

Indianapolis Museum of Art

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2017 and 2016

Indianapolis Museum of Art

June 30, 2017 and 2016

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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, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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, 2017 and 2016, and the changes in their net assets and their 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 5, 2017

Indianapolis Museum of Art
Consolidated Statements of Financial Position
June 30, 2017 and 2016
(In Thousands)

Assets

	<u>2017</u>	<u>2016</u>
Cash	\$ 1,379	\$ 1,425
Accounts and other receivables	234	207
Contributions receivable, net	2,890	1,434
Prepaid expenses and other assets	1,042	1,163
Investments	357,579	353,391
Estate notes and charitable lead trusts	17,418	14,832
Net pension asset	48	-
Library accessions	1,140	1,131
Property and equipment, net	99,074	103,248
Collections - Note 1	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 480,804</u>	<u>\$ 476,831</u>

Liabilities

Accounts payable	\$ 627	\$ 1,270
Accrued salaries, wages and employee benefits	1,161	924
Deferred revenue	759	671
Other liabilities	1,582	1,385
Accrued pension expense	-	1,785
Fair value of interest rate swap agreements	1,995	3,780
Tax-exempt bonds payable, net of bond issue costs (including bond premium of \$1,685 in 2017 and \$1,769 in 2016)	102,278	118,958
	<u> </u>	<u> </u>
Total liabilities	<u>108,402</u>	<u>128,773</u>

Net Assets

Unrestricted	96,841	89,405
Temporarily restricted	128,185	113,172
Permanently restricted	147,376	145,481
	<u> </u>	<u> </u>
Total net assets	<u>372,402</u>	<u>348,058</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 480,804</u>	<u>\$ 476,831</u>

Indianapolis Museum of Art
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Annual giving and other contributions	\$ 3,945	\$ 5,774	\$ 1,895	\$ 11,614
Government grants	277	3	-	280
Memberships	950	-	-	950
Admissions, fees and sales	2,758	2	-	2,760
Investment return designated for current operations, debt payments and art acquisitions	21,364	12,712	-	34,076
	<u>29,294</u>	<u>18,491</u>	<u>1,895</u>	<u>49,680</u>
Net assets released from restrictions	14,953	(14,953)	-	-
Total revenue, gains and other support	<u>44,247</u>	<u>3,538</u>	<u>1,895</u>	<u>49,680</u>
Expenses				
Curatorial	7,741	-	-	7,741
Educational	6,099	-	-	6,099
Horticultural	1,789	-	-	1,789
Museum stores	1,714	-	-	1,714
Management and general	2,121	-	-	2,121
Fundraising	2,534	-	-	2,534
Total expenses	<u>21,998</u>	<u>-</u>	<u>-</u>	<u>21,998</u>
Change in Net Assets Before Depreciation and Interest				
	<u>22,249</u>	<u>3,538</u>	<u>1,895</u>	<u>27,682</u>
Depreciation	6,148	-	-	6,148
Interest	3,193	-	-	3,193
Total depreciation and interest	<u>9,341</u>	<u>-</u>	<u>-</u>	<u>9,341</u>
Change in Net Assets Before Other Changes	12,908	3,538	1,895	18,341
Other Changes				
Investment return greater (less) than amounts designated for current operations and art acquisitions	(8,082)	11,813	-	3,731
Changes in projected benefit obligation arising during the period	942	-	-	942
Amortization included in net periodic pension cost	271	-	-	271
Change in fair value of interest rate swap agreements	1,785	-	-	1,785
Loss on disposal of equipment	(15)	-	-	(15)
Change in split interest agreements	(226)	(493)	-	(719)
Proceeds from sales of art	-	536	-	536
Purchases of art	(528)	-	-	(528)
Net assets released from restriction - art acquisition	381	(381)	-	-
Change in Net Assets	7,436	15,013	1,895	24,344
Net Assets, Beginning of Year	<u>89,405</u>	<u>113,172</u>	<u>145,481</u>	<u>348,058</u>
Net Assets, End of Year	<u>\$ 96,841</u>	<u>\$ 128,185</u>	<u>\$ 147,376</u>	<u>\$ 372,402</u>

