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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

November 15, 2013

Kathleen McLary, Chief Operating Officer  
Indiana State Museum and Historic Sites  
650 W. Washington St.  
Indianapolis, IN 46204

Dear Ms. McLary:

We have received the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States and the financial statements included in the report present fairly, in all material respects, the financial position of the Indiana State Museum and Historic Sites at June 30, 2013, and the changes in its net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

INDIANA STATE  
**MUSEUM**  
AND HISTORIC SITES

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

June 30, 2013 and 2012

**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 statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2013 and 2012, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 8 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, 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 the financial statements that collectively comprise 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 schedules of Indiana State Museum Store Operations on pages 23 through 25 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. 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 18, 2013, 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 the Indiana State Museum and Historic Sites Corporation's internal control over financial reporting and compliance.

*Katz, Sapp & Miller, LLP*

Indianapolis, Indiana  
October 18, 2013

**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, 2013 and 2012**

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 years ended June 30, 2013 and 2012. 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 Indiana State Museum Foundation, Inc. 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 exceeded its liabilities at June 30, 2013 by approximately \$6.5 million (net position). Net position of the Corporation was \$2.5 million, and net position for the Foundation was \$4.0 million. Of the \$6.5 million of net position, \$2.2 million (unrestricted net position) may be used to meet any of the Museum and Historic Sites' ongoing obligations, \$2.9 million is restricted for exhibitions, artifacts, and sites; endowment appreciation; preventative maintenance; capital repair and rehab; and other activities, \$.8 million is held as a permanent endowment, and \$.6 million is invested in capital assets.
- In total, assets exceeded its liabilities at June 30, 2012 by approximately \$5.9 million (net position). Net position of the Corporation was \$2.0 million, and net position for the Foundation was \$3.9 million. Of the \$5.9 million of net position, \$2.4 million (unrestricted net position) may be used to meet any of the Museum and Historic Sites' ongoing obligations, \$2.3 million is restricted for exhibitions, artifacts, and sites; endowment appreciation; preventative maintenance; capital repair and rehab; and other activities, \$.8 million is held as a permanent endowment, and \$.4 million is invested in capital assets.
- Total assets were \$7.6 million at June 30, 2013, consisting of \$3.2 million for the Corporation and \$4.4 million for the Foundation.
- Total assets were \$6.6 million at June 30, 2012, consisting of \$2.6 million for the Corporation and \$4.0 million for the Foundation. Due to the creation of the Corporation by the State as of July 1, 2011 as a separate entity, the Indiana Department of Natural Resources transferred \$1.3 million of cash and \$.5 million of net capital assets to the Corporation during the year ended June 30, 2012.
- Total liabilities were \$1.1 million at June 30, 2013, consisting of \$.7 million for the Corporation and \$.4 million for the Foundation.
- Total liabilities were \$.6 million at June 30, 2012, consisting of \$.5 million for the Corporation and \$.1 million for the Foundation.

## **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.

The statement of net position presents information on all the Museum and Historic Sites' assets and liabilities, with the difference between the two 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 statements of revenues, expenses and changes in net position presents information on how the Museum and Historic Sites' net position changed during each 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 statements of cash flows are 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 12 through 22 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information on the combining schedule of net position information; the combining schedule of revenues, expenses and changes in net position information; and the schedules of Indiana State Museum Store Operations, on pages 23 through 25.

## **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 exceeded liabilities by \$6.5 million at June 30, 2013 and \$5.9 million at June 30, 2012.

## FINANCIAL ANALYSIS (CONTINUED)

Below is the condensed statements of net position relating to the Museum and Historic Sites at June 30, 2013 and 2012.

### Museum and Historic Sites Condensed Financial Information Statements of Net Position

	June 30, 2013	June 30, 2012
Current assets	\$ 5,407,514	\$ 4,897,213
Noncurrent assets	<u>2,167,566</u>	<u>1,663,340</u>
Total Assets	<u>\$ 7,575,080</u>	<u>\$ 6,560,553</u>
Current liabilities	\$ 1,086,286	\$ 607,833
Noncurrent liabilities	<u>8,194</u>	<u>11,124</u>
Total Liabilities	<u>1,094,480</u>	<u>618,957</u>
Net Position	<u>6,480,600</u>	<u>5,941,596</u>
Total Liabilities and Net Position	<u>\$ 7,575,080</u>	<u>\$ 6,560,553</u>

Total current assets were \$5.4 million, consisting of \$2.6 million for the Corporation and \$2.8 million for the Foundation at June 30, 2013. Current assets included \$4.3 million of cash and \$.5 million of accounts receivable.

Total current assets were \$4.9 million, consisting of \$2.1 million for the Corporation and \$2.8 million for the Foundation at June 30, 2012. Current assets included \$3.3 million of cash and \$1.1 million of accounts receivable.

