

**INDIANA STATE
MUSEUM
AND HISTORIC SITES**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
WITH SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2018

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

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Independent Auditors' Report

Board of Trustees
Indiana State Museum and Historic Sites Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana State Museum and Historic Sites Corporation, a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Uniform Compliance Guidelines for Audit of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Indiana State Museum and Historic Sites Corporation as of June 30, 2018, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedules of the corporation's proportionate share of the net pension liability and corporation contributions and the related notes on pages 27 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on Indiana State Museum and Historic Sites Corporation's basic financial statements. The combining schedule – statement of net position information, combining schedule – statement of revenues, expenses and changes in net position information and schedule of Indiana State Museum Store Operations on pages 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of Indiana State Museum and Historic Sites Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana State Museum and Historic Sites Corporation's internal control over financial reporting and compliance.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
October 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018

As management of Indiana State Museum and Historic Sites Corporation (Corporation), we offer readers of the Corporation's basic financial statements this narrative overview and analysis of the financial activities of the Corporation and its blended component unit, the Indiana State Museum Foundation, Inc. (Foundation), (together, the Museum and Historic Sites) for the fiscal year ended June 30, 2018. The Corporation was established per Indiana Code 4-37 effective July 1, 2011. The Corporation is a separate body, corporate and politic and is not a state agency. The Foundation was established in 1968 as a 501(c)(3) nonprofit and continues to support the operations of the Corporation, which were previously conducted as a division of the Indiana Department of Natural Resources. The Corporation is considered to be financially accountable for the Foundation and, in substance, the Foundation is part of the Corporation's operations even though the Foundation is a legally separate entity.

FINANCIAL HIGHLIGHTS

- The financial statements present the operations of the Museum and Historic Sites in total.
- In total, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2018 by approximately \$8.4 million.
- Net position of the Corporation was (\$54) thousand, and net position for the Foundation was \$8.4 million. Of the \$8.4 million of net position, (\$.7) million represents an unrestricted net deficit, \$8.2 million is restricted for exhibitions, artifacts, and sites; capital campaign; endowment appreciation; preventative maintenance; capital repair and rehab; and other activities, \$.8 million is held as a permanent endowment, and \$.1 million is invested in capital assets.
- The total net position slightly decreased by \$.8 million for the fiscal year ended June 30, 2018. This was the result of the net operating loss being greater than net nonoperating income.
- The Museum and Historic Sites adopted GASB No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81). GASB No. 81 requires the Museum and Historic Sites to recognize assets and deferred inflows representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The adoption of GASB No. 81 resulted in a restatement of net position as of July 1, 2017, resulting in a decrease of net position of \$131,777 from the balance previously reported, comprised of a deferred inflow of \$131,777. At June 30, 2018, the Museum and Historic Sites had a deferred inflow of resources related to beneficial interest of trust of \$101,364.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Museum and Historic Sites' basic financial statements. The Museum and Historic Sites is a component unit of the State of Indiana (State) and is maintained as an enterprise fund. Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. An enterprise fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting. The Museum and Historic Sites' basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The statement of net position presents information on all the Museum and Historic Sites' assets and liabilities and deferred outflows and deferred inflows of resources, with the difference between the total of assets and deferred outflows of resources and total liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Museum and Historic Sites is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information on how the Museum and Historic Sites' net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In contrast, the statement of cash flows is concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 26 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information including the schedule of the Corporation's proportionate share of the net pension liability, the schedule of the Corporation's contributions and the related notes on pages 27 through 29, and other supplementary information including the combining schedule of statement of net position information; the combining schedule of statement of revenues, expenses and changes in net position information; and the schedule of Indiana State Museum Store Operations, on pages 30 through 32.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Museum and Historic Sites, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8.4 million at June 30, 2018.

Statements of Net Position

Below is the condensed statements of net position relating to the Museum and Historic Sites at June 30, 2018 and 2017.

Museum and Historic Sites Condensed Statements of Net Position

	June 30, 2018	June 30, 2017
Current assets	\$ 9,583,352	\$10,433,381
Noncurrent Assets	<u>3,175,591</u>	<u>3,055,401</u>
Total Assets	<u>12,758,943</u>	<u>13,488,782</u>
Deferred Outflows of Resources	<u>2,096,436</u>	<u>2,549,593</u>
Current liabilities	615,538	1,035,029
Noncurrent liabilities	<u>5,445,760</u>	<u>5,270,042</u>
Total Liabilities	<u>6,061,298</u>	<u>6,305,071</u>
Deferred Inflows of Resources	<u>418,693</u>	<u>517,698</u>
Net Position	<u>\$ 8,375,388</u>	<u>\$ 9,215,606</u>

FINANCIAL ANALYSIS (CONTINUED)

As of June 30, 2018, total assets decreased by \$.7 million, deferred outflows decreased by \$.4 million, liabilities decreased by \$.2 million, and deferred inflows decreased by \$.1 million from June 30, 2017. Net position decreased by \$.8 million or 9% during fiscal year 2018. Assets decrease relates to significant decrease in cash, which is due to decrease in net position discussed below and increase in accounts receivable. Accounts receivable increased due to timing of preventative maintenance appropriations received from the State.

Statements of Revenues, Expenses and Changes in Net Position

Below is the condensed statements of revenues, expenses and changes in net position relating to the Museum and Historic Sites for the years ended June 30, 2018 and 2017.

Museum and Historic Sites Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2018	Year Ended June 30, 2017
Operating Revenues		
Visitor activities	\$ 2,238,391	\$ 2,299,348
Other	<u>228,581</u>	<u>306,111</u>
Total Operating Revenues	<u>2,466,972</u>	<u>2,605,459</u>
Operating Expenses	<u>13,426,396</u>	<u>14,197,975</u>
Net Operating Loss	<u>(10,959,424)</u>	<u>(11,592,516)</u>
Nonoperating revenues	12,180,831	13,198,060
Nonoperating expenses	<u>2,061,625</u>	<u>1,412,718</u>
Net Nonoperating Income	<u>10,119,206</u>	<u>11,785,342</u>
Increase (Decrease) in Net Position	(840,218)	192,826
Net Position:		
Beginning of Year, Restated for Adoption of GASB 81	<u>9,215,606</u>	<u>9,022,780</u>
End of Year	<u>\$ 8,375,388</u>	<u>\$ 9,215,606</u>

Total revenues for the fiscal year ended June 30, 2018, were \$14.7 million, which was a \$1.1 million decrease from prior year. Expenses for the fiscal year ended June 30, 2018, were \$15.5 million, which was a \$.1 million decrease from prior year. This resulted in a \$.9 million decrease in net position for fiscal year ended June 30, 2018.