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,593	\$ 4,209	\$ 8,644	\$ 16,446
219	50	-	269
931	-	-	931
2,940	63	-	3,003
7,252	13,037	-	20,289
<u>14,935</u>	<u>17,359</u>	<u>8,644</u>	<u>40,938</u>
13,713	(13,713)	-	-
<u>28,648</u>	<u>3,646</u>	<u>8,644</u>	<u>40,938</u>
7,531	-	-	7,531
7,085	-	-	7,085
1,657	-	-	1,657
1,790	-	-	1,790
1,533	-	-	1,533
2,133	-	-	2,133
<u>21,729</u>	<u>-</u>	<u>-</u>	<u>21,729</u>
6,919	3,646	8,644	19,209
6,062	-	-	6,062
3,504	-	-	3,504
<u>9,566</u>	<u>-</u>	<u>-</u>	<u>9,566</u>
(2,647)	3,646	8,644	9,643
(12,535)	(17,105)	-	(29,640)
(948)	-	-	(948)
196	-	-	196
(578)	-	-	(578)
-	-	-	-
21	(854)	-	(833)
7	-	-	7
(1,692)	-	-	(1,692)
<u>1,564</u>	<u>(1,564)</u>	<u>-</u>	<u>-</u>
(16,612)	(15,877)	8,644	(23,845)
<u>106,017</u>	<u>129,049</u>	<u>136,837</u>	<u>371,903</u>
<u>\$ 89,405</u>	<u>\$ 113,172</u>	<u>\$ 145,481</u>	<u>\$ 348,058</u>

Indianapolis Museum of Art
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
Operating Activities		
Change in net assets	\$ 24,344	\$ (23,845)
Items not requiring (providing) cash		
Depreciation	6,148	6,062
Noncash contributions	(14)	(147)
Acquisition and sales of art, net	(8)	1,685
Loss on disposal of property and equipment	15	-
Contributions restricted for long-term investment	(7,281)	(12,076)
Realized gains on investments	(20,723)	(8,755)
Unrealized (gains) losses on investments	(14,041)	19,344
Change in fair value of interest rate swap agreement	(1,785)	578
Changes in		
Accounts and other receivables	(27)	467
Contributions receivable	(1,456)	1,578
Prepaid expenses and other assets	33	(170)
Estate notes and charitable lead trusts	(2,586)	(1,041)
Accounts payable	(643)	481
Accrued expenses and other liabilities	(1,263)	110
Net cash used in operating activities	(19,287)	(15,729)
Investing Activities		
Acquisitions of art	(528)	(1,692)
Proceeds from sale of art	536	7
Purchases of property and equipment	(1,998)	(983)
Purchases of investments	(16,610)	(32,187)
Sales and maturities of investments	47,201	39,680
Net cash provided by investing activities	28,601	4,825
Financing Activities		
Proceeds from contributions restricted for		
Investments in endowment	201	8,644
Investments in art and property and equipment	245	301
Investments subject to various purchases	6,834	3,131
Principal payments on bonds	(16,640)	(1,460)
Payments on capital lease obligations	-	(24)
Net cash provided by (used in) financing activities	(9,360)	10,592
Decrease in Cash	(46)	(312)
Cash, Beginning of Year	1,425	1,737
Cash, End of Year	\$ 1,379	\$ 1,425
Supplemental Information		
Interest paid	\$ 3,541	\$ 3,541
Property and equipment in accounts payable	87	-

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(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. Subsequent to year-end, the Museum branded the Indianapolis campus and other affiliated properties as Newfields: A Place for Nature and the Arts.

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, 2017, the Museum's cash accounts exceeded federally insured limits by approximately \$1,360,000.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(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 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	3 - 10 years
Buildings and grounds	10 - 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, 2017 or 2016.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(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.

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 \$150,000 and \$100,000 as of June 30, 2017 and 2016, 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.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(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 1.41% to 8.23% for 2017 and 2016.