Total noncurrent assets were \$2.2 million, consisting of \$.6 million for the Corporation and \$1.6 million for the Foundation at June 30, 2013. Noncurrent assets included \$1.1 million of restricted cash and investments and \$.6 million of capital assets, net.

Total noncurrent assets were \$1.7 million, consisting of \$.5 million for the Corporation and \$1.2 million for the Foundation at June 30, 2012. Noncurrent assets included \$.9 million of restricted cash and investments and \$.5 million of capital assets, net.

Total current liabilities were \$1.1 million, consisting of \$.7 million for the Corporation and \$.4 million for the Foundation at June 30, 2013.

Total current liabilities were \$.6 million, consisting of \$.5 million for the Corporation and \$.1 million for the Foundation at June 30, 2012.

## FINANCIAL ANALYSIS (CONTINUED)

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, 2013 and 2012.

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

	Year Ended June 30, 2013	Year Ended June 30, 2012
Operating Revenues		
Visitor activities	\$ 2,481,282	\$ 1,801,964
Other	570,956	291,700
Total Operating Revenues	<u>3,052,238</u>	<u>2,093,664</u>
Operating Expenses	<u>13,920,161</u>	<u>11,781,806</u>
Net Operating Loss	(10,867,923)	(9,688,142)
Nonoperating Revenues	11,406,927	10,416,051
Transfers from Indiana Department of Natural Resources	<u>0</u>	<u>1,783,159</u>
Increase in Net Position	539,004	2,511,068
Net Position:		
Beginning of Year	<u>5,941,596</u>	<u>3,430,528</u>
End of Year	<u>\$ 6,480,600</u>	<u>\$ 5,941,596</u>

Total operating revenues from visitor activities were \$2.5 million, consisting of \$2.2 million from the Corporation and \$.3 million from the Foundation for the year ended June 30, 2013. Operating revenue from visitor activities included \$1.0 million from admissions, \$.3 million from facility rental, and \$.4 million from the museum store.

Total operating revenues from visitor activities were \$1.8 million, consisting of \$1.6 million from the Corporation and \$.2 million from the Foundation for the year ended June 30, 2012. Operating revenue from visitor activities included \$.5 million from admissions, \$.4 million from facility rental, and \$.3 million from the museum store.

Total operating expenses were \$13.9 million, consisting of \$12.6 million from the Corporation and \$1.3 million from the Foundation for the year ended June 30, 2013. Operating expenses included \$3.5 million for operations, \$5.6 million for exhibition and other programming, and \$2.7 million for restricted projects.

Total operating expenses were \$11.8 million, consisting of \$11.7 million from the Corporation and \$.1 million from the Foundation for the year ended June 30, 2012. Operating expenses included \$2.9 million for operations, \$5.3 million for exhibition and other programming, and \$2.0 million for restricted projects.

## FINANCIAL ANALYSIS (CONTINUED)

Total nonoperating revenues were \$11.4 million, consisting of \$9.1 million from the Corporation and \$2.3 million from the Foundation for the year ended June 30, 2013. Nonoperating revenues included \$7.5 million of State general fund appropriations, \$1.3 million of restricted gifts, \$.8 million of State funding for preventative maintenance, and \$.7 million of State funding for capital repair and rehab.

Total nonoperating revenues were \$10.4 million, consisting of \$9.4 million from the Corporation and \$1.0 million from the Foundation for the year ended June 30, 2012. Nonoperating revenues included \$7.5 million of State general fund appropriations, \$1.0 million of State funding for preventative maintenance, and \$.8 million of State funding for capital repair and rehab.

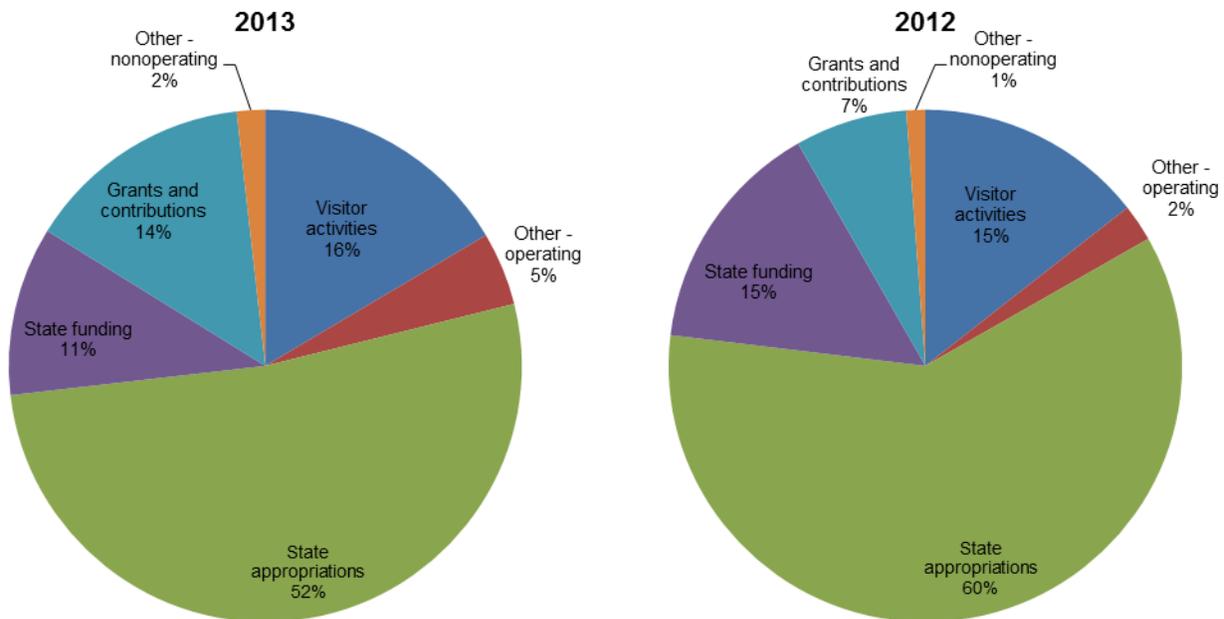
As part of establishing the Corporation as a separate entity, the Indiana Department of Natural Resources transferred \$1.3 million of cash and \$.5 million of net capital assets during the year ended June 30, 2012.

