Detroit Institute of Arts

Financial Report
June 30, 2016

Detroit Institute of Arts

Financial Statements

Year Ended June 30, 2016

Contents

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Independent Auditor's Report

To the Board of Trustees
Detroit Institute of Arts

We have audited the accompanying financial statements of Detroit Institute of Arts, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets 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.

Auditor's 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. 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 auditor's 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 auditor considers 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 financial position of Detroit Institute of Arts as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Detroit Institute of Arts

Emphasis of Matter

As explained in Note 8, the June 30, 2016 financial statements include investments valued at $94,953,993 whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or partnership general partners. We believe the procedures used by management in arriving at the estimated values are reasonable. Because of the inherent uncertainty of valuation, the estimated value may differ from the values that would have been used had a ready market for securities existed and the differences could be material.

Plante & Moran, PLLC

October 14, 2016

Statement of Financial Position
June 30, 2016

Assets	
Current assets:	
Cash and short-term investments	$ 37,852,232
Accounts receivable, net	2,540,613
Pledges receivable, current portion, net	2,307,636
Inventories	331,860
Prepaid expenses	789,698
Grand Bargain pledge receivables, current portion, net	3,389,100
Total current assets	47,211,139
Other assets:	
Cash for restricted purposes	1,000,000
Investments	187,789,307
Pledges, less current portion, net	9,331,708
Grand Bargain pledges, less current portion, net	35,239,794
Fixed assets, net of accumulated depreciation	19,212,780
Total other assets	252,573,589
Total Assets	$ 299,784,728
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 1,505,099
Accrued payroll and other employee benefits	2,320,037
Due to Foundation for Detroit's Future, current portion	375,000
Deferred revenue	12,178,843
Total current liabilities	16,378,979
Other liabilities:	
Due to Foundation for Detroit's Future, less current portion	4,782,568
Unfunded pension obligation	11,423,926
Postretirement health care obligation	4,089,241
Total other liabilities	20,295,735
Total Liabilities	36,674,714
Net Assets	
Unrestricted:	
Undesignated	(765,385)
Board designated	120,933,503
Temporarily restricted	68,609,370
Permanently restricted	74,332,526
Total Net Assets	263,110,014
Total Liabilities and Net Assets	$ 299,784,728

*See notes to financial statements

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support:				
Membership and Development	$ 8,741,451	$ 1,038,468	$ 10,041,492	$ 19,821,411
Investment (loss) income	(2,505,231)	(733,354)	-	(3,238,585)
Program and operational activities	7,744,376	1,002,912	-	8,747,288
Tri-County support	23,382,554	-	-	23,382,554
Total revenue, gains, and other support	37,363,150	1,308,026	10,041,492	48,712,668
Net Assets Released from Restrictions	3,701,573	(3,701,573)	-	-
Total revenue, gains, other support, and net assets released from restrictions	41,064,723	(2,393,547)	10,041,492	48,712,668
Operating Expenditures:				
Program and operational activities	25,783,482	-	-	25,783,482
Membership and development	3,302,537	-	-	3,302,537
Supporting services	6,332,096	-	-	6,332,096
Total operating expenditures	35,418,115	-	-	35,418,115
Changes in nets assets from operations	5,646,608	(2,393,547)	10,041,492	13,294,553
Other changes in net assets:				
Grand Bargain contributions	375,000	1,417,323	-	1,792,323
Net assets released from restriction to fund Grand Bargain payment	63,780,608	(63,780,608)	-	-
Amortization on Grand Bargain obligation	(2,148,570)	-	-	(2,148,570)
Gain on early extinguishment of Grand Bargain debt	16,235,426	-	-	16,235,426
Contributions received for art acquisitions	-	1,694,526	-	1,694,526
Investment return earmarked for art acquisitions	(152,789)	623,357	-	470,568
Purchases of works of art	(2,924,892)	-	-	(2,924,892)
Net assets released from restrictions to fund art acquisitions	2,924,892	(2,924,892)	-	-
Change in unfunded pension plan obligation	(4,835,719)	-	-	(4,835,719)
Change in postretirement healthcare obligation	(262,562)	-	-	(262,562)
Total changes in net assets	78,638,002	(65,363,841)	10,041,492	23,315,653
Net Assets - Beginning of year	41,530,116	133,973,211	64,291,034	239,794,361
Net assets - End of year	$ 120,168,118	$ 68,609,370	$ 74,332,526	$ 263,110,014

