Detroit Institute of Arts

Financial Report

June 30, 2017

Contents

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

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, 2017 and 2016 and the related statements of activities and changes in net assets 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and 2016 and the results of its operations and its cash flows for the years 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 financial statements include investments valued at $125,869,903 and $94,953,993, which represent 41 percent and 36 percent of total net assets at June 30, 2017 and 2016, respectively, whose fair values, in the absence of readily determinable fair values, have been estimated by management based on net asset values provided by the fund managers and 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 18, 2017

Detroit Institute of Arts

Statement of Financial Position

	June 30, 2017	June 30, 2016
Assets		
Current Assets		
Cash and short-term investments	$ 30,017,830	$ 37,852,232
Receivables - Net:		
Accounts	2,291,744	2,540,613
Pledges (Note 3)	2,673,207	2,977,636
Grand Bargain pledges (Note 4)	3,612,650	3,944,100
Prepaid expenses	996,136	789,698
Inventories	352,316	331,860
Total current assets	39,943,883	48,436,139
Investments (Note 8)	232,283,785	187,789,307
Cash for Restricted Purposes	1,000,000	1,000,000
Pledges - Less current portion - Net (Note 3)	10,441,954	8,661,708
Fixed Assets (Note 9)	21,711,324	19,212,780
Grand Bargain Pledges - Less current portion - Net (Note 4)	29,640,798	34,684,794
Total assets	**$ 335,021,744**	**$ 299,784,728**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,940,837	$ 1,505,099
Accrued payroll and other employee benefits	2,315,780	2,320,037
Deferred revenue	12,247,825	12,178,843
Due to Foundation for Detroit's Future (Note 10)	375,000	375,000
Total current liabilities	16,879,442	16,378,979
Due to Foundation for Detroit's Future - Less current portion (Note 10)	4,562,295	4,782,568
Unfunded Pension Obligation (Note 11)	3,615,424	11,423,926
Postretirement Health Care Obligation (Note 11)	3,770,270	4,089,241
Total liabilities	28,827,431	36,674,714
Net Assets		
Unrestricted:		
Undesignated	7,427,424	(765,385)
Board designated (Note 14)	139,203,724	120,933,503
Temporarily restricted (Note 14)	75,909,284	68,609,370
Permanently restricted	83,653,881	74,332,526
Total net assets	306,194,313	263,110,014
Total liabilities and net assets	**$ 335,021,744**	**$ 299,784,728**

See Notes to Financial Statements.

