

# **Indianapolis Museum of Art**

Accountants' Report and Consolidated Financial Statements

June 30, 2010 and 2009

# Indianapolis Museum of Art

June 30, 2010 and 2009

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## Independent Accountants' Report

Board of Governors  
Indianapolis Museum of Art  
Indianapolis, Indiana

We have audited the accompanying consolidated statements of financial position of Indianapolis Museum of Art (Museum) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the year ended June 30, 2010. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Museum of Art as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

December 17, 2010

**Indianapolis Museum of Art**  
**Consolidated Statements of Financial Position**  
**June 30, 2010 and 2009**  
(In Thousands)

**Assets**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,246	\$ 1,376
Accounts receivable	339	129
Contributions receivable	14,603	17,052
Government grant reimbursements receivable	257	314
Inventories	550	548
Prepaid expenses	396	245
Investments	313,659	296,839
Assets held in charitable lead trusts	315	304
Unamortized bond issue costs	872	904
Library accessions	941	901
Property and equipment	131,688	129,659
Collections - Note 1	-	-
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 464,866</u>	<u>\$ 448,271</u>

**Liabilities**

Accounts payable	\$ 3,686	\$ 662
Accrued salaries, wages and employee benefits	849	859
Obligation under capital lease	57	84
Accrued pension expense	3,368	2,954
Liability for charitable gift annuities and lead trusts	411	428
Deferred revenue	124	132
Other liabilities	1,058	709
Fair value of interest rate swap	2,691	-
Tax-exempt bonds payable	122,600	122,600
	<u>          </u>	<u>          </u>
Total liabilities	<u>134,844</u>	<u>128,428</u>

**Net Assets**

Unrestricted	90,487	86,110
Temporarily restricted	122,240	117,517
Permanently restricted	117,295	116,216
	<u>          </u>	<u>          </u>
Total net assets	<u>330,022</u>	<u>319,843</u>
	<u>          </u>	<u>          </u>
Total liabilities and net assets	<u>\$ 464,866</u>	<u>\$ 448,271</u>

**Indianapolis Museum of Art**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2010**  
(In Thousands)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue, Gains and Other Support</b>				
Gifts, grants and memberships				
Annual giving	\$ 1,497	\$ -	\$ -	\$ 1,497
Contributions	2,591	1,580	1,079	5,250
Grants	271	-	-	271
Revenue from activities				
Admissions, fees and miscellaneous sales	2,329	-	-	2,329
Investment return designated for current operations and art acquisitions	1,631	16,410	-	18,041
	<u>8,319</u>	<u>17,990</u>	<u>1,079</u>	<u>27,388</u>
Net assets released from restrictions	17,653	(17,653)	-	-
Total revenue, gains and other support	<u>25,972</u>	<u>337</u>	<u>1,079</u>	<u>27,388</u>
<b>Expenses</b>				
Curatorial	15,993	-	-	15,993
Educational	5,303	-	-	5,303
Horticultural	891	-	-	891
Museum stores	1,939	-	-	1,939
Total program services	<u>24,126</u>	<u>-</u>	<u>-</u>	<u>24,126</u>
Management and general	3,781	-	-	3,781
Fund raising	347	-	-	347
Membership development	815	-	-	815
Total expenses	<u>29,069</u>	<u>-</u>	<u>-</u>	<u>29,069</u>
<b>Change in Net Assets From Operations</b>	(3,097)	337	1,079	(1,681)
<b>Nonoperating Revenue (Expense)</b>				
Investment return greater than amounts designated for current operations and art acquisitions	11,475	4,809	-	16,284
Changes in accumulated postretirement benefits arising during the period	(796)	-	-	(796)
Amortization included in net periodic pension cost	179	-	-	179
Change in fair value of interest rate swap agreement	(2,691)	-	-	(2,691)
Proceeds from sales of art	-	453	-	453
Purchases of art	(1,569)	-	-	(1,569)
Released from restriction - art acquisition	876	(876)	-	-
<b>Change in Net Assets</b>	4,377	4,723	1,079	10,179
<b>Net Assets, Beginning of Year</b>	<u>86,110</u>	<u>117,517</u>	<u>116,216</u>	<u>319,843</u>
<b>Net Assets, End of Year</b>	<u>\$ 90,487</u>	<u>\$ 122,240</u>	<u>\$ 117,295</u>	<u>\$ 330,022</u>

