



Combined Financial Statements and Supplementary Information

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

*Years ended September 30, 2015 and 2014*

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Years ended September 30, 2015 and 2014

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# JANSEN VALK THOMPSON REAHM PC

*Certified Public Accountants and Consultants*

## Report of Independent Auditors

Board of Trustees  
Grand Rapids Art Museum

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of Grand Rapids Art Museum and Grand Rapids Art Museum Foundation (collectively, the Organization), which comprise the combined statements of financial position as of September 30, 2015 and 2014, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of the combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Combining Information**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 23 through 28 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Jansen Valk Thompson & Reahm PC*

March 10, 2016

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statements of Financial Position

	September 30	
	2015	2014
<b>Assets</b>		
Cash	\$ 2,395,369	\$ 2,692,765
Accounts receivable	105,393	85,376
Inventories	118,855	135,845
Prepaid expenses	185,649	132,736
Prepaid exhibitions	71,485	92,599
Contributions receivable	1,637,417	1,607,402
Contribution receivable—split-interest agreement	526,000	570,000
Investments	16,221,633	16,964,454
Collections (Note G)	-	-
Cash restricted for investment in property and equipment	1,413	1,413
Property and equipment, less accumulated depreciation	65,921,410	67,585,614
Beverage license	42,444	42,444
Total assets	<u>\$ 87,227,068</u>	<u>\$ 89,910,648</u>
<b>Liabilities</b>		
Accounts payable	\$ 271,571	\$ 313,755
Other payables	257,704	261,353
Advance deposits	95,454	88,893
Long-term debt	9,420,000	9,424,500
Total liabilities	<u>10,044,729</u>	<u>10,088,501</u>
<b>Net Assets</b>		
Unrestricted:		
Board-designated for operations	300,000	200,000
Endowment:		
Board-designated	1,135,539	1,238,205
Donor-restricted	(1,239,512)	(73,713)
Undesignated	57,020,474	58,754,651
Total unrestricted	<u>57,216,501</u>	<u>60,119,143</u>
Temporarily restricted	3,214,611	3,871,172
Permanently restricted for endowment	16,751,227	15,831,832
Total net assets	<u>77,182,339</u>	<u>79,822,147</u>
Total liabilities and net assets	<u>\$ 87,227,068</u>	<u>\$ 89,910,648</u>

*See accompanying notes to financial statements.*

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statement of Activities  
Year ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue:</b>				
Contributions	\$ 807,794	\$ 2,511,789	\$ 963,395	\$ 4,282,978
Retail sales	280,657	-	-	280,657
Membership programs	254,796	-	-	254,796
Food and beverage	339,021	-	-	339,021
Investment return	(1,079,425)	182,601	-	(896,824)
Change in value of split-interest agreement	-	-	(44,000)	(44,000)
Special events	362,450	-	-	362,450
Admissions	138,700	-	-	138,700
Facilities rental	199,129	-	-	199,129
Other income	62,678	-	-	62,678
<b>Total support and revenue</b>	<b>1,365,800</b>	<b>2,694,390</b>	<b>919,395</b>	<b>4,979,585</b>
 Net assets released from restrictions	 3,136,551	 (3,136,551)	 -	 -
<b>Total support, revenue and reclassifications</b>	<b>4,502,351</b>	<b>(442,161)</b>	<b>919,395</b>	<b>4,979,585</b>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statement of Activities (continued)  
Year ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Expenses:</b>				
Administration	954,636	-	-	954,636
Bond related fees	3,000	-	-	3,000
Building operations	1,470,915	-	-	1,470,915
Community relations	266,142	-	-	266,142
Curatorial	412,532	-	-	412,532
Depreciation	1,906,073	-	-	1,906,073
Development/membership	467,335	-	-	467,335
Education	265,788	-	-	265,788
Exhibitions	502,427	-	-	502,427
Food and beverage	304,905	-	-	304,905
Interest	3,397	-	-	3,397
Investment management fees	68,875	-	-	68,875
Library	3,927	-	-	3,927
Public relations/marketing	358,914	-	-	358,914
Retail sales	273,093	-	-	273,093
Special events	143,034	-	-	143,034
Total expenses	<u>7,404,993</u>	<u>-</u>	<u>-</u>	<u>7,404,993</u>
Support, revenue and reclassifications over (under) expenses	(2,902,642)	(442,161)	919,395	(2,425,408)
Collection items purchased	-	(214,400)	-	(214,400)
Change in net assets	(2,902,642)	(656,561)	919,395	(2,639,808)
Net assets, beginning of year	60,119,143	3,871,172	15,831,832	79,822,147
Net assets, end of year	<u>\$ 57,216,501</u>	<u>\$ 3,214,611</u>	<u>\$ 16,751,227</u>	<u>\$ 77,182,339</u>