Detroit Institute of Arts

Statement of Activities and Changes in Net Assets

	Year Ended							
	June 30, 2017				June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Membership and development	$ 9,926,791	$ 1,704,607	$ 9,321,355	$ 20,952,753	$ 8,741,451	$ 1,038,468	$ 10,041,492	$ 19,821,411
Tri-county support (Note 2)	23,525,758	-	-	23,525,758	23,382,554	-	-	23,382,554
Investment income (loss) (Note 5)	15,144,406	5,170,289	-	20,314,695	(2,505,231)	(733,354)	-	(3,238,585)
Program and operational activities	4,788,378	1,124,832	-	5,913,210	7,744,376	1,002,912	-	8,747,288
Net assets released from restrictions	3,677,619	(3,677,619)	-	-	3,701,573	(3,701,573)	-	-
Total revenue, gains, other support, and net assets released from restrictions	57,062,952	4,322,109	9,321,355	70,706,416	41,064,723	(2,393,547)	10,041,492	48,712,668
Operating Expenses								
Program and operational activities	26,532,790	-	-	26,532,790	25,783,482	-	-	25,783,482
Membership and development	3,356,292	-	-	3,356,292	3,302,537	-	-	3,302,537
Fundraising	7,433,286	-	-	7,433,286	6,332,096	-	-	6,332,096
Total operating expenses	37,322,368	-	-	37,322,368	35,418,115	-	-	35,418,115
Changes in Net Assets from Operations	19,740,584	4,322,109	9,321,355	33,384,048	5,646,608	(2,393,547)	10,041,492	13,294,553
Other Changes in Net Assets								
Grand Bargain contributions	1,499,653	-	-	1,499,653	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	(154,727)	-	-	(154,727)	(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	-	31,446	-	31,446	-	1,694,526	-	1,694,526
Investment return earmarked for art acquisitions (Note 5)	322,740	5,589,814	-	5,912,554	(152,789)	623,357	-	470,568
Purchases of works of art	(2,643,455)	-	-	(2,643,455)	(2,924,892)	-	-	(2,924,892)
Net assets released from restrictions to fund art acquisitions	2,643,455	(2,643,455)	-	-	2,924,892	(2,924,892)	-	-
Change in unfunded pension plan obligation (Note 11)	4,812,265	-	-	4,812,265	(4,835,719)	-	-	(4,835,719)
Change in postretirement health care obligation (Note 11)	242,515	-	-	242,515	(262,562)	-	-	(262,562)
Total Changes in Net Assets	26,463,030	7,299,914	9,321,355	43,084,299	78,638,002	(65,363,841)	10,041,492	23,315,653
Net Assets - Beginning of year	120,168,118	68,609,370	74,332,526	263,110,014	41,530,116	133,973,211	64,291,034	239,794,361
Net Assets - End of year	**$ 146,631,148**	**$ 75,909,284**	**$ 83,653,881**	**$ 306,194,313**	**$ 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, 2017	Year Ended June 30, 2016
Cash Flows from Operating Activities		
Change in net assets	$ 43,084,299	$ 23,315,653
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	731,902	613,252
Amortization on Grand Bargain obligation	154,727	2,148,570
Amortization on pledge discounts	(1,144,399)	(1,396,301)
Net realized and unrealized losses on long-term investments	(20,973,958)	10,264,976
Gain on Grand Bargain retirement	-	(16,235,426)
Grand Bargain pledge contributions	-	55,000
Contributions restricted for long-term purposes	(12,274,615)	(10,250,098)
Net periodic benefit cost pension and postretirement medical benefits and related settlements	1,724,789	753,579
Change in pension obligation	(4,812,265)	4,835,719
Change in postretirement medical benefit obligation	(242,515)	262,562
Acquisitions of art	2,643,455	2,924,892
Changes in operating assets and liabilities which provided (used) cash:		
Accounts and pledges receivable	3,006,160	(326,136)
Inventories	(20,456)	73,708
Prepaid expenses	(206,438)	56,250
Accounts payable and accrued expenses	435,738	(887,976)
Deferred revenue	68,982	272,679
Accrued payroll and other liabilities	(4,257)	(70,455)
Unfunded pension obligation	(4,700,000)	(1,700,000)
Unfunded postretirement medical benefit obligation	(97,482)	(92,867)
Net cash provided by operating activities	7,373,667	14,617,581
Cash Flows from Investing Activities		
Purchase of fixed assets	(3,230,446)	(1,660,401)
Acquisition of art objects	(2,643,455)	(2,924,892)
Purchase of investments	(344,918,742)	(172,605,218)
Proceeds from sale of investments	321,398,222	200,285,268
Net cash (used in) provided by investing activities	(29,394,421)	23,094,757
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term purposes	8,061,253	10,250,098
Payments to Foundation for Detroit's Future	(375,000)	(52,374,572)
Payments received on Grand Bargain pledges receivable	6,500,099	6,139,980
Payments on notes payable	-	(6,191)
Net cash provided by (used in) financing activities	14,186,352	(35,990,685)
Net (Decrease) Increase in Cash and Cash Equivalents	(7,834,402)	1,721,653
Cash and Short-term Investments - Beginning of year	38,852,232	37,130,579
Cash and Short-term Investments - End of year	**$ 31,017,830**	**$ 38,852,232**
Cash and Cash Equivalents are Comprised of the Following		
Cash and short-term investments	$ 30,017,830	$ 37,852,232
Cash for restricted purposes	1,000,000	1,000,000
Total	**$ 31,017,830**	**$ 38,852,232**

Note 1 - Nature of Business 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)

Basis of Presentation - The financial statements of the Museum have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Cash and Short-term Investments - Cash and short-term investments consist of cash and money market funds, excluding 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. Management deems the nonmillage accounts receivable to be fully collectible.