In total, the net position increased by \$.5 million, including a \$.4 million increase in net position for the Corporation and a \$.1 million increase in net position for the Foundation, during the year ended June 30, 2013.

In total, the net position increased by \$2.5 million, \$2.0 million for the Corporation and \$.5 million for the Foundation, during the year ended June 30, 2012.

The charts below present revenues by source for the Museum and Historic Sites for the years ended June 30, 2013 and 2012.

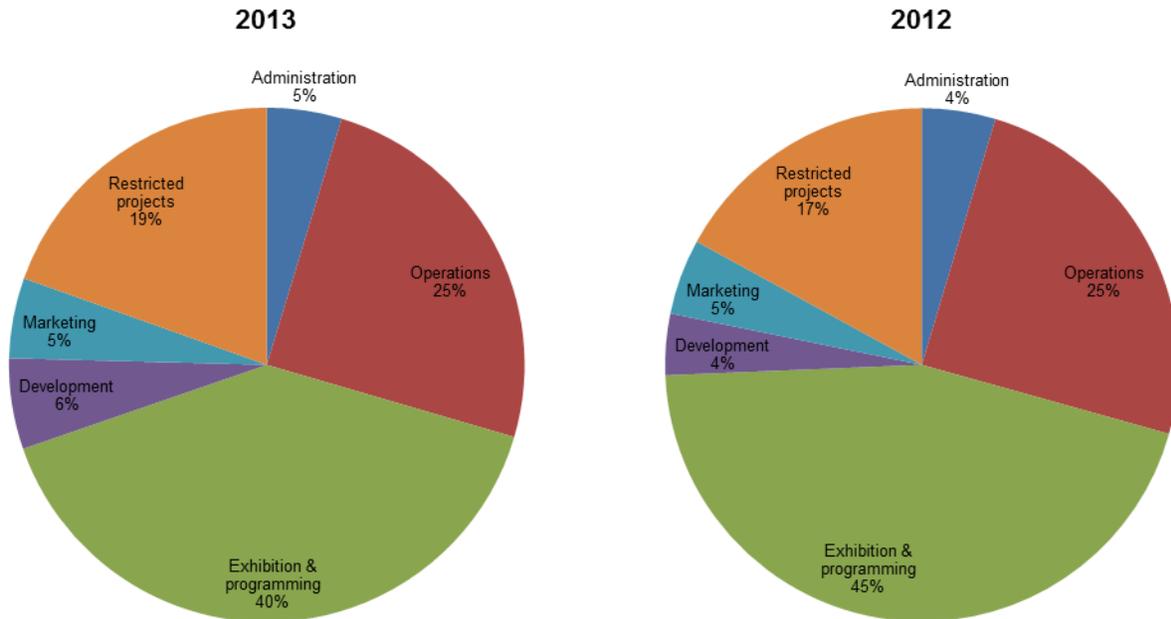
### Revenues by Source



**FINANCIAL ANALYSIS (CONTINUED)**

The charts below present expenses by function for the Museum and Historic Sites for the years ended June 30, 2013 and 2012.

**Expenses by Function**



**CAPTIAL ASSET ADMINISTRATION**

The Museum and Historic Sites’ investment in capital assets was \$.6 million and \$.5 million (net of accumulated depreciation) at June 30, 2013 and 2012, respectively. This investment in capital assets includes furniture and equipment.