**Indianapolis Museum of Art**  
**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2010**  
(In Thousands)

		<u>2010</u>
<b>Operating Activities</b>		
Change in net assets	\$	10,179
Items not requiring (providing) cash		
Depreciation and amortization of bond issue costs		6,028
Noncash contributions		(222)
Acquisition and sales of art, net		1,116
Contributions restricted for long-term investment		(4,637)
Realized gains on investments		(1,508)
Unrealized gains on investments		(33,582)
Change in fair value of interest rate swap agreement		2,691
Changes in		
Accounts receivable		(153)
Contributions receivable		2,449
Prepaid expenses and other assets		(153)
Accounts payable		1,293
Accrued expenses and other liabilities		728
Net cash used in operating activities		<u>\$ (15,771)</u>
<b>Investing Activities</b>		
Acquisitions of art		(1,569)
Proceeds from sale of art		453
Purchases of property and equipment		(6,334)
Purchases of investments		(225,954)
Sales and maturities of investments		244,435
Net cash provided by investing activities		<u>11,031</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for		
Investment in endowment		2,947
Investment in art and property and equipment		871
Investment subject to annuity and trust agreements		(6)
Investment subject to various purchases		825
Payments on capital lease obligations		(27)
Net cash provided by financing activities		<u>4,610</u>
<b>Net Decrease in Cash and Cash Equivalents</b>		<u>(130)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>		<u>1,376</u>
<b>Cash and Cash Equivalents, End of Year</b>		<u><u>\$ 1,246</u></u>
<b>Supplemental Information</b>		
Interest paid	\$	1,966
Property and equipment in accounts payable		1,889

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

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

***General***

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

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

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Temporarily and Permanently Restricted Net Assets***

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

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

***Cash and Cash Equivalents***

The Museum considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, cash equivalents consisted primarily of money market funds.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2010, the Museum's cash accounts exceeded federally insured limits by approximately \$911,000.

***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 investments funds. These estimated values are subject to uncertainty, and therefore, may differ significantly from the value that would have been used had a market for such investments existed. Such differences could be material. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses.

Investment return is reflected in the consolidated statement 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

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(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 statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries, if any, are reflected as increases in the appropriate net asset class.

***Income Taxes***

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

The Museum files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Museum is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2007.

***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.

***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 statement 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, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

***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 when the donated or acquired long-lived assets are placed in service.

***Government Grants***

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

***Functional Expenses***

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 space occupied by Museum personnel.

***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through December 17, 2010, which is the date the consolidated financial statements were available to be issued.

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

**Note 2: Contributions Receivable**

	<b>2010</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 460	\$ 1,500	\$ 1,960
Due in one to five years	600	2,000	2,600
Due in more than five years	10,569	12,182	22,751
	<u>11,629</u>	<u>15,682</u>	<u>27,311</u>
Discount	(5,461)	(7,072)	(12,533)
Allowance	(175)	-	(175)
	<u>(175)</u>	<u>-</u>	<u>(175)</u>
	<u>\$ 5,993</u>	<u>\$ 8,610</u>	<u>\$ 14,603</u>

  

	<b>2009</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 1,037	\$ 3,016	\$ 4,053
Due in one to five years	735	2,000	2,735
Due in more than five years	10,696	12,682	23,378
	<u>12,468</u>	<u>17,698</u>	<u>30,166</u>
Discount	(5,719)	(7,220)	(12,939)
Allowance	(175)	-	(175)
	<u>(175)</u>	<u>-</u>	<u>(175)</u>
	<u>\$ 6,574</u>	<u>\$ 10,478</u>	<u>\$ 17,052</u>

Discount rates ranged from 0.74 to 8.2 percent in 2010 and 0.75 to 8.2 percent in 2009.