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.

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.

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

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

Prepaid Expenses - Prepaid expenses include expenditures for insurance, maintenance contracts, and expenditures made in connection with the development of future programs. The expense is 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. Management reviews and evaluates the values provided by the investment managers 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.

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

Buildings and improvements	10 - 20 years
Parking facilities	20 years
Furniture and equipment	5-7 years
Software	3 years

Deferred Revenue - 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) in which the goods or services are provided.

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

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.

- 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 subcategories 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 (the "Board"); and (3) board-designated endowment, where only the income, not the principal, is spent for operating purposes, as directed by the Board.

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 revenue related to food service, gift shop sales, admissions, and special event ticket sales are classified as program and operational activities when earned. See Note 2 for the 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.

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

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 $0.8 million and $2.2 million (unaudited) for the years ended June 30, 2017 and 2016, respectively.

Functional Allocation of Expenses - The costs to provide the Museum's various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation of expenses 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 $1.1 million and $0.9 million for the years ended June 30, 2017 and 2016, respectively.

The Grand Bargain - On December 10, 2014, the DIA entered into various agreements to effectuate what is commonly referred to as the Grand Bargain Agreement (the "Grand Bargain"). As a result of the Grand Bargain, the City of Detroit, Michigan (the "City") conveyed all of its rights, title, and interest in the Museum and the Museum's assets (defined as the Museum's art collection, operating assets, buildings, parking lots and structures, and any other assets that are used primarily in operating or servicing the Museum) free and clear of all security interests, liens, encumbrances, claims and interest of the City and its creditors to the DIA in exchange for fair value consideration. Under the Grand Bargain, the City received (1) the settlement of any dispute regarding the ownership of the Museum and the Museum's assets, (2) $816 million in funding for the payment of pension claims, and (3) the commitment of the DIA to hold the Museum's assets in perpetual charitable trust and to operate the Museum primarily for the benefit of the residents of the City, the tri-counties, and the State of Michigan.

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

The $816 million in funding for the Grand Bargain was committed from the following sources:

- $100 million from the DIA and its direct funders, indirect funders, and special foundation funders to be paid to the City through the Foundation for Detroit's Future (FDF)
- $366 million from third-party foundation funders, to be paid to the City through FDF
- $350 million from the State of Michigan, paid directly to the City

The Grand Bargain included an option for the funders to retire their portion of the obligation early at a discount of 6.75 percent. See Note 10 for more information on the Museum's obligation to FDF. See Note 4 for more information about pledges receivable from donors related to the Grand Bargain.

Upcoming Accounting Changes - 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 disclosures 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. Management is currently evaluating which application method will be used. The Museum expects the new standard could have a significant impact on the recognition of revenue from the tri-counties.

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

In February 2016, the FASB 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 lease 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 operations. 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 operations and cash flows will be generally consistent with the current guidance. The new lease 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. The effect of applying the new lease guidance on the financial statements has not yet been determined, but it is expected to increase long-term assets and lease liabilities by an immaterial amount. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations that 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 also 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 expects the impact of this standard will include a change in the net asset descriptions, additional disclosures regarding liquidity, and additional information on the natural classifications of the functional expenses.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 18, 2017, which is the date the financial statements were available to be issued.

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 provides 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.

Note 2 - Relationship with the Tri-Counties (Continued)

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 years ended June 30, 2017 and 2016, the DIA has recognized approximately $23.5 million and $23.4 million, respectively, 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 $12.0 million and $11.8 million for 2017 and 2016, respectively, and is recorded as deferred revenue. The gross outstanding receivable balance is approximately $1.3 and $1.8 million as of June 30, 2017 and 2016, respectively. Due to the uncertainty of tax collections, there are reserves for doubtful accounts receivable of $80,700 and $206,723 at June 30, 2017 and 2016, respectively. The reserves are based on historic and actual collection activity.