**Museum and Historic Sites  
Capital Assets  
(Net of Accumulated Depreciation)**

	June 30, 2013	June 30, 2012
Capital Assets	\$ 1,197,216	\$ 981,762
Less: Accumulated depreciation	<u>608,744</u>	<u>510,666</u>
Net	<u><u>\$ 588,472</u></u>	<u><u>\$ 471,096</u></u>

Additional information on the Museum and Historic Sites’ capital assets can be found in Note 4 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 for all those with an interest in 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)**

**STATEMENTS OF NET POSITION**  
**June 30, 2013 and 2012**

**ASSETS**

	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash	\$4,281,075	\$3,303,009
Accounts receivable	516,741	1,082,577
Pledges receivable, net	202,769	188,691
Prepaid expenses	50,365	11,524
Short-term investments	127,128	91,719
Inventory	229,436	219,693
Total Current Assets	<u>5,407,514</u>	<u>4,897,213</u>
<b>NONCURRENT ASSETS</b>		
Investments		37,564
Restricted cash and investments	1,056,934	926,043
Pledges receivable, net	296,407	8,495
Beneficial interest in trust	225,753	220,142
Capital assets, net	588,472	471,096
Total Noncurrent Assets	<u>2,167,566</u>	<u>1,663,340</u>
<b>TOTAL ASSETS</b>	<u>\$7,575,080</u>	<u>\$6,560,553</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 654,276	\$ 115,892
Accrued liabilities	226,184	315,745
Deferred revenue	205,826	176,196
Total Current Liabilities	<u>1,086,286</u>	<u>607,833</u>
<b>NONCURRENT LIABILITIES</b>		
Trust liability	8,194	11,124
Total Noncurrent Liabilities	<u>8,194</u>	<u>11,124</u>
Total Liabilities	<u>1,094,480</u>	<u>618,957</u>
<b>NET POSITION</b>		
Invested in capital assets	588,472	471,096
Restricted, expendable:		
Exhibitions, artifacts, and sites	1,217,498	1,309,453
Endowment appreciation	244,046	113,161
Preventative maintenance	133,670	166,755
Capital repair and rehab	960,120	437,637
Other	376,356	257,441
Restricted, nonexpendable:		
Endowment principal	776,920	776,920
Unrestricted	2,183,518	2,409,133
Total Net Position	<u>6,480,600</u>	<u>5,941,596</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$7,575,080</u>	<u>\$6,560,553</u>

See accompanying notes.

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Visitor activities:		
Admissions	\$ 1,005,738	\$ 509,731
Facility rental	320,596	385,307
Food commission	193,173	190,295
IMAX commission	40,282	55,536
Museum store	412,003	317,189
Memberships	245,792	174,882
Special events, net	98,000	51,700
Site fees	69,619	36,931
Educational program fees	96,079	80,393
Other:		
Collection fees	177,462	21,193
Sponsorships	301,544	181,557
Artifact acquisition	91,950	88,950
Total Operating Revenues	3,052,238	2,093,664
<b>OPERATING EXPENSES</b>		
Administration	653,018	545,689
Operations	3,457,525	2,910,385
Exhibition and other programming	5,592,718	5,303,795
Development	794,573	454,584
Marketing	702,177	561,593
Restricted projects	2,720,150	2,005,760
Total Operating Expenses	13,920,161	11,781,806
Net Operating Loss	(10,867,923)	(9,688,142)
<b>NONOPERATING REVENUES</b>		
State general fund appropriations	7,528,275	7,528,277
State funding for preventative maintenance	822,539	1,033,283
State funding for capital repair and rehab	719,092	821,203
Unrestricted contributions	606,686	282,088
Grants	203,445	217,893
Restricted gifts	1,268,986	384,282
Lincoln license plates	106,300	129,453
Interest income and net appreciation/depreciation	151,604	19,572
Total Nonoperating Revenues	11,406,927	10,416,051
<b>TRANSFERS FROM INDIANA DEPARTMENT OF NATURAL RESOURCES</b>		1,783,159
<b>INCREASE IN NET POSITION</b>	539,004	2,511,068
<b>NET POSITION</b>		
Beginning of Year	5,941,596	3,430,528
End of Year	\$ 6,480,600	\$ 5,941,596

See accompanying notes.