*See notes to financial statements

Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows from Operating Activities	
Change in net assets	$ 23,315,653
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	613,252
Amortization on Grand Bargain obligation	2,148,570
Amortization on pledge discounts	(1,396,301)
Net realized and unrealized losses on long-term investments	10,264,976
Gain on Grand Bargain retirement	(16,235,426)
Grand Bargain pledge contributions	55,000
Contributions restricted for long-term purposes	(10,250,098)
Net periodic benefit cost pension and postretirement medical benefits	753,579
Change in pension obligation	4,835,719
Change in postretirement medical benefit obligation	262,562
Acquisitions of art	2,924,892
Changes in:	
Accounts and pledges receivable	(326,136)
Inventories	73,708
Prepaid expenses	56,250
Accounts payable and accrued expenses	(887,976)
Deferred revenue	272,679
Accrued payroll and other liabilities	(70,455)
Unfunded pension obligation	(1,700,000)
Unfunded postretirement medical benefit obligation	(92,867)
Net cash provided by operating activities	14,617,581
Cash Flows from Investing Activities	
Purchase of fixed assets	(1,660,401)
Acquisition of art objects	(2,924,892)
Purchase of investments	(172,605,218)
Proceeds from sale of investments	200,285,268
Net cash provided by investing activities	23,094,757
Cash Flows from Financing Activities	
Contributions restricted for long-term purposes	10,250,098
Payments to Foundation for Detroit's Future	(52,374,572)
Grand Bargain pledges receivable	6,139,980
Payments on notes payable	(6,191)
Net cash used in financing activities	(35,990,685)
Net increase in cash and cash equivalents	1,721,653
Cash and Cash Equivalents - Beginning of year	37,130,579
Cash and Cash Equivalents - End of year	$ 38,852,232

*See notes to financial statements

Note 1 - Nature of Organization and Significant Accounting Policies

The Detroit Institute of Arts (the DIA or the "Museum") is a not-for-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and classified as a publicly supported organization under IRC Sections 509(a)(1) and 170(b)(1)(A)(vi). The DIA's purpose is to:

- Serve the public through the collection, conservation, exhibition, and interpretation of art from a broad range of cultures and to expand understanding of these diverse visual forms of creative expression for the enjoyment and appreciation of the widest possible array of audiences
- Solicit, receive, and administer funds, works of art, and other property
- Engage in other activities not prohibited by the laws of the State of Michigan (the State) in accordance with all powers under the provisions of the Non-profit Corporation Act (Act 162 of the Public Acts of 1982)

Cash and Short-Term Investments

Cash and short-term investments consist of cash and money market funds. Cash and short-term investments exclude amounts held temporarily in the long-term investment portfolio. The DIA has restricted cash as required by the Grand Bargain agreement.

Accounts Receivable

Receivables include amounts due from other museums for costs associated with the loan of works of art, such as crating and shipping; amounts due from agencies for grants awarded and funds to be provided as reimbursement for expenses incurred; and amounts due from tri-counties. See Note 2 for millage revenue accounting policy.

Pledges Receivable

Pledges are unconditional promises to give and are recognized as membership and development revenue discounted to their present value at the end of each reporting period. Pledges due in one year or less are classified as current assets, and pledges due beyond one year are classified as noncurrent assets.

The reserve for doubtful accounts is based upon past history and a review of current balances. Pledges receivable are charged off when it is determined that amounts will not be collected. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of average cost or market. Cost of sales is recorded using average cost.

Prepaid Expenses

Prepaid expenses include expenditures for insurance, maintenance contracts, and expenditures made in connection with the development of future programs. The expense will be recorded in the period(s) applicable to the related costs.

Investments

Investments are recorded at fair market value as described in Note 8. The estimated fair market value of certain alternative investments is provided by external investment managers. The Museum reviews and evaluates the values provided by the investment manager and agrees with the valuation methods and significant assumptions used in determining fair value of the nonmarketable alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a ready market for these securities existed.

Fixed Assets

The DIA capitalizes purchases of property and equipment over $5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the gift. Such donations are reported as unrestricted contributions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, as well as contributions of cash that must be used to acquire property and equipment, are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the DIA reports expirations of donor restrictions when the donated or acquired assets are placed in service. The DIA reclassifies temporarily restricted net assets to unrestricted net assets at that time. In the case of construction-in-progress, the donor restrictions are released as the funds are expended.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Fixed Assets (Continued)

Fixed assets are depreciated using the straight-line method over the estimated useful live of the asset based on the following:

Building and improvements	10 - 20 years
Parking Facilities	20 years
Furniture and equipment	5 - 7 years
Software	3 years

Deferred Revenues

The DIA receives monies for which goods or services will be provided in future periods. Such receipts include proceeds from the tri-county art services agreement (see Note 2), payments for gift cards, and deposits for future events. Revenue is recorded in the period(s) when the goods or services are provided.