Note 3 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	2017	2016
Amounts due in:		
Less than one year	$ 2,673,207	$ 2,977,636
One to five years	8,174,700	6,212,900
Beyond five years	3,880,350	3,881,650
Total	14,728,257	13,072,186
Less allowance for uncollectible pledges	(870,000)	(670,000)
Present value adjustment	(743,096)	(762,842)
Net pledges receivable	$ 13,115,161	$ 11,639,344

In addition, the DIA has obtained, but not recognized, approximately $2.5 million and $4.0 million in pledges at June 30, 2017 and 2016, respectively, which depend on the occurrence of 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's board of directors passed a resolution in the prior year 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 passed a resolution to allocate the remaining Grand Bargain pledges to the board-designated endowment.

Grand Bargain pledges receivable at June 30 are as follows:

	2017	2016
Amounts due in:		
Less than one year	$ 3,612,650	$ 3,944,100
One to five years	16,322,000	19,415,750
Beyond five years	20,192,400	23,267,300
Total	40,127,050	46,627,150
Less allowance for uncollectible pledges	(483,000)	(555,000)
Present value discount on pledges (1.12 - 3.07%)	(6,390,602)	(7,443,256)
Net Grand Bargain pledges receivable	$ 33,253,448	$ 38,628,894

Note 5 - Investment Income

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 consists of the following:

	2017	2016
Interest and dividends	$ 5,019,393	$ 6,902,154
Trust distributions (Note 6)	1,595,336	1,599,039
Net realized and unrealized gains (losses)	20,973,958	(10,264,976)
Investment management fees	(1,361,438)	(1,004,234)
	$ 26,227,249	$ (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 percent of its annual income to the DIA for the acquisition of art objects in certain specified categories. The market value of one-half of the Tannahill Trust principal at June 30, 2017 and 2016 was approximately $26.5 million and $26.0 million, respectively. 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 percent 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 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. Earnings distributions totaled $1,450,000 in both 2017 and 2016, and are recorded on the statement of activities under other changes in net assets, investment return on funds earmarked for art acquisitions.

The DIA is an income beneficiary of an endowment fund (the "Fund") held and managed by the Community Foundation for Southeast Michigan for funds donated by outside donors for the benefit of the Museum. The total market value of the Fund at June 30, 2017 and 2016 was approximately $14.1 million and $12.2 million, respectively. 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 fundraising initiatives. The Fund is invested as a component fund of CFSEM. Income earned is available to be distributed to the DIA at the discretion of CFSEM. Starting on July 1, 2013, the DIA requested and CFSEM approved the suspension of the payout from the Fund for operating purposes. This measure was taken to help build the endowment fund. Earnings distributions to the DIA for nonoperating purposes are $132,415 and $136,357 for the years ended June 30, 2017 and 2016, respectively.

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 was approximately $300,000 at both June 30, 2017 and 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 AAACF. Earnings distributions to the DIA operations were $12,921 and $12,682 for the years ended June 30, 2017 and 2016, respectively.

Note 7 - Donor-restricted and Board-designated Endowments

The Financial Accounting Standards Board's (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 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

Note 7 - Donor-restricted and Board-designated Endowments (Continued)

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 management costs, that is equal to or greater than the approved endowment payout (currently 4.6 percent) 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 percent. 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, 2017 or 2016.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 34,275,287	$ 83,653,881	$ 117,929,168
Board-designated endowment funds	97,757,029	-	-	97,757,029
Total funds	$ 97,757,029	$ 34,275,287	$ 83,653,881	$ 215,686,197

Note 7 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 83,240,984	$ 30,475,435	$ 74,332,526	$ 188,048,945
Investment return:				
Investment income	1,751,858	876,417	-	2,628,275
Net appreciation (realized and unrealized)	10,182,165	5,093,915	-	15,276,080
Total investment gain	11,934,023	5,970,332	-	17,904,355
Appropriation of endowment assets for expenditure	(614,617)	(2,170,913)	-	(2,785,530)
Other changes:				
Reinvestment of appropriation of endowment assets to the endowment fund per donor instructions	-	433	18,967	19,400
Contributions	-	-	9,302,388	9,302,388
Board resolution to designate unrestricted bequests	3,196,639	-	-	3,196,639
Endowment net assets - End of year	$ 97,757,029	$ 34,275,287	$ 83,653,881	$ 215,686,197