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

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from visitor activities	\$ 2,311,336	\$ 2,055,425
Cash payments to State for employee services	(692,775)	(136,937)
Cash payments to other suppliers for goods or services	(5,036,693)	(3,817,838)
Other operating cash receipts	570,956	291,700
Other operating cash payments		
Net Cash Used by Operating Activities	<u>(2,847,176)</u>	<u>(1,607,650)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(372,555)	(183,065)
Sales and maturities of investments	355,156	493,555
Cash received from interest and dividends	35,417	26,860
Decrease in restricted cash	4,390	6,061
Net Cash Provided by Investing Activities	<u>22,408</u>	<u>343,411</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from state appropriations	2,143,401	870,166
Cash received from contributions, grants and gifts	1,771,516	841,654
Cash received from Lincoln license plates	106,300	129,453
Cash paid to trust beneficiary	(2,930)	(3,011)
Cash transferred from the Indiana Department of Natural Resources		1,264,081
Net Cash Provided by Noncapital Financing Activities	<u>4,018,287</u>	<u>3,102,343</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>		
Purchase of capital assets, net	(215,453)	
Net Cash Used by Capital Financing Activities	<u>(215,453)</u>	
<b>NET INCREASE IN CASH</b>	978,066	1,838,104
<b>CASH</b>		
Beginning of Year	<u>3,303,009</u>	<u>1,464,905</u>
End of Year	<u>\$ 4,281,075</u>	<u>\$ 3,303,009</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$(10,867,923)	\$(9,688,142)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	98,077	92,610
On-behalf payments for fringe benefits and salaries	7,528,275	7,528,277
(Increase) decrease in certain assets:		
Accounts receivable from operating activities	(35,474)	154,620
Prepaid expenses	(38,841)	(11,524)
Inventory	(9,743)	9,802
Increase (decrease) in certain liabilities:		
Accounts payable	538,384	115,892
Accrued liabilities	(89,561)	14,619
Deferred revenue	29,630	176,196
Net Cash Used by Operating Activities	<u>\$ (2,847,176)</u>	<u>\$ (1,607,650)</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Noncash capital financing activities:		
Property transferred from the Indiana Department of Natural Resources		\$ 519,078

See accompanying notes.

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

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**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 (the Corporation), a component unit of the State of Indiana (the 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 Indiana State Museum and Historic Sites is held in title and owned by the State of Indiana. 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. (the Foundation) as a nonprofit under common control of the Indiana State Museum and Historic Sites 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 Indiana State Museum and Historic Sites Corporation is considered to be financially accountable for the Foundation and, in substance, the Foundation is part of the Indiana State Museum and Historic Sites Corporation's operations even though the Foundation is a legally separate entity. The Foundation is therefore presented as a blended component unit of the Indiana State Museum and Historic Sites 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 conformity with accounting principles generally accepted in the United States 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 conformity with accounting principles generally accepted in the United States. 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 \$166,170 and \$78,717 for the years ended June 30, 2013 and 2012, respectively. 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** 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 trust by the Museum and Historic Sites under a charitable remainder unitrust and 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, based on quoted market prices of the investment or similar investments.

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.

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

**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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 years ended June 30, 2013 and 2012.

**Net Position** is classified as follows:

- **Net Position Invested 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.

**Retirement Plan:** The employees of the Museum and Historic Sites participate in the Indiana Public Retirement System (INPRS). The Museum and Historic Sites recognizes INPRS expenses on an accrual basis.

**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 8.

**Advertising Costs** are expensed as incurred. Advertising expenses amounted to \$253,403 and \$156,936 for the years ended June 30, 2013 and 2012, respectively.

**Subsequent Events:** The Museum and Historic Sites has evaluated the financial statements for subsequent events occurring through October 18, 2013, the date the financial statements were available to be issued.

## NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2013 and 2012:

	2013	2012
Cash	\$4,281,075	\$3,303,009
Short-term investments:		
Mutual funds	127,128	91,719
Noncurrent investments:		
U.S. government bonds		37,564
Restricted cash and investments:		
Cash	17,627	23,730
Money market funds	614	133
Equities	18,788	
Mutual funds	494,099	480,487
Exchange traded funds	<u>525,806</u>	<u>421,693</u>
	<u>\$5,465,137</u>	<u>\$4,358,335</u>

Restricted cash and investments consist of the following at June 30, 2013 and 2012:

	2013	2012
Charitable remainder trust held by the Museum and Historic Sites	\$ 35,968	\$ 35,962
Donor-restricted endowment fund	<u>1,020,966</u>	<u>890,081</u>
Total Restricted Cash and Investments	<u>\$1,056,934</u>	<u>\$926,043</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 target investment allocations and acceptable investment allocation ranges. The target investment allocations and acceptable ranges are as follows:

<u>Investment Class</u>	<u>Target</u>	<u>Acceptable Range</u>
Equities	68%	60% - 80%
Fixed Income	25%	15% - 35%
Non-traditional	7%	0% - 15%

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

**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, 2013 and 2012, the Museum and Historic Sites had the following investments and maturities:

2013	Investment Maturities (in years)				
	Fair Value	< 1	1 – < 5	5 - < 10	> 10
Money market funds	\$ 614	\$ 614	\$ -	\$ -	\$ -
Equities	18,788	18,788			
Mutual funds	621,227	621,227			
Exchange traded funds	<u>525,806</u>	<u>525,806</u>			
	<u>\$1,166,435</u>	<u>\$1,166,435</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2012	Investment Maturities (in years)				
	Fair Value	< 1	1 – < 5	5 - < 10	> 10
Money market funds	\$ 133	\$ 133	\$ -	\$ -	\$ -
Mutual funds	572,206	572,206			
Exchange traded funds	421,693	421,693			
U.S. government bonds	<u>37,564</u>		<u>37,564</u>		
	<u>\$1,031,596</u>	<u>\$994,032</u>	<u>\$37,564</u>	<u>\$ -</u>	<u>\$ -</u>