*See accompanying notes to financial statements.*

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statement of Activities  
Year ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue:</b>				
Contributions	\$ 630,604	\$ 3,631,191	\$ 17,250	\$ 4,279,045
Retail sales	246,349	-	-	246,349
Membership programs	285,024	-	-	285,024
Food and beverage	398,816	-	-	398,816
Investment return	262,468	893,323	-	1,155,791
Change in value of split-interest agreement	-	-	32,000	32,000
Special events	464,130	-	-	464,130
Admissions	171,614	-	-	171,614
Facilities rental	180,495	-	-	180,495
Other income	51,705	-	-	51,705
<b>Total support and revenue</b>	<b>2,691,205</b>	<b>4,524,514</b>	<b>49,250</b>	<b>7,264,969</b>
Net assets released from restrictions	2,966,518	(2,966,518)	-	-
<b>Total support, revenue and reclassifications</b>	<b>5,657,723</b>	<b>1,557,996</b>	<b>49,250</b>	<b>7,264,969</b>



**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statement of Activities (continued)

Year ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Expenses:</b>				
Administration	838,946	-	-	838,946
Bond related fees	3,000	-	-	3,000
Building operations	1,494,490	-	-	1,494,490
Community relations	164,572	-	-	164,572
Curatorial	335,985	-	-	335,985
Depreciation	1,897,151	-	-	1,897,151
Development/membership	520,467	-	-	520,467
Education	303,856	-	-	303,856
Exhibitions	581,319	-	-	581,319
Food and beverage	300,292	-	-	300,292
Interest	6,286	-	-	6,286
Investment management fees	68,713	-	-	68,713
Library	2,352	-	-	2,352
Public relations/marketing	207,520	-	-	207,520
Retail sales	231,956	-	-	231,956
Special events	138,405	-	-	138,405
Total expenses	<u>7,095,310</u>	<u>-</u>	<u>-</u>	<u>7,095,310</u>
Support, revenue and reclassifications over (under) expenses	(1,437,587)	1,557,996	49,250	169,659
Collection items purchased	-	(197,530)	-	(197,530)
Change in net assets	(1,437,587)	1,360,466	49,250	(27,871)
Net assets, beginning of year	61,556,730	2,510,706	15,782,582	79,850,018
Net assets, end of year	<u>\$ 60,119,143</u>	<u>\$ 3,871,172</u>	<u>\$ 15,831,832</u>	<u>\$ 79,822,147</u>

*See accompanying notes to financial statements.*

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combined Statements of Cash Flows

	Year ended September 30	
	2015	2014
<b>Operating activities</b>		
Change in net assets	\$ (2,639,808)	\$ (27,871)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,906,073	1,897,151
Collection items purchased	214,400	197,530
Contributions restricted for endowment	(963,395)	(17,250)
Realized and unrealized net (gain) loss on investments	1,382,894	(738,605)
Change in value of split-interest agreement	44,000	(32,000)
Write-off of long-term debt	(4,500)	-
Changes in operating assets and liabilities:		
Accounts/contributions receivable	(50,032)	(1,046,789)
Inventories	16,990	(40,839)
Prepaid expenses	(52,913)	21,754
Prepaid exhibitions	21,114	92,006
Accounts payable	(42,184)	(87,670)
Other payables	(3,649)	55,772
Advance deposits	6,561	16,587
Total adjustments	<u>2,475,359</u>	<u>317,647</u>
Net cash provided by (used in) operating activities	<u>(164,449)</u>	289,776
<b>Investing activities</b>		
Purchases of investments	(1,635,937)	(5,447,145)
Proceeds from sales of investments	995,864	6,068,959
Property and equipment expenditures	(241,869)	(40,594)
Collection items purchased	(214,400)	(197,530)
Net cash provided by (used in) investing activities	<u>(1,096,342)</u>	383,690
<b>Financing activities</b>		
Proceeds from contributions restricted for endowment	963,395	17,250
Principal payments on long-term debt	-	(1,336)
Net cash provided by financing activities	<u>963,395</u>	<u>15,914</u>
Net increase (decrease) in cash	(297,396)	689,380
Cash, beginning of year	2,692,765	2,003,385
Cash, end of year	<u>\$ 2,395,369</u>	<u>\$ 2,692,765</u>

*See accompanying notes to financial statements.*

# **Grand Rapids Art Museum and Grand Rapids Art Museum Foundation**

## Notes to Combined Financial Statements

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### **Note A—Summary of Accounting Policies**

#### **Reporting Entity**

The accompanying combined financial statements include the accounts of the Grand Rapids Art Museum (the Museum) and the Grand Rapids Art Museum Foundation (the Foundation) (collectively, the Organization). All inter-organization accounts and transactions have been eliminated in combination.

#### **Nature of Activities**

The Museum provides a gathering place where people of all ages and backgrounds enrich their lives through interaction with works of art of the finest quality in a thought provoking and creative way.