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	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 funds	$ 83,240,984	$ 30,475,435	$ 74,332,526	$ 188,048,945

Note 7 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	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

Permanently restricted endowment net assets include pledges receivable of $9.5 million and $6.3 million as of June 30, 2017 and 2016 respectively.

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, 2017 and 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.

Note 8 - Fair Value of Investments (Continued)

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Balance at June 30, 2017
Cash and short-term investments - Money market funds	$ 10,428,885	$ -	$ 10,428,885
Investments:			
Money market funds	7,085,853	-	7,085,853
Mutual funds:			
Debt securities	29,969,171	-	29,969,171
International equities	5,653,489	-	5,653,489
Domestic equities	41,844,332	-	41,844,332
Alternative investments:			
Common trust	-	29,906,265	29,906,265
Hedge funds	-	35,441,099	35,441,099
Partnerships	-	43,621,859	43,621,859
Foreign corporations	-	11,418,158	11,418,158
Private equity	-	872,486	872,486
Private credit	-	4,610,036	4,610,036
Total investments at fair value	84,552,845	125,869,903	210,422,748
Total assets at fair value	$ 94,981,730	$ 125,869,903	$ 220,851,633

Excluded from the total investments at fair value in the table above is $21,861,037 of pending trades at June 30, 2017.

Note 8 - Fair Value of Investments (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Balance at June 30, 2016
Cash and short-term investments - 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

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:

	June 30, 2017	June 30, 2016	June 30, 2017		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Common trust	$ 29,906,265	$ 33,683,265	$ -	Quarterly	90 days
Debt securities	-	9,855,558	-	Monthly	5 days
Hedge funds	35,441,099	41,802,652	-	Annually	5 days
Partnerships	43,621,859	9,612,518	-	Daily	10 days
Foreign corporations	11,418,158	-	-	Monthly	30 days
Private equity	872,486	-	20,099,000	N/A	N/A
Private credit	4,610,036	-	25,524,621	N/A	N/A
Total	$ 125,869,903	$ 94,953,993	$ 45,623,621		

Note 8 - Fair Value of Investments (Continued)

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.

The foreign corporations category includes investments in equities of smaller companies outside of the United States.

The private equity and private credit categories include investments that utilize strategies designed to take advantage of market dislocations or opportunistic investment solutions. These investments are evaluated based on their expected risk and return profile, strength of management, mechanism for exit and adequacy of liquidity.

Note 9 - Fixed Assets

Fixed assets consist of the following as of June 30:

	2017	2016
Land	$ 2,667,703	$ 1,016,699
Building and improvements	17,503,631	17,248,295
Parking facilities	2,596,202	2,596,202
Construction in progress	762,052	249,578
Furniture and equipment	1,423,205	1,182,573
Software	577,767	6,767
Total cost	25,530,560	22,300,114
Less accumulated depreciation and amortization	(3,819,236)	(3,087,334)
Net carrying amount	$ 21,711,324	$ 19,212,780

Total depreciation expense was approximately $0.7 million and $0.6 million for the years ended June 30, 2017 and 2016, respectively.

Note 10 - Due to Foundation for Detroit's Future

Pursuant to the Grand Bargain agreement on December 10, 2014, the DIA committed to paying $100 million to FDF for the benefit of the City's pension plan. A payment of $5 million was made in December 2014. The DIA's board of directors resolved to retire the majority of the remaining obligation on June 30, 2016. As a result, the DIA received a 6.75 percent discount for early payment as provided in the agreement. The balance of the obligation will be paid over a 20-year period by payments from two donors who promised funds directly to FDF. These pledges are not recorded on the DIA's statement of financial position as they reside on the records of FDF. The funds are recognized as contribution revenue and relief of the obligation to FDF as payments are made to FDF by the donors.