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

(Table Dollar Amounts in Thousands)

**Note 3: Investments**

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

	<u>2010</u>	<u>2009</u>
Savings accounts	\$ 135	\$ 112
Certificates of deposit	243	331
Short-term investments	12,407	30,028
U.S. Government securities	-	1,448
Corporate bonds	2,550	2,965
Corporate stocks	41,716	41,189
Mutual funds		
Equity - domestic	365	456
Equity - international	46,793	41,305
Fixed income	33,716	32,331
Alternative investments		
Absolute return marketable alternatives	44,880	40,422
Equity-oriented marketable alternatives	50,078	45,420
Inflation hedging	44,701	39,521
Private equity/Venture capital	34,055	19,291
Real estate held for investment	2,020	2,020
	<u>\$ 313,659</u>	<u>\$ 296,839</u>
Total	<u>\$ 313,659</u>	<u>\$ 296,839</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2010:

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

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

**Note 4: Property and Equipment**

The Museum's property and equipment are as follows:

	<b>2010</b>	<b>2009</b>
Buildings and grounds	\$ 154,733	\$ 153,924
Furnishings and equipment	18,432	18,134
Land improvements	12,368	12,349
	185,533	184,407
Accumulated depreciation	(64,462)	(58,466)
	121,071	125,941
Land	922	922
Construction in progress	9,695	2,796
	\$ 131,688	\$ 129,659

**Note 5: Tax-Exempt Bonds Payable**

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

During 2002, the Authority issued an additional \$44,000,000 of Variable Rate Demand Educational Facilities Revenue Bonds, the proceeds of which were loaned to the Museum to continue the construction projects noted above. These bonds are due February 1, 2037, and are also secured by a letter of credit. During 2009, the Museum made a principal payment of \$2,400,000. The outstanding balance at June 30, 2010 and 2009 was \$41,600,000.

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

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

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

Under the Indenture, the bond issues may operate in one or more of four Modes of Operation provided that certain requirements are met. The four modes generally have different operating features, including different demand features, purchase features, redemption provisions, interest periods and interest payment dates. At June 30, 2010, the bonds were operating under the floating rate mode whereby the interest rate is adjusted weekly and interest is payable monthly. At June 30, 2010, the interest rate on these bonds was 0.26%.

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 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, 2010, the Museum was in compliance with this covenant.

**Note 6: Derivative Financial Instruments**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Museum entered into an interest rate swap agreement for a portion of its floating rate debt in September 2009. The agreements provide for the Museum to receive interest from the counterparty at LIBOR times 70% and to pay interest to the counterparty at a range of fixed rates between 1.971% and 2.911% on the notional amount of \$55,000,000 at June 30, 2010. Under the agreements, the Museum pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements have expirations ranging from 2014 and 2024.

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

	<b>2010</b>
Fair value of interest rate swap agreements	\$ 2,691
Statement of financial position location of fair value amount	Liability
Loss recognized in change in net assets	2,691
Location of loss recognized in change in net assets	Nonoperating revenue (expense)

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(Table Dollar Amounts in Thousands)

**Note 7: Temporarily Restricted Net Assets**

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

	<u>2010</u>	<u>2009</u>
Program Activities		
Art purchases	\$ 7,067	\$ 5,680
Library accessions	296	265
Educational outreach program	320	278
Other program activities	3,890	3,780
Facility operations and personnel	18,889	18,440
Unappropriated endowment earnings	85,673	82,386
For periods after June 30, 2010	6,105	6,688
	<u>\$ 122,240</u>	<u>\$ 117,517</u>

**Note 8: Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to:

	<u>2010</u>	<u>2009</u>
Investment in perpetuity, the income of which is expendable to support		
Art purchases	\$ 18,998	\$ 19,229
Library accessions	368	368
Educational program activities	824	479
Other program activities	5,333	5,313
Facility operations and personnel	22,081	21,744
Any activity of the Museum	69,691	69,083
	<u>\$ 117,295</u>	<u>\$ 116,216</u>

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**  
(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.

	<b>2010</b>
Purpose restrictions accomplished	
Curatorial program expenses	\$ 518
Educational program expenses	269
Other program expenses	2,372
Time restrictions expired - passage of time	14,494
	17,653
Art acquisition and gifts of long-lived assets	876
	\$ 18,529

**Note 10: Endowment**

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

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

**Indianapolis Museum of Art**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

(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, 2010 and 2009, was:

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

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ (5,227)	\$ 102,908	\$ 105,738	\$ 203,419
Board-designated endowment funds	90,039	-	-	90,039
<b>Total endowment funds</b>	<b>\$ 84,812</b>	<b>\$ 102,908</b>	<b>\$ 105,738</b>	<b>\$ 293,458</b>