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 is 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, 2017 and 2016:

	2017	2016
Estate notes	\$ 23,384	\$ 21,802
Discount	(8,272)	(9,529)
	15,112	12,273
Charitable lead trusts	2,306	2,559
	\$ 17,418	\$ 14,832

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.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

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 2017 and 2016, 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 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent to year-end, the Museum made a principal payment totaling \$20,000,000 towards the Facility Revenue Refunding Bonds, Series 2014. This payment represents unscheduled (early) principal payments. Additionally, the Museum refinanced the remaining \$20,000,000 of bond principal on the Series 2014 bonds by issuing Educational Facilities Revenue Refunding Bonds, Series 2017A and Series 2017B. In conjunction with the aforementioned transactions, the Museum terminated its interest rate swaps with a notional amount of \$40,000,000 subsequent to year-end.

The Board of Directors elected on May 17, 2017 to terminate the defined-benefit plan effective September 15, 2017. It is anticipated all plan assets will be distributed by December 31, 2017.

Subsequent events have been evaluated through December 5, 2017, which is the date the consolidated financial statements were issued.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

Note 2: Contributions Receivable

	2017		Total
	Temporarily Restricted	Permanently Restricted	
Due within one year	\$ 324	\$ 500	\$ 824
Due in one to five years	2,336	-	2,336
	<u>2,660</u>	<u>500</u>	<u>3,160</u>
Discount	(97)	(23)	(120)
Allowance	(150)	-	(150)
	<u><u>\$ 2,413</u></u>	<u><u>\$ 477</u></u>	<u><u>\$ 2,890</u></u>
	2016		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 792	\$ 500	\$ 1,292
Due in one to five years	268	-	268
	<u>1,060</u>	<u>500</u>	<u>1,560</u>
Discount	(3)	(23)	(26)
Allowance	(100)	-	(100)
	<u><u>\$ 957</u></u>	<u><u>\$ 477</u></u>	<u><u>\$ 1,434</u></u>

Discount rates utilized ranged from 0.32% to 4.72% for 2017 and 2016.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

Note 3: Investments

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

	2017	2016
Certificates of deposit	\$ 26	\$ 26
Short-term investments	24,385	26,711
Corporate stocks		
Domestic	16,919	19,859
International	5,535	4,593
Mutual funds		
Equity - international	27,709	30,795
Fixed income	21,169	16,894
Alternative investments		
Equity - international	58,828	50,389
Fixed income	10,242	10,251
Absolute return marketable alternatives	42,042	50,491
Equity-oriented marketable alternatives	26,962	30,491
Inflation hedging	53,647	50,212
Private equity/venture capital	66,051	58,615
Real estate held for investment	4,064	4,064
	<u>\$ 357,579</u>	<u>\$ 353,391</u>
Total	<u>\$ 357,579</u>	<u>\$ 353,391</u>

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended June 30, 2017 and 2016:

	2017		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest (net of expenses of \$2,822)	\$ 989	\$ 2,054	\$ 3,043
Net realized gains on investments	6,542	14,181	20,723
Net unrealized gains on investments	5,751	8,290	14,041
Total return on investments	<u>13,282</u>	<u>24,525</u>	<u>37,807</u>
Investment return designated for			
Current operations	(21,335)	(11,609)	(32,944)
Art acquisitions	<u>(29)</u>	<u>(1,103)</u>	<u>(1,132)</u>
Investment return greater (less) than amounts designated for current operations and art acquisitions	<u>\$ (8,082)</u>	<u>\$ 11,813</u>	<u>\$ 3,731</u>

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

	2016		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest (net of expenses of \$3,207)	\$ 416	\$ 822	\$ 1,238
Net realized gains on investments	3,018	5,737	8,755
Net unrealized losses on investments	(8,717)	(10,627)	(19,344)
Total return on investments	(5,283)	(4,068)	(9,351)
Investment return designated for			
Current operations	(7,224)	(11,976)	(19,200)
Art acquisitions	(28)	(1,061)	(1,089)
Investment return less than amounts designated for current operations and art acquisitions	<u>\$ (12,535)</u>	<u>\$ (17,105)</u>	<u>\$ (29,640)</u>

Note 4: Property and Equipment

The Museum's property and equipment are as follows:

	2017	2016
Buildings and grounds	\$ 167,856	\$ 167,441
Furnishings and equipment	24,867	23,873
Land improvements	13,263	13,026
	<u>205,986</u>	<u>204,340</u>
Accumulated depreciation	(108,131)	(102,088)
	97,855	102,252
Construction in progress	297	74
Land	922	922
	<u>\$ 99,074</u>	<u>\$ 103,248</u>

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

Note 5: Tax-Exempt Bonds Payable

	2017	2016
Facility Revenue Refunding Bonds, Series 2013A (A)	\$ 26,105	\$ 26,105
Facility Revenue Refunding Bonds, Series 2013B (B)	34,950	36,540
Facility Revenue Refunding Bonds, Series 2014 (C)	40,000	55,050
Unamortized premium on Series 2013B Bonds	1,686	1,769
Unamortized bond issue costs	(463)	(506)
	\$ 102,278	\$ 118,958

- (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%.
- (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. The Museum refunded \$15,139,500 of these bonds during the year ended June 30, 2017. Subsequent to year-end, the Museum made a principal payment totaling \$20,000,000 towards these bonds. This payment represents unscheduled (early) principal payments. Additionally, subsequent to year-end, the Museum refinanced the remaining \$20,000,000 bond principal by issuing Educational Facilities Revenue Refunding Bonds, Series 2017A and Series 2017B.

Indianapolis Museum of Art
Notes to Consolidated Financial Statements
June 30, 2017 and 2016
(Table Dollar Amounts in Thousands)

Aggregate annual maturities of tax-exempt bonds payable at June 30, 2017 are:

2018	\$	1,644
2019		1,254
2020		1,314
2021		1,374
2022		1,439
Thereafter		95,716
		<u>102,741</u>
Unamortized bond issue costs		<u>(463)</u>
	<u>\$</u>	<u>102,278</u>

Costs associated with executing the loan and other agreements with the aforementioned parties are being amortized over the life of the bonds using a method that approximates the level yield method. Unamortized bond issue costs are included in tax-exempt bonds payable.

The bonds are subject to certain covenants, including a financial coverage ratio. At June 30, 2017, management is not aware of any violations of the 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 2.215% and 2.911% on the notional amount of \$40,000,000. Under the agreements, the Museum pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. Subsequent to year-end, the Museum terminated these swap agreements.

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

	<u>2017</u>	<u>2016</u>
Fair value of interest rate swap agreements	\$ 1,995	\$ 3,780
Statement of financial position location of fair value amount	Liability	Liability
Gain (loss) recognized in change in net assets	1,785	(578)
Location of gain (loss) recognized in change in net assets	Other changes	Other changes

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Note 7: Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Program activities		
Curatorial program	\$ 314	\$ 168
Art purchases	15,619	13,455
Educational and other program activities	2,630	6,860
Facility operations and personnel	8,344	2,220
Unappropriated endowment earnings	90,284	81,715
For periods after June 30	<u>10,994</u>	<u>8,754</u>
	<u>\$ 128,185</u>	<u>\$ 113,172</u>

Note 8: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	<u>2017</u>	<u>2016</u>
Investment in perpetuity, the income of which is expendable to support		
Art purchases	\$ 23,919	\$ 23,678
Educational and other program activities	4,506	4,083
Facility operations and personnel	47,122	45,891
Any activity of the Museum	<u>71,829</u>	<u>71,829</u>
	<u>\$ 147,376</u>	<u>\$ 145,481</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.

	2017	2016
Purpose restrictions accomplished		
Curatorial program expenses	\$ 170	\$ 72
Educational and other program expenses	2,237	1,060
Facility operations and personnel	1,074	413
Appropriation of accumulated endowment earnings	11,364	11,742
Time restrictions expired - passage of time	108	426
	14,953	13,713
Art acquisition	381	1,564
	\$ 15,334	\$ 15,277

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.