**Credit Risk:** To address the 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. The following table provides information on the credit ratings associated with the Museum and Historic Sites' investments at June 30, 2013 and 2012:

2013	S&P	Fitch	Moody's	Fair Value
Money market funds	AAAm	AAAmmf	Aaa-mf	<u>\$ 614</u>
Total Rated Investments				<u>\$ 614</u>

2012	S&P	Fitch	Moody's	Fair Value
Money market funds	AAAm	AAAmmf	Aaa-mf	\$ 133
U.S. government bonds	AA+	AAA	AAA	<u>37,564</u>
Total Rated Investments				<u>\$ 37,697</u>

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

**Custodial Credit Risk:** 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 does not have a policy that addressed custodial credit risk for cash and equivalents not held for the donor-restricted or board-designated endowment funds. Any cash and investments belonging to the Corporation in excess of federally insured limits are insured by the Indiana Public Deposits Insurance Fund (Fund). The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1. Any cash and investments belonging to the Foundation in excess of federally insured limits are not insured and present a custodial credit risk. As of June 30, 2013 and 2012, the Museum and Historic Sites had the following deposit balances exposed to custodial credit risk:

	2013	2012
Uninsured and uncollateralized deposits	\$2,254,235	\$1,889,757
Uninsured deposits collateralized with securities held by the pledging financial institution	<u>614</u>	<u>133</u>
	<u>\$2,254,849</u>	<u>\$1,889,890</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.

## NOTE 3 - 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, 2013, pledges were scheduled to be collected as follows:

Year Ended June 30,	Pledges
2014	\$202,769
2015	103,000
2016	103,000
2017	<u>100,000</u>
	508,769
Noncurrent unamortized discount	(2,005)
Allowance for uncollectible pledges	<u>(7,588)</u>
Pledges Receivable, Net	<u>\$499,176</u>

**NOTE 4 - 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. The museum complex is built upon land owned by the Park. 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 façade 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 or subject to a use and occupancy agreement between IFA and the Indiana Department of Administration.

Capital asset activity for the years ended June 30, 2013 and 2012 was as follows:

<b>2013</b>	<b>Beginning Balance</b>	<b>Transfers</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Capital assets, being depreciated:					
Furniture and equipment	\$ 981,763		\$215,453		\$1,197,216
Less: Accumulated depreciation for furniture and equipment	<u>(510,667)</u>	<u>          </u>	<u>(98,077)</u>	<u>          </u>	<u>(608,744)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 471,096</u>	<u>\$           </u>	<u>\$117,376</u>	<u>\$           </u>	<u>\$ 588,472</u>

<b>2012</b>					
Capital assets, being depreciated:					
Furniture and equipment	\$ 183,793	\$ 797,970			\$ 981,763
Less: Accumulated depreciation for furniture and equipment	<u>(139,165)</u>	<u>(278,892)</u>	<u>\$(92,610)</u>	<u>          </u>	<u>(510,667)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 44,628</u>	<u>\$ 519,078</u>	<u>\$(92,610)</u>	<u>\$           </u>	<u>\$ 471,096</u>

Capital assets with a net book value of \$519,078 were transferred from the Indiana Department of Natural Resources to the Museum and Historic Sites as of July 1, 2011.

Depreciation expense for the years ended June 30, 2013 and 2012 was included in the following functions:

	<b>2013</b>	<b>2012</b>
Administration	\$10,149	\$ 8,603
Operations	<u>87,930</u>	<u>84,007</u>
Total Depreciation Expense	<u>\$98,079</u>	<u>\$92,610</u>

**NOTE 5 - SPLIT-INTEREST AGREEMENTS**

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 portion of the trust attributable to the present value of the future benefits to be received by the Museum and Historic Sites was recorded as a contribution in the period the trust was established. The Museum and Historic Sites' beneficial interest in the trust was \$225,753 and \$220,142 at June 30, 2013 and 2012, respectively, which is held at present value discounted at 1.14% at June 30, 2013 and 1.28% at June 30, 2012, which approximates fair value. The change in value of beneficial interest of \$5,611 and \$31,312 for the years ended June 30, 2013 and 2012, respectively, is included in nonoperating revenues on the statements of revenues, expenses and changes in net position.

The Museum and Historic Sites also administers a charitable remainder trust as trustee. Assets held in the trust held by the Museum and Historic Sites are reported at fair value. In addition, the portion of the trust attributable to the present value of future payments to be made to the designated beneficiary is recorded as a liability using a historical discount rate of 5.00%. Payments to the designated beneficiary are payable from restricted cash and investments. Trust liability activity was as follows for the years ended June 30, 2013 and 2012:

<b>2013</b>	<b>Beginning Balance</b>	<b>Payments</b>	<b>Ending Balance</b>
Trust liability	<u>\$11,124</u>	<u>\$(2,930)</u>	<u>\$8,194</u>
	<b>Beginning Balance</b>	<b>Payments</b>	<b>Ending Balance</b>
<b>2012</b>			
Trust liability	<u>\$14,135</u>	<u>\$(3,011)</u>	<u>\$11,124</u>

At June 30, 2013, approximately \$2,500 is expected to be due within one year, based on the terms of the trust.