Net Assets

In accordance with U.S. generally accepted accounting principles for not-for-profit organizations, the Museum's resources are classified for accounting and reporting purposes into net asset categories based on the existence of donor-imposed restrictions. The net assets of the Museum are reported in three categories as follows:

- Permanently restricted net assets are endowments that must be held in perpetuity in accordance with donor restrictions. Earnings on endowment assets are classified as temporarily restricted until such time as the related donor restrictions have been met, if applicable, and the funds have been appropriated for expenditure by the governing board. Types of restrictions include art acquisitions, programs for learning and interpretation, curatorial and conservation, and operations.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the DIA to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the DIA. Under this category are two sub-categories of temporarily restricted net assets: (1) donor restricted, where the entire balance in the fund can be spent for the purpose(s) specified by the donor and (2) donor-restricted endowment, which represents the accumulated earnings from the permanently restricted endowments that are to be spent for the purpose(s) specified by the donor or not yet appropriated for expenditure.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Net Assets (Continued)

At June 30, 2016, the Museum’s temporarily restricted net assets were restricted for the purposes shown below:

Endowment investment income - Temporarily restricted until appropriated for expenditure	$ 30,475,435
Operations	20,367,283
Art acquisitions, conservation, and curatorial	11,700,241
Auxillary and volunteer groups	2,231,350
Capital and reinstallation projects	1,064,235
Programs, exhibitions and other	2,770,826
	$ 68,609,370

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled by the DIA. Under this category are three sub-categories of unrestricted net assets: (1) undesignated; (2) board designated, where the entire balance can be spent for operating purposes, as directed by the Board of Directors of the DIA (Board); and (3) board-designated endowment, where only the income, not the principal, is spent for operating purposes, as directed by the Board.

  At June 30, 2016, the Museum’s board designated net assets were restricted for the purposes shown below:

Board-designated endowment	$ 83,240,984
Operations	17,049,765
Special projects and initiatives	8,705,482
Capital expenditures	4,354,118
Gallery reinstallation	3,617,937
Exhibitions	3,271,634
Programs and other	693,583
	$ 120,933,503

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Revenue

Contributions, including cash and in-kind contributions, are generally recorded as revenue in the period in which they are received. For unconditional promises to give, revenue is recorded as membership and development revenue in the year such promises are made. Membership dues are considered contribution revenue and are recorded when received. Other revenues related to food service, gift shop sales, admissions, and special event ticket sales are classified as programs and operational activities when earned. See Note 2 for millage revenue accounting policy.

Contributed Goods and Services

Contributed goods and services are recorded as revenue and expenditures in the period of receipt at fair value.

Art Objects and Collection

In conformity with allowable museum financial statement presentation practice, the value of the art collection is excluded from the statement of financial position and, as such, purchases for the collection are recorded as expenditures for the acquisition of art objects on the statement of activities in the year in which the objects are acquired.

Such art is accessioned to the permanent collection of the museum upon approval of the Board. The works of art are held in charitable trust for educational, research, and curatorial purposes. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed annually. Sales of works of art are subject to a policy that requires proceeds from their sales be used to acquire other items for the collection. Contributed works of art are not reflected in the financial statements. The donor-stated value of contributed works of art totaled approximately $2.2 million (unaudited) for the year ended June 30, 2016.

Expenditures

The costs to provide the Museum’s various programs and other activities have been summarized on a functional basis in the statement of financial activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation of expenditures is based on management estimates, and although the allocation methods are considered reasonable, other methods could be used that would produce different results.

Advertising is charged to expense when incurred and amounted to approximately $0.9 million for the year ended June 30, 2016.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

The Grand Bargain

On December 10, 2014, the Detroit Institute of Arts entered into various agreements to effectuate what is referred to as the Grand Bargain Agreement (the Grand Bargain). As part of the *Settlement*, *Conveyance and Charitable Trust Agreement*, the City of Detroit conveyed all of its rights, title, and interest to the Museum and the Museum Assets to the DIA in exchange for fair value by virtue of (1) the settlement of any dispute regarding the ownership of the Museum and the Museum Assets, (2) the contribution through the Supporting Organization (Foundation for Detroit's Future) by the DIA (and through it, the DIA Indirect Funders), DIA Direct Funders and Special Foundation funders of $100 million, of Foundation Funders of $366 million, and an additional contribution by the State of Michigan of $350 million, which aggregate $816 million (in each case and in the aggregate before applying any discount for early payment), of which amounts will be paid for the benefit of Pension Claims of the City of Detroit, and (3) the commitment of the DIA to hold the Museum Assets in perpetual charitable trust and to operate the Museum primarily for the benefit of the residents of the City of Detroit and the tri-counties and the citizens of the State of Michigan. The agreement also provided, on the effective date of December 10, 2014, that the DIA receive the Museum and the Museum Assets free and clear of all security interest, liens, encumbrances, claims, and interest of the City and its creditors. The Museum Assets are defined in the agreement as the Museum art collection, operating assets, buildings, parking lots and structures, and any other assets that are used primarily in operating or servicing the Museum.

Included in the agreement was the option for the Museum to retire their portion of the obligation early at a discount of 6.75%. The Board of Directors resolved to prepay the majority of the Museum's obligation. At the end of the fiscal year ended June 30, 2016, the Museum made a payment of $51,999,572 paying off all but $6,750,000 of their obligation. The DIA expects the remaining obligation to be funded by pledge payments by donors who have pledged funds directly to the Foundation for Detroit's Future (FDF) for this purpose. These donors have committed to annual pledge payments of $375,000 which will be recorded as contribution revenue and a reduction in the obligation as the payments are made.