Changes in endowment net assets for the year ended June 30, 2010 was:

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

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

	<b>2010</b>	<b>2009</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 108,685	\$ 105,738
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	\$ 22,869	\$ 20,522
Without purpose restrictions	85,673	82,386
	\$ 108,542	\$ 102,908

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 \$3,388,000 and \$5,227,000 at June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

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

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The Museum has a policy (the spending policy) of appropriating for current operations each year 5.5% of its endowment fund's average fair value for the 12 quarters ending June 30 of the previous year. For the years ended June 30, 2010 and 2009, the Board of Governors approved a temporary increase in the spending rate to support current operations. Based on the 12-quarter average market value, the approved spending rates for the periods were 7.5% and 8.4%. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Museum's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

For the separate funds in the art endowment, 5 percent of the average market value of such funds for the 12 quarters ending June 30 of the previous year is appropriated to support art acquisitions.

**Note 11: 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 \$487,000 for 2010.

The Museum also has a noncontributory defined-benefit pension plan covering substantially all of its employees. Effective December 31, 2007, the Museum froze the defined-benefit plan and discontinued accrual of future benefits. The Museum's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Museum may determine to be appropriate from time to time. The amount the Museum expects to contribute to the plan in 2011 is \$190,000.

Information about the plan's funded status follows:

	<b>2010</b>	<b>2009</b>
Projected benefit obligation	\$ 8,969	\$ 7,968
Fair value of plan assets	<u>5,601</u>	<u>5,014</u>
Funded status	<u>\$ (3,368)</u>	<u>\$ (2,954)</u>

Liabilities recognized in the consolidated statements of financial position.

	<b>2010</b>	<b>2009</b>
Accrued pension expense	<u>\$ 3,368</u>	<u>\$ 2,954</u>

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The amount recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost is a net loss of \$3,148,000 and \$2,531,000 as of June 30, 2010 and 2009, respectively. The accumulated benefit obligation was approximately \$8,969,000 as of June 30, 2010 and \$7,968,000 as of June 30, 2009.

Other significant balances and costs are:

	<b>2010</b>
Benefit cost	\$ 222
Employer contribution	424
Benefits paid	310

The following amounts have been recognized in the consolidated statement of activities for the year ended June 30, 2010:

	<b>2010</b>
Amounts arising during the year:	
Net loss	\$ (796)
Amounts reclassified as components of net periodic benefit cost of the year:	
Net gain	179
	\$ (617)

The estimated net gain for the defined-benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$165,000.

Significant assumptions include:

	<b>2010</b>	<b>2009</b>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.45%	6.20%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	6.20%	6.02%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	0.00%	4.00%

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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, 2010.

2011	\$	334
2012		361
2013		394
2014		434
2015		515
2016 - 2019		2,775

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 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 2010 are as follows:

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

At June 30, 2010 and 2009, plan assets by category are as follows:

	<u>2010</u>	<u>2009</u>
Equity securities	55%	56%
Debt securities	38	41
Other	7	3
	<u>100%</u>	<u>100%</u>

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**Pension Plan Assets**

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

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

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

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

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**Note 12: Disclosures About Fair Value of Assets and Liabilities**

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

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

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.

***Cash Equivalents***

The Museum's cash equivalents consist of money market mutual funds. Fair value is based on quoted prices in active markets and these assets are considered to be Level 1 of the valuation hierarchy.

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***Investments***

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

***Assets Held in Charitable Lead Trusts***

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

***Interest Rate Swap Agreements***

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

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The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and 2009:

	Fair Value	2010 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash equivalents	\$ 720	\$ 720	\$ -	\$ -
Investments				
Savings accounts	135	135	-	-
Certificates of deposit	243	243	-	-
Short-term investments	12,407	12,407	-	-
Corporate bonds	2,550	-	2,550	-
Corporate stocks	41,716	41,716	-	-
Mutual funds				
Equity - domestic	365	365	-	-
Equity - international	46,793	14,032	32,761	-
Fixed income	33,716	12,740	20,976	-
Alternative investments				
Absolute return marketable alternatives	44,880	-	44,880	-
Equity-oriented marketable alternatives	50,078	-	45,323	4,755
Inflation hedging	44,701	-	27,987	16,714
Private equity/Venture capital	34,055	-	9,955	24,100
Real estate held for investment	2,020	-	2,020	-
	<u>313,659</u>	<u>81,638</u>	<u>186,452</u>	<u>45,569</u>
Assets held in charitable lead trusts	315	315	-	-
	<u>\$ 314,694</u>	<u>\$ 82,673</u>	<u>\$ 186,452</u>	<u>\$ 45,569</u>
<b>Liabilities</b>				
Interest rate swap	\$ (2,691)	\$ -	\$ -	\$ (2,691)