**NOTE 6 - DONOR-RESTRICTED ENDOWMENT**

The Museum and Historic Sites administers a donor-restricted endowment fund, which consisted of the following at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Endowment appreciation available for expenditures, reported as expendable restricted net position	\$ 244,046	\$113,161
Endowment principal, reported as nonexpendable restricted net position	<u>776,920</u>	<u>776,920</u>
Total Donor-Restricted Endowment	<u>\$1,020,966</u>	<u>\$890,081</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 7 - OPERATING LEASE COMMITMENTS

The Museum and Historic Sites rents certain equipment under long-term operating leases which expires from December 2014 to September 2016. Total rent expense under these agreements was \$15,572 in 2013 and \$16,848 in 2012, which all represented minimum rentals. Future minimum rental payments required under these leases are as follows at June 30, 2013:

Year Ended June 30,	Rentals
2014	\$13,285
2015	11,551
2016	4,209
2017	<u>665</u>
Total	<u>\$29,710</u>

The Museum and Historic Sites receives rental revenue from the lease of certain assets, which are held in the capital assets of the State. The lease terms were renewable each year until August 2013. Total rental income associated with the lease was \$118,000 in 2013 and 2012.

## NOTE 8 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS AND SALARIES

The Museum and Historic Sites nonoperating revenues and operating expenses include \$7,528,275 and \$7,528,277 for the years ended June 30, 2013 and 2012, respectively, of payments for fringe benefits and salaries paid on its behalf by the general fund of the State, which includes contributions made to the Indiana Public Retirement System.

## NOTE 9 - RETIREMENT PLAN

### *Plan Description*

The Museum and Historic Sites is a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. The Museum and Historic Sites contributes to the INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. The Museum and Historic Sites participates as a component unit of the State. INPRS is governed by State statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all of the Museum and Historic Sites' full time employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

## **NOTE 9 - RETIREMENT PLAN (CONTINUED)**

In addition, the participants are required to contribute to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participants. Participants may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described above. The participant's balance in the annuity savings account may be withdrawn at any time with interest should a participant terminate employment.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

### ***Funding Policy***

The Museum and Historic Sites is required to contribute to the Plan at an actuarially determined rate. The current rate is 9.7% (8.6% in the prior year) of annual covered payroll. The Museum and Historic Sites contributed 3% of the participant's annual salary to the annuity savings account. The contribution requirements of participants are determined by State statute.

### ***Annual Pension Cost***

For the 2013 and 2012 plan years, the Museum and Historic Sites' annual contribution was \$694,828 and \$590,641, respectively, which was equal to the required contribution. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6.75% per year (7.0% in 2012), compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual postretirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

## **NOTE 10 - 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 11 - FOOD SERVICES CONTRACT**

The Museum and Historic Sites had a contract with a vendor to exclusively provide food service management to the restaurants at the Indiana State Museum and provide catering services for events held at the Indiana State Museum through April 2013. Under the agreement, the Museum and Historic Sites received a commission for a percentage of gross sales, which varied from 1.50% to 18.00% based on the venue, type of service being provided, and revenue generated.

During 2013, the Museum and Historic Sites signed a new contract with a vendor to provide exclusive food service management to the restaurants at the Indiana State Museum and provide catering services for events held at the Indiana State Museum through April 2016, at which point the contract may be renewed. Under the agreement, the Museum and Historic Sites receives 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 \$193,173 and \$190,295 under the agreements in the years ended June 30, 2013 and 2012, respectively.

**NOTE 12 - TRANSFERS FROM INDIANA DEPARTMENT OF NATURAL RESOURCES**

Due to the creation of the Corporation by the State as of July 1, 2011 as a separate entity, the Indiana Department of Natural Resources transferred the following assets to the Corporation during the year ended June 30, 2012:

Cash	\$1,264,081
Capital assets, net	<u>519,078</u>
Total Transfers from Indiana Department of Natural Resources	<u>\$1,783,159</u>

There were no liabilities transferred to the Corporation by the Indiana Department of Natural Resources during the year ended June 30, 2012.