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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, 2017 and 2016, was:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,008)	\$ 101,399	\$ 139,176	\$ 239,567
Board-designated endowment funds	110,348	-	-	110,348
Total endowment funds	<u>\$ 109,340</u>	<u>\$ 101,399</u>	<u>\$ 139,176</u>	<u>\$ 349,915</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,919)	\$ 89,867	\$ 138,722	\$ 226,670
Board-designated endowment funds	117,068	-	-	117,068
Total endowment funds	<u>\$ 115,149</u>	<u>\$ 89,867</u>	<u>\$ 138,722</u>	<u>\$ 343,738</u>

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Changes in endowment net assets for the years ended June 30, 2017 and 2016 was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 115,149	\$ 89,867	\$ 138,722	\$ 343,738
Investment return				
Investment income	989	2,054	-	3,043
Net appreciation	11,052	23,383	-	34,435
Total investment return	12,041	25,437	-	37,478
Contributions	2,603	160	454	3,217
Appropriation of endowment assets for expenditure	(21,364)	(12,712)	-	(34,076)
Transfers for underwater funds	911	(911)	-	-
Other transfers	-	(442)	-	(442)
Endowment net assets, end of year	<u>\$ 109,340</u>	<u>\$ 101,399</u>	<u>\$ 139,176</u>	<u>\$ 349,915</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 126,064	\$ 107,244	\$ 130,078	\$ 363,386
Investment return				
Investment income	416	822	-	1,238
Net depreciation	(3,554)	(6,331)	-	(9,885)
Total investment return	(3,138)	(5,509)	-	(8,647)
Contributions	632	-	8,644	9,276
Appropriation of endowment assets for expenditure	(7,252)	(13,037)	-	(20,289)
Transfers for underwater funds	(1,169)	1,169	-	-
Other transfers	12	-	-	12
Endowment net assets, end of year	<u>\$ 115,149</u>	<u>\$ 89,867</u>	<u>\$ 138,722</u>	<u>\$ 343,738</u>

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2017 and 2016 consisted of:

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 139,176	\$ 138,722
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	\$ 11,115	\$ 8,152
Without purpose restrictions	90,284	81,715
	\$ 101,399	\$ 89,867

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 \$1,008,000 and \$1,919,000 at June 30, 2017 and 2016, 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.

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The Museum has a policy (the spending policy) of appropriating for current operations each year between 5.0% and 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, 2017 and 2016, the Board of Governors approved a temporary increase in the spending rate to support current operations. Based on the 12-quarter average fair value of \$243,911,068 and \$224,543,080 for June 30, 2017 and 2016, respectively, the approved spending rates for operations were 5.36% and 5.81% for the years ended June 30, 2017 and 2016. In 2017, the Museum appropriated an additional \$15,139,500 from the unrestricted endowment which was used for debt payments. All other restricted funds currently spend at or below 5.50%. 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 fair value of such funds for the 12 quarters ending December 31 of the previous year is appropriated to support art acquisitions.

Note 11: Functional Expenses

Expenses by functional classification are as follows:

	2017	2016
Program services	\$ 25,004	\$ 24,953
Management and general	3,055	3,157
Fundraising	3,280	3,185
	\$ 31,339	\$ 31,295

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 \$286,000 and \$445,000 for 2017 and 2016, respectively.

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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 led to an increase in benefits paid out of the plan in 2015. The Board of Directors elected on May 17, 2017 to terminate the defined-benefit plan effective September 15, 2017. It is anticipated all plan assets will be distributed by December 31, 2017.

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 2018.

Information about the plan's funded status follows:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	\$ 8,693	\$ 9,614
Fair value of plan assets	<u>8,741</u>	<u>7,829</u>
Funded status	<u>\$ 48</u>	<u>\$ (1,785)</u>

Assets/liabilities recognized in the consolidated statements of financial position:

	<u>2017</u>	<u>2016</u>
Net pension asset	\$ 48	\$ -
Accrued pension expense	-	1,785

The amount recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost is a net loss of \$2,639,000 and \$3,852,000 as of June 30, 2017 and 2016, respectively. The accumulated benefit obligation was approximately \$8,693,000 as of June 30, 2017 and \$9,614,000 as of June 30, 2016.