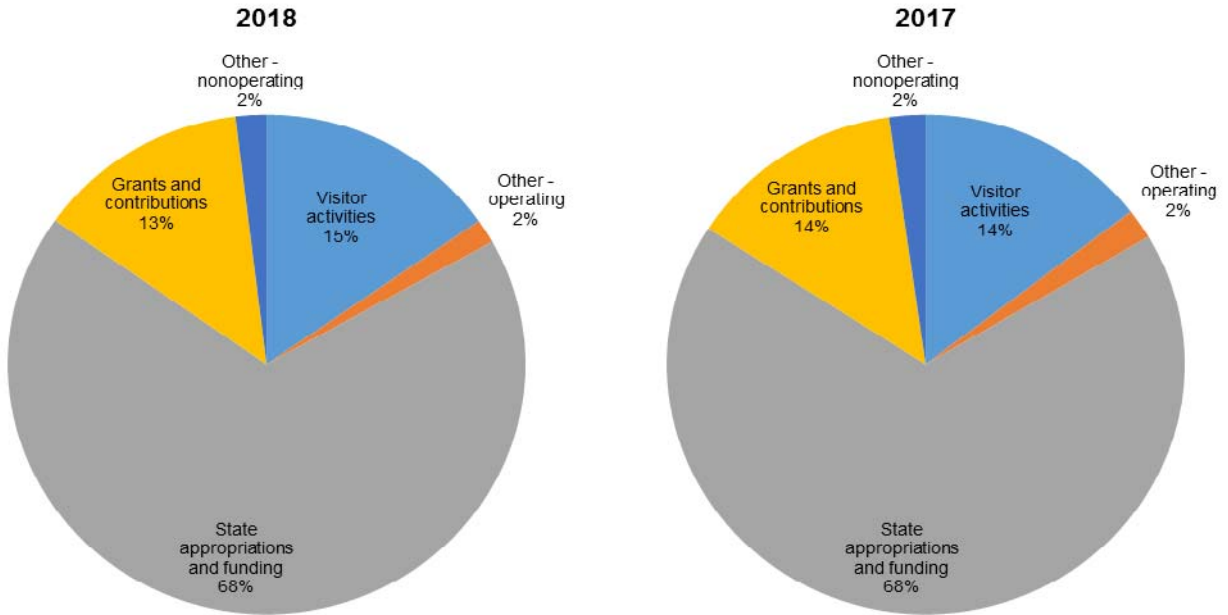
As noted above, revenues decreased by \$1.1 million from the prior year with the biggest decreases being in State appropriations. State appropriations are down due to not receiving relief in the current year, which State relief was provided in the prior year. Also, there was a decrease in capital repair and rehab appropriations due to timing of projects.

As noted above, expenses decreased by \$.1 million from the prior year, which is consistent.

FINANCIAL ANALYSIS (CONTINUED)

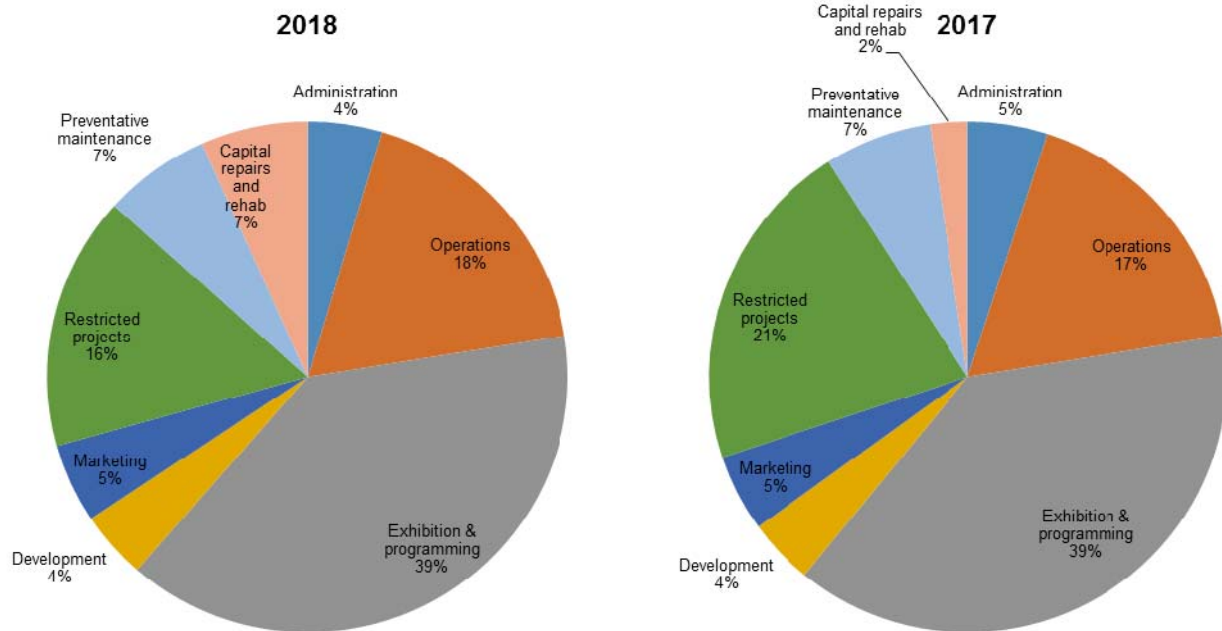
The charts below present revenues by source for the Museum and Historic Sites for the years ended June 30, 2018 and 2017.

Revenues by Source



The charts below present expenses by function for the Museum and Historic Sites for the years ended June 30, 2018 and 2017.

Expenses by Function



CAPTIAL ASSET ADMINISTRATION

The Museum and Historic Sites' investment in capital assets was \$.1 million and \$.2 million (net of accumulated depreciation) at June 30, 2018 and 2017, respectively. The investment in capital assets includes furniture and equipment. All real property related to the Museum and Historic Site is held in title and owned by the State.

Capital Assets (Net of Accumulated Depreciation)

	June 30, 2018	June 30, 2017
Capital assets	\$1,081,056	\$1,070,231
Less: Accumulated Depreciation	<u>946,347</u>	<u>862,214</u>
Net	<u>\$ 134,709</u>	<u>\$ 208,017</u>

Additional information on the Museum and Historic Sites' capital assets can be found in Note 5 to the financial statements on page 18 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Museum and Historic Sites' finances. Questions concerning any of the information should be addressed to Indiana State Museum and Historic Sites Corporation, 650 W. Washington Street, Indianapolis, IN 46204.