## **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, 2013**

**ASSETS**

	<b>Corporation</b>	<b>Foundation</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash	\$ 1,767,108	\$2,513,967	\$4,281,075
Accounts receivable	516,741		516,741
Pledges receivable, net		202,769	202,769
Prepaid expenses	50,365		50,365
Short-term investments		127,128	127,128
Inventory	229,436		229,436
Total Current Assets	<u>2,563,650</u>	<u>2,843,864</u>	<u>5,407,514</u>
<b>NONCURRENT ASSETS</b>			
Restricted cash and investments		1,056,934	1,056,934
Pledges receivable, net		296,407	296,407
Beneficial interest in trust		225,753	225,753
Capital assets, net	588,472		588,472
Total Noncurrent Assets	<u>588,472</u>	<u>1,579,094</u>	<u>2,167,566</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,152,122</u></u>	<u><u>\$4,422,958</u></u>	<u><u>\$7,575,080</u></u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 254,276	\$ 400,000	\$ 654,276
Accrued liabilities	226,184		226,184
Deferred revenue	205,826		205,826
Total Current Liabilities	<u>686,286</u>	<u>400,000</u>	<u>1,086,286</u>
<b>NONCURRENT LIABILITIES</b>			
Trust liability		8,194	8,194
Total Noncurrent Liabilities		<u>8,194</u>	<u>8,194</u>
Total Liabilities	<u>686,286</u>	<u>408,194</u>	<u>1,094,480</u>
<b>NET POSITION</b>			
Invested in capital assets	588,472		588,472
Restricted, expendable	1,328,267	1,603,423	2,931,690
Restricted, nonexpendable		776,920	776,920
Unrestricted	549,097	1,634,421	2,183,518
Total Net Position	<u>2,465,836</u>	<u>4,014,764</u>	<u>6,480,600</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 3,152,122</u></u>	<u><u>\$4,422,958</u></u>	<u><u>\$7,575,080</u></u>

**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, 2013**

	<b>Corporation</b>	<b>Foundation</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Visitor activities:			
Admissions	\$ 1,005,738		\$ 1,005,738
Facility rental	320,596		320,596
Food commission	193,173		193,173
IMAX commission	40,282		40,282
Museum store	412,003		412,003
Memberships		\$ 245,792	245,792
Special events, net		98,000	98,000
Site fees	69,619		69,619
Educational program fees	96,079		96,079
Other:			
Collection fees	177,462		177,462
Sponsorships	500	301,044	301,544
Artifact acquisition	91,950		91,950
Total Operating Revenues	2,407,402	644,836	3,052,238
<b>OPERATING EXPENSES</b>			
Administration	653,018		653,018
Operations	3,457,525		3,457,525
Exhibition and other programming	5,592,718		5,592,718
Development	630,471	164,102	794,573
Marketing	702,177		702,177
Restricted projects	1,556,976	1,163,174	2,720,150
Total Operating Expenses	12,592,885	1,327,276	13,920,161
Net Operating Loss	(10,185,483)	(682,440)	(10,867,923)
<b>NONOPERATING REVENUES</b>			
State general fund appropriations	7,528,275		7,528,275
State appropriations for preventative maintenance	822,539		822,539
State appropriations for capital repair and rehab	719,092		719,092
Unrestricted contributions	9,564	597,122	606,686
Grants		203,445	203,445
Restricted gifts		1,268,986	1,268,986
Lincoln license plates		106,300	106,300
Interest income and net appreciation/depreciation	10,193	141,411	151,604
Total Nonoperating Revenues	9,089,663	2,317,264	11,406,927
Increase (Decrease) in Net Position before Transfers	(1,095,820)	1,634,824	539,004
<b>TRANSFERS</b>			
From Foundation to Corporation	1,537,238	(1,537,238)	
Total Transfers	1,537,238	(1,537,238)	-
<b>INCREASE IN NET POSITION</b>	441,418	97,586	539,004
<b>NET POSITION</b>			
Beginning of Year	2,024,418	3,917,178	5,941,596
End of Year	\$ 2,465,836	\$ 4,014,764	\$ 6,480,600

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

**SCHEDULES OF INDIANA STATE MUSEUM STORE OPERATIONS**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Museum gift shop	\$ 396,135	\$ 307,841
Museum wholesale	15,868	9,348
Total Operating Revenues	<u>412,003</u>	<u>317,189</u>
<b>COST OF GOODS SOLD</b>	<u>232,371</u>	<u>166,185</u>
Gross Profit	<u>179,632</u>	<u>151,004</u>
<b>OTHER OPERATING EXPENSES</b>		
Salaries and benefits	130,445	122,282
Travel - professional development	10	1,454
Supplies	3,900	5,506
Shipping	2,083	1,325
Miscellaneous	1,309	5,415
Total Operating Expenses	<u>137,747</u>	<u>135,982</u>
Net Operating Income from Indiana State Museum Store Operations	41,885	15,022
<b>NONOPERATING REVENUES</b>		
State general fund appropriations	<u>110,269</u>	<u>118,982</u>
<b>INCREASE IN NET POSITION FROM STORE OPERATIONS</b>	<u><u>\$ 152,154</u></u>	<u><u>\$ 134,004</u></u>

**OTHER INFORMATION**

*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*

To the 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 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 (Museum and Historic Sites), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2013, 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 18, 2013.

### **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.

*Katz, Appaw & Miller, LLP*

Indianapolis, Indiana  
October 18, 2013