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	2009			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash equivalents	\$ 756	\$ 756	\$ -	\$ -
Investments				
Savings accounts	112	112	-	-
Certificates of deposit	331	331	-	-
Short-term investments	30,028	30,028	-	-
U.S. Government securities	1,448	1,448	-	-
Corporate bonds	2,965	-	2,965	-
Corporate stocks	41,189	41,189	-	-
Mutual funds				
Equity - domestic	456	456	-	-
Equity - international	41,305	11,973	29,332	-
Fixed income	32,331	12,121	20,210	-
Alternative investments				
Absolute return marketable alternatives	40,422	-	16,833	23,589
Equity-oriented marketable alternatives	45,420	-	29,279	16,141
Inflation hedging	39,521	-	24,141	15,380
Private equity/Venture capital	19,291	-	-	19,291
Real estate held for investment	2,020	-	2,020	-
	<u>296,839</u>	<u>97,658</u>	<u>124,780</u>	<u>74,401</u>
Assets held in charitable lead trusts	<u>304</u>	<u>304</u>	<u>-</u>	<u>-</u>
	<u>\$ 297,899</u>	<u>\$ 98,718</u>	<u>\$ 124,780</u>	<u>\$ 74,401</u>

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

	Absolute Return Marketable Alternatives	Equity- Oriented Marketable Alternatives	Inflation Hedging	Private Equity/ Venture Capital	Fair Value of Interest Rate Swap
Balance, January 1, 2009	\$ 23,589	\$ 16,141	\$ 15,380	\$ 19,291	\$ -
Total unrealized gains (losses)	-	442	(768)	612	-
Purchases, issuances and settlements	-	-	2,102	4,197	-
Loss on interest rate swap	-	-	-	-	(2,691)
Transfers out of Level 3	(23,589)	(11,828)	-	-	-
Balance, June 30, 2010	<u>\$ -</u>	<u>\$ 4,755</u>	<u>\$ 16,714</u>	<u>\$ 24,100</u>	<u>\$ (2,691)</u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains and losses related to assets and liabilities still held at the reporting date	<u>\$ -</u>	<u>\$ 442</u>	<u>\$ (768)</u>	<u>\$ 612</u>	<u>\$ (2,691)</u>

The following table presents 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	2010 Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Assets				
Investments				
Mutual funds				
Equity - international (a)	\$ 32,761	\$ -	daily	6-7 days
Fixed income (b)	20,976	-	daily	0-7 days
Alternative investments				
Absolute return marketable alternatives (c)	44,880	-	quarterly to 1 year	30 - 180 days
Equity-oriented marketable alternatives (d)	50,078	-	quarterly to 3 years	30 - 180 days
Inflation hedging (e)	44,701	19,065	monthly to not available	10 days to not available
Private equity/Venture capital (f)	34,055	23,732	not available	
	<u>\$ 227,451</u>	<u>\$ 42,797</u>		

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

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- (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 and annually with notice periods between 30 days and 180 days. The fair values of these funds are estimated using NAV.
- (d) Equity-oriented marketable alternative funds consist of funds of funds and limited partnerships that seek to achieve capital appreciation primarily through trading, investing in and selling equity securities. Many of the funds had lock-up periods, which have expired. Redemptions vary between quarterly, annually and every three years with notice periods between 30 days and 180 days. The fair value of these funds are estimated using NAV.
- (e) Inflation hedging funds consist of real estate funds, natural resources and hedge funds. Real estate funds totaling \$4,189,000 at June 30, 2010, 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 \$23,663,000 at June 30, 2010, 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 \$16,849,000 at June 30, 2010, 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.

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

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

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

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

**Note 13: Concentrations and Contingencies**

Approximately 37% of all contributions were received from two donors in 2010.

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

***Current Economic Conditions***

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

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

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