FINANCIAL STATEMENTS

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

STATEMENT OF NET POSITION
June 30, 2018

CURRENT ASSETS	
Cash and equivalents	\$ 6,659,944
Accounts receivable	1,069,009
Pledges receivable, net	1,502,555
Prepaid expenses	93,255
Short-term investments	134,158
Inventory	124,431
Total Current Assets	<u>9,583,352</u>
NONCURRENT ASSETS	
Investments	905,904
Restricted cash and investments	1,967,367
Pledges receivable, net	66,247
Beneficial interest in trust	101,364
Capital assets, net	134,709
Total Noncurrent Assets	<u>3,175,591</u>
TOTAL ASSETS	<u>12,758,943</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,096,436</u>
CURRENT LIABILITIES	
Accounts payable	421,214
Accrued liabilities	10,056
Deferred revenue	184,268
Total Current Liabilities	<u>615,538</u>
NONCURRENT LIABILITIES	
Pension liability	5,445,760
Total Noncurrent Liabilities	<u>5,445,760</u>
Total Liabilities	<u>6,061,298</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources related to beneficial interest in trust	101,364
Deferred inflow of resources related to pensions	317,329
Total Deferred Inflows of Resources	<u>418,693</u>
NET POSITION	
Net investment in capital assets	134,709
Restricted, expendable:	
Exhibitions, artifacts, and sites	1,900,307
Endowment appreciation	972,884
Preventative maintenance	252,516
Capital repair and rehab	1,124,175
Capital campaign	3,782,715
Other	166,510
Restricted, nonexpendable:	
Endowment principal	781,920
Unrestricted	<u>(740,348)</u>
TOTAL NET POSITION	<u><u>\$ 8,375,388</u></u>

See accompanying notes.

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018

OPERATING REVENUES

Visitor activities:	
Admissions	\$ 786,463
Facility rental	387,513
Food commission	168,069
IMAX commission	65,543
Museum store	212,957
Memberships	307,718
Special events, net	65,445
Site fees	89,871
Educational program fees	154,812
Other:	
Collection fees	6,743
Sponsorships	138,263
Artifact acquisition	83,575
Total Operating Revenues	2,466,972

OPERATING EXPENSES

Administration	711,058
Operations	2,761,796
Exhibition and other programming	6,032,051
Development	659,881
Marketing	775,468
Restricted projects	2,486,142
Total Operating Expenses	13,426,396

Net Operating Loss (10,959,424)

NONOPERATING REVENUES

State general fund appropriations	8,266,487
State funding for preventative maintenance	1,136,874
State funding for capital repair and rehab	549,000
Unrestricted contributions	241,856
Grants	250,251
Restricted gifts	1,453,994
Lincoln license plates	49,705
Interest income and net appreciation/depreciation	232,664
Total Nonoperating Revenues	12,180,831

NONOPERATING EXPENSES

Preventative maintenance	1,030,137
Capital repair and rehab	1,031,488
Total Nonoperating Expenses	2,061,625

Net Nonoperating Income 10,119,206

DECREASE IN NET POSITION (840,218)

NET POSITION

Beginning of Year, Restated for Adoption of GASB 81	9,215,606
End of Year	\$ 8,375,388

See accompanying notes.

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from visitor activities	\$ 2,215,103
Cash payments for employee services	(272,035)
Cash payments to other suppliers for goods or services	(4,419,409)
Other operating cash receipts	228,581
Net Cash Used by Operating Activities	<u>(2,247,760)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from state appropriations	1,047,956
Cash received from contributions, grants and gifts	1,888,515
Cash received from Lincoln license plates	49,705
Cash paid for preventative maintenance and capital repair and rehab	(2,061,625)
Net Cash Provided by Noncapital Financing Activities	<u>924,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(398,332)
Sales and maturities of investments	388,356
Cash received from interest and dividends	77,389
Increase in restricted cash	(58,531)
Net Cash Provided by Investing Activities	<u>8,882</u>
CASH FLOWS FROM CAPITAL ACTIVITIES	
Purchase of capital assets, net	(10,825)
Net Cash Used by Capital Financing Activities	<u>(10,825)</u>
NET DECREASE IN CASH AND EQUIVALENTS	
	(1,325,152)
CASH AND EQUIVALENTS	
Beginning of Year	<u>8,112,967</u>
End of Year	<u><u>\$ 6,787,815</u></u>
CASH AND EQUIVALENTS	
Cash and equivalents - unrestricted	\$ 6,659,944
Cash and equivalents - restricted	127,871
	<u><u>\$ 6,787,815</u></u>
RECONCILIATION OF OPERATING LOSS TO NET	
CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (10,959,424)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	84,133
On-behalf payments for salaries and fringe benefits	8,266,487
(Increase) decrease in certain assets and deferred outflows:	
Accounts receivable from operating activities	(30,832)
Prepaid expenses	281,656
Inventory	(159)
Deferred outflows of resources related to pension	453,157
Increase (decrease) in certain liabilities and deferred inflows:	
Accounts payable	(79,802)
Accrued liabilities	(358,913)
Pension liability	175,718
Deferred revenue	19,224
Deferred inflows of resources related to pension	(99,005)
Net Cash Used by Operating Activities	<u><u>\$ (2,247,760)</u></u>

See accompanying notes.

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: By Indiana Code 4-37, the Indiana General Assembly created the Indiana State Museum and Historic Sites Corporation (Corporation), a component unit of the State of Indiana (State), as a separate corporation as of July 1, 2011. Prior to July 1, 2011, the operations of the Corporation, which commenced in 1869, were considered a division of the Indiana Department of Natural Resources. The Corporation preserves, interprets and presents material evidence of Indiana's cultural and natural history in a context that encourages people to actively participate in discovering the world — as it was, as it is and as it can be. The Corporation operates and preserves the Indiana State Museum located in the Indiana White River State Park and eleven historic sites across the State. All real property related to the Corporation is held in title and owned by the State of Indiana (the State). The Corporation along with its blended component unit (collectively, the Museum and Historic Sites) is a component unit to be included in the State's Comprehensive Annual Financial Report because it was established as a separate body, corporate and politic (not a state agency). A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable.

