equity/venture capital | 56,555 | Net asset value or its equivalent | Lack of redeemability/liquidity in the following 12 months | 0% |
| Interest in charitable lead trust | 3,369 | Discounted cash flow model | Discount rates utilized | 1.91% |
| Interest rate swap | (3,540) | Proprietary model | Forward looking interest rate curves and discount rates utilized | Not available |

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.

2015

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Assets | | | | |
| Investments | | | | |
| Alternative investments | | | | |
| Equity - international (a) | $ 53,596 | $ - | daily to quarterly | 7 - 60 days |
| Fixed income (b) | 9,679 | - | daily to monthly | 7 - 45 days |
| Absolute return marketable alternatives (c) | 53,606 | - | quarterly to 2 years | 30 - 180 days |
| Equity-oriented marketable alternatives (d) | 42,962 | - | monthly to 3 years | 30 - 90 days |
| Inflation hedging (e) | 50,340 | 3,845 | monthly to not available | 60 days to not available |
| Private equity/venture capital (f) | 63,640 | 16,191 | daily to not available | 2 days to not available |
| | $ 273,823 | $ 20,036 | | |

2014

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Assets | | | | |
| Investments | | | | |
| Alternative investments | | | | |
| Equity - international (a) | $ 54,073 | $ - | daily to quarterly | 7 - 60 days |
| Fixed income (b) | 10,238 | - | daily to monthly | 7 - 45 days |
| Absolute return marketable alternatives (c) | 52,619 | - | quarterly to 2 years | 30 - 180 days |
| Equity-oriented marketable alternatives (d) | 50,074 | - | monthly to 3 years | 30 - 90 days |
| Inflation hedging (e) | 55,986 | 4,793 | monthly to not available | 60 days to not available |
| Private equity/venture capital (f) | 62,442 | 17,525 | daily to not available | 2 days to not available |
| | $ 285,432 | $ 22,318 | | |

(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.

(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, annually and every two years 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 values 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 $14,103,000 at June 30, 2015, 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 $7,586,000 at June 30, 2015, 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 $28,651,000 at June 30, 2015, 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.

### *Fair Value of Financial Instruments*

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.

**Interest in estate notes -** the carrying amount is a reasonable estimate of fair value.

**Tax-exempt bonds payable -** the carrying amount of tax-exempt bonds payable totaled $121,002,000 at June 30, 2015 and the fair value approximated $126,913,000. At June 30, 2014, the carrying amount of tax-exempt bonds payable totaled $122,104,000 and the fair value approximated $124,654,000.

## Note 14: Concentrations

Approximately 17% of total contributions was received from one donor in 2015. No individual contributions received in 2014 exceeded 10% of total contributions.