The obligation to FDF 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 July 1, 2016	6,750,000	(1,592,432)	5,157,568
Amortization of 3% discount	-	154,727	154,727
Payment made June 2017	(375,000)	-	(375,000)
Discount for prepayment (6.75%)	-	-	-
Balance as of June 30, 2017	$ 6,375,000	$ (1,437,705)	$ 4,937,295

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

2018	$ 375,000
2019	375,000
2020	375,000
2021	375,000
2022	375,000
2023 and thereafter	4,500,000
Total	$ 6,375,000

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, 2017 and 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*.

The funded status and the unfunded pension obligation of the defined benefit pension plan were impacted during the fiscal year by the rate of return on the fair value of plan assets above the planned 6.2 percent used at the prior measurement date. In addition, during the fiscal year the Plan was amended and certain participants were offered a one-time voluntary option to receive a lump-sum payout of their accrued benefits from the Plan. Participants eligible for this option included those no longer employed and those who had not yet begun receiving benefit payments. Total payouts under the option were approximately $3,045,000 and were paid out during fiscal year 2017.

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

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, 2017:

Obligations and Funded Status

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Benefit obligation	$ (38,273,451)	$ (43,024,936)	$ (3,770,270)	$ (4,089,241)
Fair value of plan assets	34,658,027	31,601,010	-	-
Underfunded status	$ (3,615,424)	$ (11,423,926)	$ (3,770,270)	$ (4,089,241)

The benefit obligation above reflects the projected benefit obligation for pension benefits and the accumulated benefit obligation for other postretirement benefits. 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 consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Unfunded pension plan obligation	$ 3,615,424	$ 11,423,926	$ -	$ -
Postretirement healthcare obligation	-	-	3,770,270	4,089,241
Unfunded obligation	$ 3,615,424	$ 11,423,926	$ 3,770,270	$ 4,089,241

Other changes in plan assets and benefit obligations recognized as changes in net assets consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Net actuarial gain (loss)	$ 2,594,488	$ (5,770,525)	$ 447,495	$ (60,712)
Amortization of prior service costs	-	-	(416,338)	(416,338)
Amortization of net loss	2,217,797	934,806	211,358	214,488
Adjustment to pension liability and postretirement healthcare obligation	$ 4,812,285	$ (4,835,719)	$ 242,515	$ (262,562)

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

The amounts included in unrestricted net assets at June 30, 2017 that have not been recognized in net periodic benefit cost include approximately $11.3 million in unrecognized actuarial losses for the Plan and prior service cost credit of $2.7 million, and unrecognized actuarial losses of approximately $1.5 million for the OPEB plan. The amount expected to be recognized in net periodic benefit cost during the fiscal year ended June 30, 2018 is an actuarial loss of approximately $0.9 million for the Plan and, for the OPEB plan, the actuarial loss of approximately $0.1 million and the amortization of net prior service credit of approximately $0.4 million.

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in Fair Value of Plan Assets				
Fair value, beginning of year	$ 31,601,010	$ 30,250,320	$ -	$ -
Actual return on assets	3,041,643	1,102,370	-	-
Employer contributions	4,700,000	1,700,000	97,482	92,867
Benefits paid	(1,639,319)	(1,451,680)	(97,482)	(92,867)
Settlements	(3,045,307)	-	-	-
Fair value, end of year	$ 34,658,027	$ 31,601,010	$ -	$ -

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Components of Net Periodic Benefit Costs				
Service costs	$ -	$ -	$ 84,411	$ 77,731
Interest costs	1,507,847	1,666,875	141,595	162,742
Expected return on plan assets	(2,021,881)	(1,886,725)	-	-
Amortization of actuarial losses	1,267,857	934,806	211,358	214,488
Amortization of prior service cost	-	-	(416,338)	(416,338)
	$ 753,823	$ 714,956	$ 21,026	$ 38,623

In addition to the net periodic benefit costs above, the Museum recognized benefit costs of $949,940 related to settlements for the year ended June 30, 2017. There were no settlement costs recognized for the year ended June 30, 2016. These costs are included in operating expenses on the statement of activities and changes in net assets.