Blended Component Unit: Indiana Code 4-37, also authorized the Indiana State Museum Foundation, Inc. (Foundation) as a nonprofit under common control of the Corporation to solicit and accept private funding, gifts, donations, bequests, devises, and contributions. The Foundation was incorporated as a not-for-profit foundation in 1968. The Corporation is considered to be financially accountable for the Foundation and, in substance, the Foundation is part of the Corporation's operations even though the Foundation is a legally separate entity. The Foundation is therefore presented as a blended component unit of the Corporation.

Fund Financial Statements: The Museum and Historic Sites is reported as an enterprise fund. Enterprise fund financial statements consist of the statement of net position; statement of revenues, expenses and changes in net position; and the statement of cash flows. Enterprise fund activities rely to a significant extent on fees and charges for support.

Basis of Presentation: The Museum and Historic Sites prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as applied to enterprise fund activities of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Museum and Historic Sites applies all applicable GASB pronouncements.

Measurement Focus and Basis of Accounting: The basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The accompanying financial statements have been prepared on the accrual basis of accounting. For financial reporting purposes, operations are reported as a single enterprise fund and accordingly, all inter-fund transactions and balances are eliminated. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The measurement focus is on the flow of economic resources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and expenses of enterprise fund activities are divided into operating and nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Revenue from admissions, merchandise and other sales, and member contributions are reported as operating revenues. Operating expenses include primarily the costs of providing program services, administrative expenses, and depreciation on capital assets. All revenues and expenses which are capital, financing, or investing related are reported as nonoperating revenues and expenses in the statement of revenues, expenses and changes in net position.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

Revenue Recognition: The Museum and Historic Sites recognizes admissions, facility rental, museum store, site fees, and educational program fees at the point of sale or when the program is provided. Membership contributions are recognized as revenue when received. The Museum and Historic Sites recognizes operating and capital grants and contributions, including unconditional promises to give due in future periods, when all eligibility requirements, including time requirements, are met. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. The value of in-kind contributions was \$30,837 for the year ended June 30, 2018. State appropriations are recognized as revenue when allotted by the State. All other revenue is recognized as earned. Deferred revenue includes certain amounts received from facility rentals and fees for events held in subsequent fiscal years.

Cash and Equivalents include cash on hand, bank deposit accounts, money market funds, and certificates of deposit with an original maturity date of less than three months. Cash is maintained in bank deposit accounts which, at times, may exceed federally insured limits. To date, there have been no losses in such accounts.

Restricted Cash and Investments include assets held in the donor-restricted endowment.

Investment Valuation and Income Recognition: Investments are recorded at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. See Note 3.

Investment income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net position.

Accounts Receivable primarily include appropriations due from the State for preventative maintenance and capital repair and rehab. Accounts receivable due from the State are stated at the amounts on claim vouchers submitted to the State.

Pledges Receivable represent the remaining balance of unconditional promises to give that have not yet been paid. Pledges that are expected to be collected within one year or less are recorded at net realizable value. Pledges that are expected to be collected beyond one year are recorded at the present value of their estimated future cash flows. The pledges have been discounted using a risk-free interest rate applicable during the time the pledge was made. Management uses historical collection and aging of receivables to estimate an allowance for doubtful accounts.

Inventory is stated at cost, determined on the first-in, first-out basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets are recorded at cost. Capital assets are defined as assets with an initial, individual cost or value of more than \$10,000 and an estimated useful life in excess of one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 15 years.

Art Collection: The Museum and Historic Sites collects works of art representing Indiana's cultural and natural history. It preserves, collects and interprets this material through curatorial research and educational outreach. Collection items acquired either through purchase or donation are not capitalized. Contributions of collection items are not recognized in the statement of revenues, expenses and changes in net position. Standard procedures are used in accessioning, deaccessioning, cataloging and managing art objects. The Museum provides a clean, safe and stable storage environment for its permanent collections. There were no significant deaccessions during the year ended June 30, 2018.

Deferred Outflows of Resources: The Corporation reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. Deferred outflows of resources reported at June 30, 2018, related to the defined benefit pension plan, including contributions made to the plan between the measurement date of the net pension liability and the end of the Corporation's fiscal year, changes in the Corporation's allocated proportion from the previous year, and differences between the Corporation's contributions to the plan and its proportionate share. The amounts related to changes in the Corporation's allocated proportion from the previous year and differences between the Corporation's contributions to the plan and its proportionate share are being amortized into pension expense over four years.

Deferred Inflows of Resources: The Corporation's statement of net position reports a separate section for deferred inflows of resources, which reflects an increase in net assets that applies to future periods. Deferred inflows of resources reported at June 30, 2018, related to the defined benefit pension plan, including actual pension plan investment earnings in excess of the expected amounts and the difference between expected and actual experience on the pension plan included in determining pension expense. These amounts are being amortized into pension expense over four years.

Net Position is classified as follows:

- **Net Investment in Capital Assets** includes capital assets net of the accumulated depreciation.
- **Restricted, Expendable Net Position** reports the difference between assets and liabilities of certain programs whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Museum and Historic Sites.
- **Restricted, Nonexpendable Net Position** reports the difference between assets and liabilities of certain programs subject to externally imposed stipulations that the assets be maintained permanently.
- **Unrestricted Net Position** reports the remaining difference between assets and liabilities.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The Museum and Historic Sites' policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan: The employees of the Museum and Historic Sites participate in the Indiana Public Retirement System (INPRS). The Museum and Historic Sites recognizes its proportionate share of the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense. See Note 10.

Compensated Absences: All full-time employees receive compensation for vacations, holidays, illness and certain other qualifying absences. This compensation is included in the on-behalf payments paid by the general fund of the State. See Note 9.

Advertising Costs are expensed as incurred. Advertising expenses amounted to \$223,391 for the year ended June 30, 2018.