Changes in projected benefit obligation at June 30 was:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 9,614	\$ 9,444
Interest cost	256	371
Periodic benefits paid	(420)	(648)
Lump-sum benefits paid	(117)	-
Actuarial (gain) loss	<u>(640)</u>	<u>447</u>
Ending balance	<u>\$ 8,693</u>	<u>\$ 9,614</u>

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Changes in fair value of plan assets at June 30 was:

	2017	2016
Fair value at beginning of year	\$ 7,829	\$ 8,409
Actual return on plan assets	801	68
Employer contributions	648	-
Periodic benefits paid	(420)	(648)
Lump-sum benefits paid	(117)	-
Ending balance	<u>\$ 8,741</u>	<u>\$ 7,829</u>

Other significant balances and costs are:

	2017	2016
Benefit cost	\$ 28	\$ (2)
Employer contribution	648	-
Benefits paid	420	648

The following amounts have been recognized in the consolidated statements of activities for the years ended June 30, 2017 and 2016:

	2017	2016
Amounts arising during the year:		
Net gain (loss)	\$ 942	\$ (948)
Amounts reclassified as components of net periodic benefit cost of the year:		
Net loss	271	196
	<u>\$ 1,213</u>	<u>\$ (752)</u>

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 \$182,000.

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Significant assumptions include:

	<u>2017</u>	<u>2016</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.47%	3.05%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	3.05%	4.05%
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, 2017:

2018	\$ 1,291,284
2019	464,997
2020	563,535
2021	670,493
2022	550,486
2023 - 2027	2,367,804

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 2017 are as follows:

	<u>Range</u>
Equity securities	0%
Debt securities	0%
Other	100%

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At June 30, 2017 and 2016, plan assets by category were as follows:

	2017	2016
Equity securities	0%	64%
Debt securities	0%	29%
Other	100%	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, 2017 and 2016, by asset class are as follows:

	2017			
	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	\$ 8,741	\$ 8,741	\$ -	\$ -

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	2016			
	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	\$ 630	\$ 630	\$ -	\$ -
Mutual funds				
Equity	4,969	4,969	-	-
Fixed income	2,230	2,230	-	-
Total	<u>\$ 7,829</u>	<u>\$ 7,829</u>	<u>\$ -</u>	<u>\$ -</u>

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

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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, 2017 and 2016:

	2017				
	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)	Investments Measured at (NAV)	
Assets					
Investments					
Certificates of deposit	\$ 26	\$ 26	\$ -	\$ -	\$ -
Short-term investments	24,385	24,385	-	-	-
Corporate stocks					
Domestic	16,919	16,919	-	-	-
International	5,535	5,535	-	-	-
Mutual funds					
Equity - international	27,709	27,709	-	-	-
Fixed income	21,169	21,169	-	-	-
Alternative investments					
Equity - international comingled funds	58,828	-	-	-	58,828
Fixed income comingled funds	10,242	-	5,435	-	4,807
Absolute return marketable alternatives	42,042	-	-	-	42,042
Equity-oriented marketable alternatives	26,962	-	-	-	26,962
Inflation hedging	53,647	-	4,566	-	49,081
Private equity/venture capital	66,051	-	-	-	66,051
Real estate held for investment	4,064	-	4,064	-	-
Total investments	<u>357,579</u>	<u>95,743</u>	<u>14,065</u>	<u>-</u>	<u>247,771</u>
Interest in charitable lead trust	1,558	-	-	1,558	-
	<u>\$ 359,137</u>	<u>\$ 95,743</u>	<u>\$ 14,065</u>	<u>\$ 1,558</u>	<u>\$ 247,771</u>
Liabilities					
Interest rate swap	\$ (1,995)	\$ -	\$ -	\$ (1,995)	\$ -