Financial Statements and Use of Estimates

Financial statements are prepared in conformity with U.S. generally accepted accounting principles. Utilization of accrual basis accounting requires the DIA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition.* The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Museum’s year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Museum has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases,* which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operation and cash flows will be generally consistent with the current guidance. The new lease footnote guidance will be effective for the Museum’s year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* The ASU requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will require changes in the way certain information is aggregated and reported by the Museum, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Museum’s year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Museum is currently evaluating the impact this standard will have on the financial statements.

Note 2 - Relationship with the Tri-Counties

The counties of Macomb, Oakland, and Wayne established Art Institute Authorities (the Authorities) pursuant to the Public Act 296 of 2010 which allows for the continuing support of art institute services for the students, residents, and visitors of these counties. The Authorities entered into separate service agreements with the DIA, which provide for the continued provision of art institute services to the residents of the respective counties upon receipt of tax monies levied by the respective Authorities.

In August 2012, the voters of the respective counties approved the levies of the tax on real and personal property for a period of 10 years. The millage rate approved was 0.2 mill (20 cents per $1,000 of taxable value). Based on historic payments, the DIA projects annual revenue which is recognized monthly on a straight-line basis over the period of the agreement with each county.

All agreements are based on providing services over a calendar year. Proceeds from the millage are forwarded to the DIA as received by the counties. For the year ended June 30, 2016, the DIA has recognized approximately $23.4 million in service agreement revenue. The net revenue is recorded as tri-county support in the unrestricted fund. As these proceeds are on a calendar year basis, the balance of the estimated proceeds not recognized as revenue in the current fiscal year totaled approximately $11.8 million and is recorded as deferred revenue. The gross outstanding receivable balance is approximately $1.8 million as of June 30, 2016. Due to the uncertainty in tax collections, there is a 2.17% reserve, calculated on total millage revenue, of approximately $0.2 million.

Note 3 - Pledges and Other Receivables

Pledges and other receivables at June 30, 2016 are as follows:

Short-term receivables:		
2016-2017:		
Accounts receivable	$	2,747,336
Allowance recognized		(206,723)
Pledges receivable		2,977,636
Allowance recognized		(670,000)
Net short-term receivables	$	4,848,249
Long-term receivables:		
Pledges receivable:		
2017–2018	$	1,759,500
2018-2019		1,223,300
2019-2020		1,921,300
2020-2021		1,308,800
Beyond June 30, 2021		3,881,650
Subtotal		10,094,550
Present value discount (1.03% - 2.61%)		(762,842)
Net long-term receivables	$	9,331,708

There is no allowance on long-term pledges as management deems all of the pledges to be collectible.

In addition, the DIA has obtained, but not recognized, approximately $ 2.7 million in pledges which depend on the occurrence of a specified future and uncertain events to bind the donor. These pledges will be recognized as the conditions are met.

Note 4 - Grand Bargain Pledges

The DIA Board of Directors made a resolution to extinguish the Grand Bargain obligation by electing to prepay a majority of the balance in lieu of paying over 20 years. This resolution released the remaining pledges from donor restriction as the donor restricted purpose of paying the obligation has been met. Subsequent to the payoff, the Board made a resolution to allocate the remaining Grand Bargain pledges to the board designated endowment.

Note 4 - Grand Bargain Pledges (continued)

Grand Bargain pledges outstanding at June 30, 2016 are as follows:

Short-term pledges due:	
In less than one year	$ 3,389,100
Long-term pledges due:	
In one to five years	19,415,750
Greater than five years	23,267,300
	42,683,050
Present value discount on pledges	
(2.6% - 5.38% discount rate)	(7,443,256)
Net long-term pledges	$ 35,239,794

Note 5 - Investments

The DIA generally invests operating cash in excess of daily requirements and board-designated and donor-restricted funds in investments with maturities of 60 months or less. Endowment funds, whether permanently designated by the donor or by board designation, are invested for the long-term on a pooled concept.

Investment income for the year ended June 30, 2016 consists of the following:

Interest and dividends	$ 6,902,154
Trust distributions (Note 6)	1,599,039
Net realized and unrealized losses	(10,264,976)
Investment management fees	(1,004,234)
	$ (2,768,017)

Note 6 - Beneficial Interests

The DIA is the recipient of substantial gifts from the investment of the Robert H. Tannahill Trust (the Tannahill Trust). The Robert H. Tannahill Foundation Committee is instructed to allocate 50% of its annual income to the DIA for the acquisition of art objects in certain specified categories. In 2016, those distributions totaled $1,450,000 and are recorded on the statement of activities under other changes in net assets, investment return on funds earmarked for art acquisitions. The market value of one-half of the Tannahill Trust principal at June 30, 2016, was approximately $26.0 million. The beneficial interest in the trust has not been recorded on the museum's statement of financial position because the trustees had the power to change the beneficiaries. In 2016 the Tannahill Trust transferred 100% of the trust principal to the Community Foundation for Southeast Michigan (CFSEM) to hold and manage the fund. The fund is subject to variance power maintained by CFSEM.