Subsequent Events: The Museum and Historic Sites has evaluated the financial statements for subsequent events occurring through October 19, 2018, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2018:

Cash and equivalents:	
Cash	\$6,378,778
Certificate of deposit	251,531
Money market funds	29,635
Short-term investments:	
Mutual funds	107,721
Exchange traded products	26,437
Noncurrent investments:	
Money market funds	127,871
Mutual funds	815,213
Equities	1,297,198
Exchange traded products	463,759
U.S. government bonds	169,230
	<u>\$9,667,373</u>

Noncurrent investments consist of the following at June 30, 2018:

Unrestricted	\$ 905,904
Donor-restricted for historic sites	175,000
Restricted earnings	37,563
Donor-restricted endowment fund	<u>1,754,804</u>
Total Noncurrent Investments	<u>\$2,873,271</u>

Custodial Credit Risk of Deposits: Custodial risk is the risk that in the event of bank failure, the Museum and Historic Sites' deposits may not be returned to it. To address custodial credit risk, the Museum and Historic Sites has a policy related to the donor-restricted and board-designated endowment funds that permissible cash and equivalents include any security issued by the U.S. government and commercial paper or bankers acceptances rated at least A-1 or P-1 and fully insured or collateralized deposits in U.S. banks. The Museum and Historic Sites do not have a policy that addresses custodial credit risk for cash and equivalents not held for the donor-restricted or board-designated endowment funds. Cash deposits up to \$250,000 per financial institution are insured by the Federal Deposit Insurance Company. Any cash and investments belonging to the Foundation in excess of federally insured limits are not insured and present a custodial credit risk.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2018, the Museum and Historic Sites had the following deposit balances exposed to custodial credit risk:

Uninsured and uncollateralized deposits	\$6,683,960
Uninsured deposits collateralized with securities held by the pledging financial institution	<u>29,635</u>
	<u>\$6,713,595</u>

Investment Policy – Foundation: The Foundation maintains an investment policy for long-term investments and endowment funds. To achieve the Foundation's investment objective it must preserve the real purchasing power of its endowed assets and have available a growing stream of income for spending, net of inflation. The performance objective is to maximize total return of the portfolio with prudent risk levels. The long-term annualized rate of return objective is 5%, after management and trustee fees, plus the rate of inflation.

The Foundation has acceptable investment allocation ranges. The acceptable ranges are as follows:

<u>Investment Class</u>	<u>Acceptable Range</u>
Domestic Equity	40% - 65%
International Equity	5% - 25%
Total Equities	50% - 80%
Fixed Income	10% - 35%
Non-traditional	0% - 20%
Cash	0% - 10%

Investment Type and Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Museum and Historic Sites do not have an investment policy to address interest rate risk. As of June 30, 2018, the Museum and Historic Sites had the following investments and maturities:

2018	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>< 1</u>	<u>1 – < 5</u>	<u>5 – < 10</u>	<u>> 10</u>
Money market funds	\$ 157,506	\$ 157,506			
Certificate of deposit	251,531	251,531			
Equities	1,297,198	1,297,198			
Mutual funds	922,934	922,934			
Exchange traded products	490,196	490,196			
U.S. government bonds	<u>169,230</u>		<u>\$169,230</u>		
	<u>\$3,288,595</u>	<u>\$3,119,365</u>	<u>\$169,230</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk of Investments: Custodial credit risk is the risk that the Museum and Historic Sites will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Museum and Historic Sites, and are held by either the counterparty or the counterparty's trust department or agent but not in the Museum and Historic Sites' name. The Museum and Historic Sites has no custodial credit risk on investments.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk: To address credit risk, the Museum and Historic Sites has a policy that no greater than 5% of the total portfolio may be invested in corporate obligations whose rating by either Standard & Poor's (S&P) or Moody's Investor Services (Moody's) is less than BBB or Baa, respectively. The following table provides information on the credit ratings associated with the Museum and Historic Sites' investments at June 30, 2018:

2018	S&P	Fitch	Moody's	Fair Value
Money market funds	AAAm	AAAmmf	Aaa-mf	\$157,506
U.S. government bonds	AA+	AAA	Aaa	<u>169,230</u>
Total Rated Investments				<u>\$326,736</u>

Concentration of Credit Risk: To address the concentration of credit risk the Museum and Historic Sites has implemented asset allocation targets and has a policy with respect to the corporate sector of the portfolio that no more than 25% of the portfolio may be invested in any one economic sector. At June 30, 2018, there were no concentrations of credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Museum and Historic Sites has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum and Historic Sites has the ability to access.

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Museum and Historic Sites makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Following is a description of the valuation methodologies used by the Museum and Historic Sites for assets and liabilities that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2018.

Mutual Fund Shares and Money Market Fund Shares: Valued at the daily closing price as reported by the funds. These funds are required to publish their daily net asset value (NAV) and to transact at that price. These funds are deemed to be actively traded.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Certificates of Deposit: Determined by discounting the related cash flows on current yields of similar investments with comparable durations considering the credit-worthiness of the issuer.

Equities and Exchange Traded Products: Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Charitable Remainder Trust: The methodology used by the Museum and Historic Sites to determine the fair value of the receivable from the charitable trust is discussed in Note 6.

For those assets and liabilities measured at fair value, management determines the fair value measurement policies and procedures in consultation with the Museum and Historic Sites' Finance Committee. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum and Historic Sites' management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets or liabilities could result in a different fair value measurement at the reporting date.

Following is a summary, within each level of the fair value hierarchy, of the Museum and Historic Sites' assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018:

2018	Level 1	Level 2	Level 3	Total
Assets				
Cash Equivalents:				
Money Market Fund Shares	\$ 29,635			\$ 29,635
Certificates of Deposit		\$251,531		251,531
Investments:				
Money Market Fund Shares	127,871			127,871
Mutual Funds	922,934			922,934
Equities	1,297,198			1,297,198
Exchanged Traded Products	490,196			490,196
U.S. Government Bonds	<u> </u>	<u>169,230</u>		<u>169,230</u>
Total Cash Equivalents and Investments	2,867,834	420,761		3,288,595
Beneficial interest in charitable remainder trust	<u> </u>	<u> </u>	<u>\$101,364</u>	<u>101,364</u>
Total Assets at Fair Value	<u>\$2,867,834</u>	<u>\$420,761</u>	<u>\$101,364</u>	<u>\$3,389,959</u>

At June 30, 2018, the Museum and Historic Sites had no other assets and no liabilities that are measured at fair value on a recurring basis.