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

Assumptions

Weighted average assumptions used to determine benefit obligations at June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Discount rate to determine benefit obligation	3.80%	3.60%	3.80%	3.55%
Expected rate of return on plan assets	7%	6.20%	N/A	N/A
Rate of increase in compensation levels	N/A	N/A	N/A	N/A
Discount rate to determine net periodic pension costs	4.10%	4.45%	3.55%	4.40%
Measurement date for benefit obligations	6/30/17	6/30/16	6/30/17	6/30/16

For measurement purposes, an 8.00 percent and 9.62 percent annual rate of increase in healthcare costs at June 30, 2017 and 2016, respectively, was assumed, decreasing annually to the target rate of 5.00 percent for 2035 and thereafter.

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, partnerships, and foreign corporations 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)

The target allocation of plan assets is 35 percent domestic fixed income, 15 percent private credit, and 50 percent equity securities.

The fair values of the Museum's pension plan assets by major asset classes are as follows:

Fair Value Measurements at June 30, 2017

Asset Classes	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value (NAV)
Short-term investments	$ 3,550,737	$ 3,550,737	$ -
Mutual funds	20,303,929	20,303,929	-
Partnerships	6,373,082	-	6,373,082
Foreign corporations	4,430,279	-	4,430,279
Total assets fair value	$ 34,658,027	$ 23,854,666	$ 10,803,361

Fair Value Measurements at June 30, 2016

Asset Classes	Total	Quoted Prices in Active Markets for Identical Assets (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

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.

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

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.

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.

The DIA expects to contribute $1.2 million to its pension plan and $158,799 to its other postretirement benefit plan in 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2018	$ 1,817,679	$ 158,799
2019	1,894,744	166,087
2020	1,973,402	182,199
2021	2,055,744	205,844
2022	2,097,984	212,799
2023-2027	11,172,826	1,158,155

Note 12 - Leases

The DIA leases storage space and office equipment that expires on various dates through 2023. At June 30, 2017, minimum commitments of future payments under these arrangements are as follows:

Years Ending June 30	Amount
2018	$ 164,700
2019	177,700
2020	168,375
2021	140,400
2022	140,400
2023	117,000
Total	$ 908,575

Total rental expense for operating leases was approximately $200,000 for the years ended June 30, 2017 and 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 percent of the salary of eligible employees and matches 100 percent of the employees' elective deferral contributions up to 2 percent of the employees' salary. Expense recognized related to the 401(k) plan was approximately $0.7 million and $0.6 million for the years ended June 30, 2017 and 2016, respectively.

Note 14 - Temporarily Restricted and Board-designated Net Assets

At June 30, 2017 and 2016, the Museum's temporarily restricted net assets were restricted for the purposes shown below:

	2017	2016
Endowment investment income - Temporarily restricted until appropriated for expenditure	$ 34,275,287	$ 30,475,435
Operations	21,743,366	20,367,283
Art acquisitions, conservation, and curatorial	13,411,444	11,700,241
Auxiliary and volunteer groups	2,518,021	2,231,350
Capital and reinstallation projects	651,198	1,064,235
Programs, exhibitions, and other	3,309,968	2,770,826
Total temporarily restricted net assets	$ 75,909,284	$ 68,609,370

Note 14 - Temporarily Restricted and Board-designated Net Assets (Continued)

At June 30, 2017 and 2016, the Museum's board-designated net assets were designated as shown below:

	2017	2016
Board-designated endowment	$ 97,757,029	$ 83,240,984
Operations	18,748,659	17,049,765
Special projects and initiatives	7,809,560	8,705,482
Capital expenditures	5,855,305	4,354,118
Gallery reinstallation	3,974,092	3,617,937
Exhibitions	4,239,254	3,271,634
Programs and other	819,825	693,583
Total board-designated net assets	$ 139,203,724	$ 120,933,503