The DIA is an income beneficiary of an endowment fund (the Fund) held and managed by the Community Foundation for Southeast Michigan (CFSEM) for funds donated by outside donors for the benefit of the Museum. The total market value of the Fund at June 30, 2016 was approximately $12.2 million. The beneficial interest in these funds has not been recorded on the museum's statement of financial position because CFSEM maintains variance power over the funds. New gifts to the Fund are largely attributable to the DIA's participation in CFSEM fund-raising initiatives. The Fund is invested as a component fund of the CFSEM. Income earned is available to be distributed to the DIA at the discretion of the CFSEM. Starting on July 1, 2013, the DIA requested and the CFSEM approved the suspension of the payout from the Fund. This measure was taken to help build the endowment fund. Earnings distributions to the DIA operations are $136,357 for the year ended June 30, 2016.

In addition, certain funds donated by outside donors for the benefit of the DIA are held and managed by the Ann Arbor Area Community Foundation (AAACF). The fair market value of these funds is approximately $300,000 at June 30, 2016. The beneficial interest in these funds has not been recorded on the museum's statement of financial position because AAACF maintains variance power over the funds. Earnings are available for distribution to the DIA for operations at the discretion of the AAACF. Earnings distributions to the DIA operations are $12,682 for the year ended June 30, 2016.

Note 7 - Net Asset Classification of Endowments

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-10, *Not-for-Profit Entities-Disclosures*, provides, among other things, guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of

Note 7 - Net Asset Classification of Endowments (Continued)

2006 (UPMIFA) and additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The State of Michigan enacted UPMIFA in September 2009.

The DIA's endowment consists of approximately 130 individual funds established for a variety of purposes. The endowment includes donor restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The DIA has interpreted the Michigan Prudent Management of Institutional Funds Act (MPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the DIA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the DIA in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, the DIA considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the fund

(2) The purposes of the DIA and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effects of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the DIA

(7) The investment policies of the DIA

The DIA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the DIA must hold in perpetuity or for a donor-specified period(s), as well as board designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment

Note 7 - Net Asset Classification of Endowments (Continued)

management costs, that is equal to or greater than the approved endowment payout (currently 4.6%) over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the DIA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The DIA targets a diversified asset allocation that includes emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

The DIA is to record the annual income on endowments as temporarily restricted and appropriated for expenditure upon meeting donor stipulations, if any. In establishing this policy, the DIA considered the long-term expected return on its endowment. Accordingly, over the long term, the DIA expects the current spending policy to allow its endowment to grow at an average annual rate of 2% to 3%. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns in excess of inflation.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or MPMIFA requires the DIA to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016.

At June 30, 2016, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 30,475,435	$ 74,332,526	$104,807,961
Board-designated endowment funds	83,240,984	-	-	83,240,984
Total	$ 83,240,984	$ 30,475,435	$ 74,332,526	$ 188,048,945

Note 7 - Net Asset Classification of Endowments (Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 73,074,498	$ 33,573,527	$ 64,291,034	$ 170,939,059
Investment return:				
Investment income	4,171,516	2,289,207	-	6,460,723
Net appreciation (realized and unrealized)	(6,421,941)	(3,524,174)	-	(9,946,115)
Total investment loss	(2,250,425)	(1,234,967)	-	(3,485,392)
Appropriation of endowment assets for expenditure	(486,445)	(1,863,586)	-	(2,350,031)
Other changes:				
Reinvestment of appropriation of endowment assets to the endowment fund per donor instructions	63,568	461	34,903	98,932
Contributions	-	-	10,006,589	10,006,589
Board resolution to designate unrestricted bequests	1,058,767	-	-	1,058,767
Board authorized release for Grand Bargain prepayment	(27,950,000)	-	-	(27,950,000)
				-
				-
Board resolution to designate Grand Bargain pledges	39,731,021	-	-	39,731,021
Endowment net assets, end of year	$ 83,240,984	$ 30,475,435	$ 74,332,526	$ 188,048,945

Note 8 - Fair Value of Investments

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the DIA's assets measured at fair value on a recurring basis at June 30, 2016 and the valuation techniques used by the Museum to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the DIA has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The DIA's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

As of June 30, 2016, the DIA implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy below.

In prior years, the DIA disclosed that it followed the equity method of accounting for its alternative investments, which total approximately $85 million as of June 30, 2016. Based on the nature of these investments and the fact that the DIA does not exercise significant influence over the various investment companies, these investments are required to be recorded at fair market value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. The disclosures as of June 30, 2016 have properly disclosed these investments as being accounted for at fair market value. The change in accounting method did not impact the recorded value of these investments.