NOTE 4 - PLEDGES RECEIVABLE

Outstanding pledges are receivable from individuals, corporations, and other organizations principally located in the Indianapolis metropolitan area. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. As of June 30, 2018, pledges were scheduled to be collected as follows:

Year Ended June 30,	Pledges
2019	\$1,502,555
2020	64,223
2021	7,500
2022	7,500
2023	<u>7,500</u>
	1,589,278
Noncurrent unamortized discount	(2,973)
Allowance for uncollectible pledges	<u>(17,503)</u>
 Pledges Receivable, Net	 <u>\$1,568,802</u>

NOTE 5 - CAPITAL ASSETS

During its 1997 session, the Indiana General Assembly authorized the construction of the new Indiana State Museum at Indiana White River State Park (the Park). The museum complex was owned by the Indiana Finance Authority (IFA) through June 25, 2013, at which point the museum was transferred to the State. Funding for the building came primarily from bonds, which were repaid by State appropriations until the bonds were defeased on June 25, 2013. The Foundation raised private-sector funding for the exhibit programs. The Indiana State Museum, a showplace for Indiana’s cultural and natural history, opened in 2002 and features a three level, 65,000 square foot exhibit area. Approximately another 238,000 square feet contains office and storage areas and the IMAX Theater facility. As required by a court-ordered settlement, the original facade of School 5 was reconstructed by IFA and incorporated into the Indiana State Museum.

All real property related to the Museum and Historic Sites is held in title and owned by the State.

Capital asset activity for the year ended June 30, 2018 was as follows:

2018	Beginning Balance	Transfers	Additions	Retirements	Ending Balance
Capital assets, being depreciated:					
Furniture and equipment	\$1,070,231		\$ 10,825		\$1,081,056
Less: Accumulated depreciation for furniture and equipment	<u>(862,214)</u>	<u> </u>	<u>(84,133)</u>	<u> </u>	<u>(946,347)</u>
 Total Capital Assets, Being Depreciated, Net	 <u>\$ 208,017</u>	 <u>\$ </u>	 <u>\$(73,308)</u>	 <u>\$ </u>	 <u>\$ 134,709</u>

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2018, was included in the following functions:

Exhibition and other programming	\$ 4,428
Operations	<u>79,705</u>
Total Depreciation Expense	<u>\$84,133</u>

NOTE 6 - SPLIT-INTEREST AGREEMENT

The Museum and Historic Sites is a remainder beneficiary of a trust managed by a third party trustee. The charitable remainder trust provides for the payment of distributions to the grantor or another designed beneficiary over the designated beneficiaries' lifetimes. Upon the death of the designated beneficiaries, \$250,000 of the remaining assets has been designated for the Museum and Historic Sites. The Museum and Historic Sites' beneficial interest in the trust was \$101,364 at June 30, 2018, which is held at present value discounted at 3.40% at June 30, 2018, and recorded as a non-current asset and deferred inflow of resources on the Statement of Net Position.

NOTE 7 - DONOR-RESTRICTED ENDOWMENT

The Museum and Historic Sites administers a donor-restricted endowment fund, which consisted of the following at June 30, 2018:

Endowment appreciation available for expenditures, reported as expendable restricted net position	\$ 972,884
Endowment principal, reported as nonexpendable restricted net position	<u>781,920</u>
Total Donor-Restricted Endowment	<u>\$1,754,804</u>

Under State statute I.C. 30-2-12, the Museum and Historic Sites may appropriate for expenditures or accumulate so much of an endowment fund that the institution determines is prudent for the uses, benefits, purposes, and duration of the endowment fund, subject to the terms of the gift instrument.

The Museum and Historic Sites has a policy of appropriating from the endowment fund an annual amount equal to a maximum of 60% of the average of the prior three years net income less fees and expenses. Net income is defined as interest, dividends, and capital appreciation.

NOTE 8 - OPERATING LEASE COMMITMENTS

The Museum and Historic Sites rents certain equipment under long-term operating leases which expire through February 2022. Total rent expense under these agreements was \$16,987 in the year ended June 30, 2018, which all represented minimum rentals. Future minimum rental payments required under these leases are as follows at June 30, 2018:

Year Ended June 30,	Rentals
2019	\$ 9,744
2020	7,135
2021	4,182
2022	<u>1,776</u>
Total	<u>\$22,837</u>

NOTE 9 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS AND SALARIES

The Museum and Historic Sites nonoperating revenues and operating expenses include \$8,266,487 for the year ended June 30, 2018, of payments for salaries and fringe benefits paid on its behalf by the general fund of the State, which includes contributions made to the Indiana Public Retirement System.

NOTE 10 - BENEFIT PLANS

Plan Description

The Museum and Historic Sites contributed to the Public Employees' Retirement Fund (PERF), which is administered by INPRS as a cost-sharing, multiple-employer defined benefit plan. PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the My Choice: Retirement Savings Plan for Public Employees (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. The Museum and Historic Sites does not participate in MyChoice.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.3 and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at 3% of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10% of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASAs. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASAs and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six months in a covered position may reclaim his/her forfeited creditable service.

NOTE 10 - BENEFIT PLANS (CONTINUED)

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.inprs.in.gov/>. Detailed information about the Plan's fiduciary net position is included in the INPRS financial report.

NOTE 10 - BENEFIT PLANS (CONTINUED)

Significant Actuarial Assumptions

The total pension liability is determined by INPRS actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. In 2017, the following actuarial assumptions and methods were changed: updated the mortality tables to include both a healthy and disabled table for each plan, implemented changes due to the actuarial audits for consistency across all plans, and added a load on final average salary of \$400 to reflect unused sick leave accumulated at termination of employment for active and inactive PERF members.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess).

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly-hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Asset valuation date:	June 30, 2017
Liability valuation date and method:	June 30, 2017 - Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2016 to the June 30, 2017 measurement date.
Actuarial cost method:	Entry age normal - level percent of payroll
Experience study date:	Computed April 2015 and reflects the experience period from July 1, 2010 to June 30, 2014
Investment rate of return:	6.75%
COLA:	1.0%

NOTE 10 - BENEFIT PLANS (CONTINUED)

Future salary increases, including inflation:	2.50% - 4.25%
Inflation:	2.25%
Mortality - Healthy:	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006
Mortality - Disabled:	RP-2014 Disabled Mortality Table, with Social Security Administration generational improvement scale from 2006

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	Target Allocation	Geometric Basis Long-term Expected Real Rate of Return
Public Equity	22.0%	4.9%
Private equity	10.0%	5.7%
Fixed income – Ex inflation-linked	24.0%	2.3%
Fixed income – Inflation-linked	7.0%	0.6%
Commodities	8.0%	2.2%
Real estate	7.0%	3.7%
Absolute return	10.0%	3.9%
Risk parity	12.0%	5.1%

Total pension liability for the Plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, the Plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current Plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the Plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of the Plan calculated using the discount rate of 6.75 percent, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75 percent), or one percentage point higher (7.75 percent) than the current rate:

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
<u>\$7,942,421</u>	<u>\$5,445,760</u>	<u>\$3,370,339</u>

NOTE 10 - BENEFIT PLANS (CONTINUED)

Investment Valuation and Benefit Payment Policies

The pooled and non-pooled investments are reported at fair value by INPRS.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Funding Policy

The State is obligated by statute to make contributions to the PERF Hybrid Plan or My Choice. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the Plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the fiscal year ended June 30, 2017, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was also required to contribute 11.2 percent of covered payroll. In accordance with IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than three percent and not be greater than the normal cost of the fund which was 2.2 percent for the State for the fiscal year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 5.4 percent of covered payroll as of July 1, 2016, which increased to 7.2 percent as of January 1, 2017. In addition, for political subdivisions, the amount credited to the member's account for the normal cost ranged up to 5.8 percent as of July 1, 2016, and up to four percent as of January 1, 2017.