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	2016				
	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)	Investments Measured at (NAV)	
Assets					
Investments					
Certificates of deposit	\$ 26	\$ 26	\$ -	\$ -	\$ -
Short-term investments	26,711	26,711	-	-	-
Corporate stocks					
Domestic	19,859	19,859	-	-	-
International	4,593	4,593	-	-	-
Mutual funds					
Equity - international	30,795	30,795	-	-	-
Fixed income	16,894	16,894	-	-	-
Alternative investments					
Equity - international comingled funds	50,389	-	-	-	50,389
Fixed income comingled funds	10,251	-	5,188	-	5,063
Absolute return marketable alternatives	50,491	-	-	-	50,491
Equity-oriented marketable alternatives	30,491	-	-	-	30,491
Inflation hedging	50,212	-	6,339	-	43,873
Private equity/venture capital	58,615	-	-	-	58,615
Real estate held for investment	4,064	-	4,064	-	-
Total investments	353,391	98,878	15,591	-	238,922
Interest in charitable lead trust	2,050	-	-	2,050	-
	<u>\$ 355,441</u>	<u>\$ 98,878</u>	<u>\$ 15,591</u>	<u>\$ 2,050</u>	<u>\$ 238,922</u>
Liabilities					
Interest rate swap	\$ (3,780)	\$ -	\$ -	\$ (3,780)	\$ -

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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. There have been no significant changes in the valuation techniques during the year ended June 30, 2017. 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 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.

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.

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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:

	Interest in Charitable Lead Trusts	Fair Value of Interest Rate Swap
Balance, July 1, 2015	\$ 2,959	\$ (3,202)
Total unrealized losses	(909)	-
Loss on interest rate swap	-	(578)
Balance, June 30, 2016	2,050	(3,780)
Total unrealized losses	(492)	-
Gain on interest rate swap	-	1,785
Balance, June 30, 2017	<u>\$ 1,558</u>	<u>\$ (1,995)</u>
Total losses for the period included in change in net assets attributable to the change in unrealized gains related to assets and liabilities still held at June 30, 2016	<u>\$ (909)</u>	<u>\$ (578)</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, 2017	<u>\$ (492)</u>	<u>\$ 1,785</u>

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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, 2017	Valuation Technique	Unobservable Inputs	Range
Interest in charitable lead trust	\$ 1,558	Discounted cash flow model	Discount rates utilized Forward looking interest rate curves and discount rates utilized	1.41%
Interest rate swap	(1,995)	Proprietary model		Not available

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs	Range
Interest in charitable lead trust	\$ 2,050	Discounted cash flow model	Discount rates utilized Forward looking interest rate curves and discount rates utilized	1.41%
Interest rate swap	(3,780)	Proprietary model		Not available

Alternative Investments

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	2017 Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Investments				
Alternative investments				
Equity - international (a)	\$ 58,828	\$ -	monthly to quarterly	30 - 60 days
Fixed income (b)	4,807	-	daily to monthly	45 days
Absolute return marketable alternatives (c)	42,042	-	quarterly to 2 years	44 - 180 days
Equity-oriented marketable alternatives (d)	26,962	-	quarterly to 3 years	45 - 60 days
Inflation hedging (e)	49,081	1,578	not available	not available
Private equity/venture capital (f)	66,051	24,588	annually to not available	365 days to not available
	<u>\$ 247,771</u>	<u>\$ 26,166</u>		

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	Fair Value	Unfunded Commitments	2016 Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Investments				
Alternative investments				
Equity - international (a)	\$ 50,389	\$ 3,000	monthly to not available	7 - 60 days
Fixed income (b)	5,063	-	daily to monthly	7 - 45 days
Absolute return marketable alternatives (c)	50,491	-	quarterly to not available	3 - 180 days
Equity-oriented marketable alternatives (d)	30,491	-	monthly to annually	45 - 65 days
Inflation hedging (e)	43,873	5,473	annually to not available	90 days to not available
Private equity/venture capital (f)	58,615	17,112	annually to not available	365 days to not available
	<u>\$ 238,922</u>	<u>\$ 25,585</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 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 \$7,885,000 and \$10,029,000 at June 30, 2017 and 2016, respectively, 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.

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(Table Dollar Amounts in Thousands)

Natural resource funds totaling \$9,312,000 and \$7,191,000 at June 30, 2017 and 2016, respectively, 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 \$40,452,000 and \$32,992,000 at June 30, 2017 and 2016, respectively, 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.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 43% of all contributions were received from three donors in 2017. In 2016, 61% of all contributions were received from one donor.