Note 8 - Fair Value of Investments (Continued)

Additionally, in prior years, the DIA disclosed that pledges receivable were recorded at fair value on a recurring basis. However, the DIA had not adopted the fair value option under ASC 825, *Financial Instruments*. Accordingly, pledges receivable are required to be accounted for at fair value only in the year the pledge is made and are not revalued annually unless specific events occur. Therefore, pledges receivable have not been included in the tables below as of June 30, 2016.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Balance at June 30, 2016
Cash and cash equivalents:			
Money market funds	$ 17,997,300	$ -	$ 17,997,300
Investments:			
Money market funds	4,849,241	-	4,849,241
Mutual funds:			
Global asset allocation	10,893,219	-	10,893,219
Debt securities	21,219,387		21,219,387
International equities	26,324,040		26,324,040
Domestic equities	29,549,427	10,275,412	39,824,839
Alternative investments:			
Common trust	-	23,407,853	23,407,853
Debt securities	-	9,855,558	9,855,558
Hedge funds	-	41,802,652	41,802,652
Partnerships	-	9,612,518	9,612,518
Total investments at fair value	92,835,314	94,953,993	187,789,307
Total assets at fair value	$ 110,832,614	$ 94,953,993	$ 205,786,607

Note 8 - Fair Value of Investments (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The DIA holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, If Eligible	Redemption Notice Period
Common trust	$ 33,683,265	$ -	Quarterly	90 days
Debt securities	9,855,558	-	Monthly	5 days
Hedge funds	41,802,652	-	Annually	30 days
Partnerships	9,612,518	2,100,000	Daily	10 days
Total	$ 94,953,993	$ 2,100,000		

The common trust category includes investments in funds that pool fiduciary client assets to invest in a diversified portfolio of stocks bonds or other securities. The investment commingles institutional trusts to diversify investments.

The debt securities category includes investments in funds that mitigate market risk and invest in government and corporate bonds, certificates of deposit, municipal bonds, or preferred stock. Investments may also include collateralized debt obligations, collateralized mortgage obligations, mortgage-backed securities, and zero-coupon securities. The investment's purpose is risk aversion.

The hedge funds category includes investments in funds that may be invested in a number of different strategies to provide portfolio diversification and generate positive absolute return. The purpose of these investments is to generate high returns.

The partnerships category includes investments in opportunistic investment funds that provide ownership interest in companies, to grow new business, and provide investment diversification.

Note 9 - Fixed Assets

The components of fixed assets reflected in the unrestricted operating net assets as of June 30, 2016 were as follows:

Land	$	1,016,699
Building and improvements		17,248,295
Parking facilities		2,596,202
Construction in progress		249,578
Furniture and equipment		1,182,573
Software		6,767
Total property and equipment		22,300,114
Less accumulated depreciation and amortization		3,087,334
Net property and equipment	$	19,212,780

Included in construction-in-progress are $156,777 related to an interpretive software application and $92,801 related to website development costs. Total depreciation expense was approximately $0.6 million for the year ended June 30, 2016.

Note 10 - Due to Foundation for Detroit's Future

Pursuant to the Grand Bargain agreement, the DIA has committed to paying the Foundation for Detroit's Future (FDF) its obligation to the Grand Bargain. The DIA is obligated for $100,000,000 (undiscounted). A payment of $5,000,000 was made on December 10, 2014, the effective date of the agreement. The Board resolved to retire the majority of the remaining obligation on June 30, 2016. As a result, the DIA received the discount for early payment of 6.75% as provided in the agreement. The balance of the obligation will remain, as it is received over 20 years by payments from two donors made directly to the Founders for Detroit's Future. These pledges are not recorded on the balance sheet of the DIA but reside on the records of the FDF.

The obligation to FDF as of June 30, 2016 consists of the following:

		Gross		Discount (3%)		Net
Balance as of July 1, 2015	$	95,000,000	$	(23,381,004)	$	71,618,996
Amortization of 3% discount		-		2,148,570		2,148,570
Payment made June 2016		(52,374,572)		-		(52,374,572)
Discount for prepayment (6.75%)		(35,875,428)		19,640,002		(16,235,426)
Balance as of June 30, 2016	$	6,750,000	$	(1,592,432)	$	5,157,568

Note 10 - Due to Foundation for Detroit's Future (Continued)

The aggregate schedule of maturities due to FDF is summarized below:

2017	$ 375,000
2018	375,000
2019	375,000
2020	375,000
2021	375,000
2022 and thereafter	4,875,000
	$ 6,750,000

Note 11 - Pension and Postretirement Medical Benefit Plans

The DIA has a defined benefit pension plan (the "Plan") covering substantially all of its employees who were hired before July 1, 2009. The benefits are based on years of service and level of compensation. Effective July 1, 2009, the Plan was amended to freeze accruals and to exclude employees hired on or after July 1, 2009. Vesting requirements for accrued benefits under the Plan were unchanged by the amendment. The DIA's funding policy is to contribute annually, amounts sufficient to meet the benefits to be paid to participants and to satisfy minimum funding requirements as required by the Employee Retirement Income Security Act of 1974, as amended (ERISA). The DIA has met the ERISA minimum funding requirements for the year ended June 30, 2016.