The PERF Hybrid Plan and My Choice members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The State pays the member's contributions on behalf of the member employed by the State that participate in My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of PERF Hybrid and My Choice may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Museum and Historic Sites reported a liability of \$5,445,760 for its proportionate share of the net pension liability. The Museum and Historic Sites' proportionate share of the net pension liability was based on the Museum and Historic Sites' wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2017 measurement date was 0.0012206.

NOTE 10 - BENEFIT PLANS (CONTINUED)

For the year ended June 30, 2018, the Museum and Historic Sites recognized pension expense of \$1,337,974, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$145,503. At June 30, 2018, the Museum and Historic Sites reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 103,421	\$ 4,226
Net difference between projected and actual earnings on pension plan investments	861,424	273,032
Change in assumption	87,436	
Changes in proportion and differences between Museum and Historic Sites contributions and proportionate share of contributions	<u>227,818</u>	<u>40,071</u>
Total that will be recognized in pension expense (income) based on table below	1,280,099	317,329
Pension contribution subsequent to measurement date	<u>816,337</u>	<u> </u>
Total	<u>\$2,096,436</u>	<u>\$317,329</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

Year Ended June 30,	Amount
2018	\$426,933
2019	436,305
2020	128,827
2021	<u>(29,295)</u>
	<u>\$962,770</u>

NOTE 11 - DEFERRED COMPENSATION

The Museum and Historic Sites participates in the State of Indiana Public Employees' Deferred Compensation Plan established in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the Plan and their beneficiaries as required by Section 457(g) of the Internal Revenue Code.

The State has established a deferred compensation committee that has the fiduciary responsibility for the Plans. The Committee holds the deferred amounts in expendable trusts.

NOTE 12 - FOOD SERVICES CONTRACT

The Museum and Historic Sites have a contract with a vendor to provide exclusive food service management to the restaurants at the Indiana State Museum and to provide catering services for events held at the Indiana State Museum through June 2019. Under the agreement, the Museum and Historic Sites receive a commission for a percentage of gross sales, which varies from 1.50% to 17.00% based on the venue, type of service being provided, and revenue generated.

The Museum and Historic Sites earned food commission of \$168,069 under the agreements in the year ended June 30, 2018.

NOTE 13 - ADOPTION OF GASB 81

The Museum and Historic Sites adopted GASB No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81). GASB No. 81 requires the Museum and Historic Sites to recognize assets and deferred inflows representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The adoption of GASB No. 81 resulted in a restatement of net position as of July 1, 2017, resulting in a decrease of net position of \$131,777 from the balance previously reported, comprised of a deferred inflow of \$131,777. At June 30, 2018, the Museum and Historic Sites had a deferred inflow of resources related to beneficial interest of trust of \$101,364.

REQUIRED SUPPLEMENTARY INFORMATION

**INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)**

**SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)**

**PUBLIC EMPLOYEES' RETIREMENT FUND
Last 10 Fiscal Years***

	2017	2016	2015	2014	2013
Corporation's proportion of the net pension liability	0.12206%	0.11612%	0.11239%	0.11435%	0.10417%
Corporation's proportionate share of the net pension liability	\$ 5,445,760	\$ 5,270,042	\$ 4,577,535	\$ 3,005,044	\$ 3,567,905
Corporation's covered-employee payroll	\$ 6,055,462	\$ 5,564,958	\$ 5,383,398	\$ 5,582,807	\$ 5,001,457
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.93%	94.70%	85.03%	53.83%	71.36%
Plan fiduciary net position as a percentage of the total pension liability	76.60%	75.30%	77.30%	84.30%	78.80%

*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

SCHEDULE OF CORPORATION CONTRIBUTIONS (UNAUDITED)

PUBLIC EMPLOYEES' RETIREMENT FUND
Last 10 Fiscal Years*

	2017	2016	2015	2014	2013
Contractually required contribution	\$ 790,589	\$ 633,529	\$ 621,755	\$ 625,274	\$ 530,694
Contributions in relation to the contractually required contribution	<u>\$ 790,589</u>	<u>\$ 633,529</u>	<u>\$ 621,755</u>	<u>\$ 625,274</u>	<u>\$ 530,694</u>
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
Corporation's covered-employee payroll	\$ 6,055,462	\$ 5,564,958	\$ 5,383,398	\$ 5,582,807	\$ 5,001,457
Contributions as a percentage of covered-employee payroll	13.1%	11.4%	11.5%	11.2%	10.6%

*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2018

SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)

Plan Amendments: In 2017, there were no changes to the Plan that impacted the pension benefits during the fiscal year.

Assumption Changes: In 2017, there were no changes to the assumptions that impacted the Net Position Liability during the fiscal year.

SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS (UNAUDITED) (a)

Methods and Assumptions Used in Calculating Actuarially Determined Contributions: The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution Rates:

Asset valuation date and method:	June 30, 2015 - Four year smoothing of gains and losses on the Fair Value of assets subject to a 20% corridor
Liability valuation date and method:	June 30, 2014 - Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2014 to the June 30, 2015 measurement date.
Actuarial cost method:	Entry age normal - level percent of payroll
Actuarial amortization method and period:	Level dollar - 30 years, closed
Remaining amortization period (weighted):	26 years
Investment rate of return:	6.75%
COLA:	1.0%
Future salary increases, including inflation:	2.50% - 4.25%
Inflation:	2.25%

(a) Differs from Note 10 schedule as this table is for funding purposes and Note 10 is for financial reporting purposes. The Actuarially Determined Contributions in a given year are determined based on the actuarial valuation dated two fiscal years prior.

Trends: In 2015, an experience study was performed resulting in an update to several assumptions. These assumption changes included a change in the mortality assumptions, retirement assumptions, withdrawal assumptions, disability assumptions, ASA annuitization assumptions, dependent assumptions, future salary increase assumptions, inflation assumptions and COLA assumptions.

OTHER SUPPLEMENTARY INFORMATION

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

COMBINING SCHEDULE - STATEMENT OF NET POSITION INFORMATION
June 30, 2018

	Corporation	Foundation	Total
CURRENT ASSETS			
Cash and equivalents	\$ 2,806,706	\$ 3,853,238	\$ 6,659,944
Accounts receivable	1,069,009		1,069,009
Pledges receivable, net		1,502,555	1,502,555
Prepaid expenses	93,255		93,255
Short-term investments		134,158	134,158
Inventory	124,431		124,431
Total Current Assets	4,093,401	5,489,951	9,583,352
NONCURRENT ASSETS			
Investments		905,904	905,904
Restricted cash and investments		1,967,367	1,967,367
Pledges receivable, net		66,247	66,247
Beneficial interest in trust		101,364	101,364
Capital assets, net	134,709		134,709
Total Noncurrent Assets	134,709	3,040,882	3,175,591
TOTAL ASSETS	4,228,110	8,530,833	12,758,943
DEFERRED OUTFLOWS OF RESOURCES	2,096,436	-	2,096,436
CURRENT LIABILITIES			
Accounts payable	421,214		421,214
Accrued liabilities	10,056		10,056
Deferred revenue	184,268		184,268
Total Current Liabilities	615,538	-	615,538
NONCURRENT LIABILITIES			
Pension liability	5,445,760		5,445,760
Total Noncurrent Liabilities	5,445,760	-	5,445,760
Total Liabilities	6,061,298	-	6,061,298
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources related to beneficial interest in trust		101,364	101,364
Deferred inflow of resources related to pensions	317,329		317,329
Total Deferred Inflows of Resources	317,329	101,364	418,693
NET POSITION			
Net investment in capital assets	134,709	-	134,709
Restricted, expendable	1,832,032	6,367,075	8,199,107
Restricted, nonexpendable	-	781,920	781,920
Unrestricted	(2,020,822)	1,280,474	(740,348)
TOTAL NET POSITION	\$ (54,081)	\$ 8,429,469	\$ 8,375,388

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

**COMBINING SCHEDULE - STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION INFORMATION**
Year Ended June 30, 2018

	Corporation	Foundation	Total
OPERATING REVENUES			
Visitor activities:			
Admissions	\$ 786,463		\$ 786,463
Facility rental	387,513		387,513
Food commission	168,069		168,069
IMAX commission	65,543		65,543
Museum store	212,957		212,957
Memberships		\$ 307,718	307,718
Special events, net		65,445	65,445
Site fees	89,871		89,871
Educational program fees	154,812		154,812
Other:			
Collection fees	6,743		6,743
Sponsorships	10,251	128,012	138,263
Artifact acquisition	83,575		83,575
Total Operating Revenues	<u>1,965,797</u>	<u>501,175</u>	<u>2,466,972</u>
OPERATING EXPENSES			
Administration	711,058		711,058
Operations	2,761,796		2,761,796
Exhibition and other programming	6,032,051		6,032,051
Development	648,201	11,680	659,881
Marketing	775,468		775,468
Restricted projects	2,482,080	4,062	2,486,142
Total Operating Expenses	<u>13,410,654</u>	<u>15,742</u>	<u>13,426,396</u>
Net Operating Income (Loss)	<u>(11,444,857)</u>	<u>485,433</u>	<u>(10,959,424)</u>
NONOPERATING REVENUES			
State general fund appropriations	8,266,487		8,266,487
State appropriations for preventative maintenance	1,136,874		1,136,874
State appropriations for capital repair and rehab	549,000		549,000
Unrestricted contributions	48,504	193,352	241,856
Grants		250,251	250,251
Restricted gifts		1,453,994	1,453,994
Lincoln license plates	15,430	34,275	49,705
Interest income and net appreciation/depreciation	7,297	225,367	232,664
Total Nonoperating Revenues	<u>10,023,592</u>	<u>2,157,239</u>	<u>12,180,831</u>
NONOPERATING EXPENSES			
Preventative maintenance	1,030,137		1,030,137
Capital repair and rehab	1,031,488		1,031,488
Total Nonoperating Expenses	<u>2,061,625</u>		<u>2,061,625</u>
Net Nonoperating Income	<u>7,961,967</u>	<u>2,157,239</u>	<u>10,119,206</u>
Increase (Decrease) in Net Position before Transfers	<u>(3,482,890)</u>	<u>2,642,672</u>	<u>(840,218)</u>
TRANSFERS			
From Foundation to Corporation	4,015,066	(4,015,066)	
Total Transfers	<u>4,015,066</u>	<u>(4,015,066)</u>	<u>-</u>
INCREASE (DECREASE) IN NET POSITION	532,176	(1,372,394)	(840,218)
NET POSITION			
Beginning of Year, Restated for Adoption of GASB 81	<u>(586,257)</u>	<u>9,801,863</u>	<u>9,215,606</u>
End of Year	<u>\$ (54,081)</u>	<u>\$ 8,429,469</u>	<u>\$ 8,375,388</u>

INDIANA STATE MUSEUM AND HISTORIC SITES CORPORATION
(A Component Unit of the State of Indiana)

SCHEDULE OF INDIANA STATE MUSEUM STORE OPERATIONS
Year Ended June 30, 2018

OPERATING REVENUES	
Museum gift shop	\$ 214,063
Museum wholesale	<u>2,234</u>
Total Operating Revenues	<u>216,297</u>
COST OF GOODS SOLD	<u>95,942</u>
Gross Profit	<u>120,355</u>
OTHER OPERATING EXPENSES	
Salaries and benefits	98,915
Technology and communications	7,270
Supplies	1,116
Miscellaneous	<u>3,493</u>
Total Other Operating Expenses	<u>110,794</u>
INCREASE IN NET POSITION FROM STORE OPERATIONS	<u><u>\$ 9,561</u></u>

OTHER REPORT

*Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards*

Board of Trustees
Indiana State Museum and Historic Sites Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Indiana State Museum and Historic Sites Corporation (the Museum and Historic Sites), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Museum and Historic Sites' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum and Historic Sites' internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum and Historic Sites' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
October 19, 2018