In addition to the pension plan, the DIA sponsors a postretirement medical benefits plan (OPEB) for eligible retirees and their spouses. As of January 1, 2011, the OPEB plan was amended to replace the post-65 retiree medical and dental benefits with a stipend payment, which reimburses eligible retirees for qualified expenses associated with the purchase of qualified medical benefits. The amount of the stipend will be up to $150 per month for each eligible retiree and up to $300 per month for married couples. Employees who are eligible to retire before the age of 65 and are at least 60 years of age will have retiree medical benefits provided through premium-based coverage. Under this provision, the retiree pays a share of the monthly premium, which is subject to adjustment annually. The accumulated postretirement benefit obligation continues to be computed in accordance with ASC 715, *Compensation - Retirement Benefits*.

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

The funded status and the unfunded pension obligation of the defined benefit pension plan were impacted during the fiscal year by changes in the discount rate and the return on the fair value of plan assets since the prior measurement date. The discount rate changed from 4.45% to 3.6% effective June 30, 2016. The expected rate of return changed from 6.5% at July 1, 2014 to 6.2% effective July 1, 2015. The following tables set forth the plans' funded status, the cost the DIA recognized in its financial statements, and other information required for disclosure at June 30, 2016:

	Funded Status			
	Pension Benefits at June 30, 2016		Other Benefits at June 30, 2016	
Fair Value of plan assets	$	31,601,010	$	-
Projected benefit obligation		(43,024,936)		-
Accummulated benefit obligation		-		(4,089,241)
Underfunded status	$	(11,423,926)	$	(4,089,241)

Due to the defined benefit plan being frozen as of July 1, 2009, the projected benefit obligation and the accumulated benefit obligation are the same.

	Amounts Recognized in the Statement of Financial Position			
	Pension Benefits at June 30, 2016		Other Benefits at June 30, 2016	
Unfunded pension plan obligation	$	11,423,926	$	-
Postretirement health care obligation		-		4,089,241
Unfunded obligation	$	11,423,926	$	4,089,241

	Other Changes in Plan Assets and Benefit Obligations Recognized as Changes in Net Assets			
	Pension Benefits at June 30, 2016		Other Benefits at June 30, 2016	
Net actuarial (loss) gain	$	(4,835,719)	$	153,776
Amortization of prior service costs		-		(416,338)
Adjustment to pension liability and postretirement health care obligation	$	(4,835,719)	$	(262,562)

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

The amounts included in unrestricted net assets at June 30, 2016 that have not been recognized in net periodic benefit cost include approximately $16.1 million in unrecognized actuarial losses for the Plan, prior service cost credit of $3.1 million, and unrecognized actuarial losses of approximately $2.2 million for the OPEB plan. The amount expected to be recognized in net periodic benefit cost during the fiscal year ended June 30, 2017 is an actuarial loss of approximately $1.4 million for the Plan and, for the OPEB plan, the actuarial loss of approximately $0.2 million and the amortization of net prior service credit of approximately $0.4 million.

	Components of Net Periodic Benefit Costs	
	Pension Benefits for the year ended June 30, 2016	Other Benefits for the year ended June 30, 2016
Service Costs	$ -	$ 77,731
Interest Costs	1,666,875	162,742
Expected return on plan assets	(1,886,725)	-
Amortization of actuarial losses	934,806	214,488
Amortization of prior service costs	-	(416,338)
	$ 714,956	$ 38,623

	Change in Fair Value of Plan Assets	Change in Fair Value of Plan Assets
	Pension Benefits for the year ended June 30, 2016	Other Benefits for the year ended June 30, 2016
Fair value, beginning of year	$ 30,250,320	$ -
Actual return on assets	1,102,370	-
Employer contributions	1,700,000	92,867
Benefits paid	(1,451,680)	(92,867)
Fair value, end of year	$ 31,601,010	$ -

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

	Percentage Breakdown of Plan Assets by Category Pension Benefits as of June 30, 2016	
	Actual	**Target**
Cash and equivalents	2.5%	1%
Domestic fixed income	26.9%	24%
Global asset allocation funds	40.9%	45%
Equity securities	29.7%	30%

Fair Value Measurement of Pension Assets

As previously described in Note 8, fair value measurements require disclosures that provide a valuation hierarchy by major class for assets and liabilities measured at fair value and about valuation techniques and the inputs to those techniques for those assets and liabilities designated as Level 2 or Level 3.

Following is a description of the valuation techniques and inputs used for each class of financial instruments measured at fair value:

> **Common collective trusts** are recorded at fair value and measured using the NAV provided by the administrator of the fund, which is based on the value of the underlying assets owned by the fund, less its liabilities, and then divided by the number of shares outstanding.
>
> **Mutual funds** are recorded at fair value using NAV based on quoted prices in active markets, such as the New York Stock Exchange or NASDAQ.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Plan 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 financial instruments could result in a different fair value measurement at the reporting date.

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

Fair Value Measurement of Pension Assets (Continued)

	Assets Measured at Fair Value as of June 30, 2016		
	Investments (at Fair Value)	Inputs Level 1	Net Asset Value (NAV)
Short-term investments	$ 848,042	$ 848,042	$ -
Mutual funds	21,375,610	21,375,610	-
Common Collective Trust	9,377,358	-	9,377,358
Total	$ 31,601,010	$ 22,223,652	$ 9,377,358

	Assumption and Dates For the Year Ended June 30, 2016	
	Pension Benefits	**Other Benefits**
Discount rate to determine benefit obligation	3.60%	3.55%
Expected rate of return on plan assets	6.20%	N/A
Rate of increase in compensation levels	N/A	N/A
Discount rate to determine net periodic pension costs	4.45%	4.40%
Measurement date for benefit obligations	06/30/16	06/30/16

For measurement purposes, a 9.62% annual rate of increase in health care costs at June 30, 2016 was assumed, decreasing annually to the target rate of 5.00% for 2035 and thereafter.

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

	Expected Future Employer Contributions and Benefit Payments	
	Pension Benefits	Other Benefits
Expected employer contributions during fiscal year ending June 30, 2017	$ 2,200,000	$ 167,865
Expected future benefit payments for fiscal years ending June 30:		
2017	1,726,530	167,865
2018	1,795,726	184,498
2019	1,907,950	189,837
2020	2,057,662	203,133
2021	2,166,176	228,182
2022-2026	11,636,453	1,201,759

Pension Plan Investment Policies and Strategies

In conjunction with the Museum's investment consultants, the DIA works to develop the long-term rate-of-return assumptions used to model and determine the overall asset allocation. The consultant's asset allocation committee is responsible for determining the asset class assumptions. Forecast returns are based on a combination of historical returns, current market conditions, and the consultant's forecast for the capital markets over the next five to seven years. The consultant analyzes the historic trends of asset class index returns since inception of the asset class over various market cycles and economic conditions. The return assumption is based on historical, current, and forward-looking information. All asset class assumptions are within certain bands around the long-term historical averages. Adjustments to historical returns are based on a number of factors including, but not limited to, current market valuations, yield, inflation, and various economic indicators.

The Plan's primary investment goal is to achieve the actuarial required return, consistent with prudent investment management. The Plan's asset allocation is structured to meet a long-term targeted total return that is consistent with the ongoing nature of the Plan's liabilities.

The Plan's assets in aggregate and at the individual portfolio level are invested to ensure that total portfolio risk exposure and risk-adjusted returns meet the Plan's long-term total return goal.

Note 11 - Pension and Postretirement Medical Benefit Plans (Continued)

Pension Plan Investment Policies and Strategies (Continued)

The Plan's individual investment managers are provided specific investment guidelines under which they are to invest their assets. In general, investment managers are expected to remain fully invested. Equity and fixed-income managers are expected to invest through best execution in assets that they deem to be prudent investments.

The Plan's investment policy prohibits the use of derivatives for purposes of leverage or unrelated speculation. The policy also outlines certain securities, strategies, and investments that are ineligible for inclusion within the Plan.

The Plan's investment managers exercise full investment discretion within guidelines outlined in the Plan's Investment Policy. The Plan's investment managers are charged with the responsibility of managing the assets with the care, skill, and diligence that a prudent investment professional in similar circumstances would exercise. Investment practices must comply with the limitations and requirements of ERISA and applicable laws and regulations.

Note 12 - Leases

The DIA leases storage space and mobile tour equipment that expires on various dates through 2023. At June 30, 2016, minimum commitments of future payments under these arrangements are as follows:

2017	$ 157,906
2018	127,400
2019	140,400
2020	140,400
2021	140,400
2022-2023	257,400
Total	$ 963,906

Total rental expense for operating leases was approximately $0.2 million for the year ended June 30, 2016.

Note 13 - Defined Contribution Plan

Effective July 1, 2009, the DIA adopted a 401(k) plan to replace the Defined Benefit Pension Plan. Under this plan, the DIA makes safe harbor nonelective contributions of 3% of the salary of eligible employees and matches 100% of the employees' elective deferral contributions up to 2% of the employees' salary. Expense recognized related to the 401(k) plan was approximately $0.6 million for the year ended June 30, 2016.

Note 14 - Subsequent Events

Management has performed an evaluation of subsequent events through October 14, 2016, which is the date the financial statements were issued. The Museum has determined that all events or transactions, including open item estimates, required to be recognized in accordance with US GAAP, are included in the financial statements.