The Foundation was formed to generate and receive contributions of property of any kind, both real and personal, and to administer such property in a manner consistent with and in support of the principles, objectives and programs of the Museum by providing financial support for the Museum's operations and special projects.

Approximately 47% of the Organization's support in 2015 and 26% in 2014 was provided by contributions from one foundation. The Organization has a concentration of credit risk with respect to contributions receivable from one foundation of approximately \$1,323,000 and \$1,325,000 at September 30, 2015 and 2014, respectively.

#### **Basis of Presentation**

The Organization follows net asset accounting methods whereby revenues are classified for accounting and reporting purposes into one of three net asset classes:

- Unrestricted net assets—Net assets which are not subject to donor-imposed restrictions.
- Temporarily restricted net assets—Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization, the passage of time, or both.
- Permanently restricted net assets—Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. The Organization uses a spending policy—4.25% of the average of the fair market value of endowment assets over a defined period of time—to compute the portion of earnings which will be utilized for operations and special projects.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

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**Note A—Summary of Accounting Policies (continued)**

**Use of Estimates**

Management uses estimates and assumptions in preparing the Organization's financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Cash**

Cash received with donor-imposed restrictions limiting its use to long-term purposes is not considered cash for purposes of the statement of cash flows.

**Investments**

Investments are stated at their fair values. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note C for discussion of fair value measurements.

Realized gains and losses are computed using the specific identification method. Unrealized gains and losses are included in the change in net assets.

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market.

**Property, Equipment and Depreciation**

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets by the straight-line method.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

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**Note A—Summary of Accounting Policies (continued)**

**Property, Equipment and Depreciation (continued)**

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and 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 Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to the Organization that is unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give are stated at their net realizable value. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated noncash assets and services are recorded at their fair values in the period received. Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs. The value of this time cannot be determined objectively and therefore is not reflected in the financial statements.

**Income Taxes**

The Museum and Foundation are exempt organizations for federal income tax purposes under Internal Revenue Code (IRC) Section 501(a) as organizations described in Section 501(c) of the Internal Revenue Code.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note A—Summary of Accounting Policies (continued)**

**Subsequent Events**

Subsequent events were evaluated through March 10, 2016, which is the date the financial statements were available to be issued.

**Note B—Cash**

The Museum maintains all of its cash balances, exclusive of money market funds held in an investment account, in two financial institutions. The Museum’s cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The Museum’s cash balances are at times in excess of the \$250,000 insured limit.

**Note C—Fair Value Measurements**

The Organization’s assets measured at fair value on a recurring basis are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2015</b>			
Investments	\$ 16,221,633	\$ 13,268,184	\$ 2,953,449
Split-interest agreement	526,000	—	526,000
Total	<u>\$ 16,747,633</u>	<u>\$ 13,268,184</u>	<u>\$ 3,479,449</u>
<b>September 30, 2014</b>			
Investments	\$ 16,964,454	\$ 14,000,962	\$ 2,963,492
Split-interest agreement	570,000	—	570,000
Total	<u>\$ 17,534,454</u>	<u>\$ 14,000,962</u>	<u>\$ 3,533,492</u>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

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**Note C—Fair Value Measurements (continued)**

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices in active markets for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

For the assets measured at fair value, the following inputs were used:

**Level 1—Fair Value Measurements**

The fair values of mutual funds are based on quoted net asset values of the shares held by the Organization at year-end.

**Level 3—Fair Value Measurements**

The fair values of investments determined by Level 3 inputs, consisting of a hedge fund and two publicly traded partnerships, are based on the net asset values of the underlying securities held by the fund and the partnerships. The split-interest agreement is not actively traded and significant other observable inputs are not available. Thus, the fair value of the split-interest agreement is determined by calculating the present value of the future distribution expected to be received, using published life expectancy tables and a discount rate of 2% for 2015 and 3% for 2014.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note C—Fair Value Measurements (continued)**

Information about the changes in the investments and the split-interest agreement, which are measured at fair value on a recurring basis using significant unobservable inputs, is as follows:

	<b>Investments</b>	<b>Split-Interest Agreement</b>	<b>Total</b>
<b>Year ended September 30, 2015</b>			
Beginning balance	\$ 2,963,492	\$ 570,000	\$ 3,533,492
Unrealized appreciation (depreciation) included in change in net assets	11,342	(44,000)	(32,658)
Sales	(21,385)	—	(21,385)
Ending balance	<u>\$ 2,953,449</u>	<u>\$ 526,000</u>	<u>\$ 3,479,449</u>
<b>Year ended September 30, 2014</b>			
Beginning balance	\$ 2,467,076	\$ 538,000	\$ 3,005,076
Purchases	1,400,000	—	1,400,000
Unrealized appreciation included in change in net assets	135,724	32,000	167,724
Sales	(1,039,308)	—	(1,039,308)
Ending balance	<u>\$ 2,963,492</u>	<u>\$ 570,000</u>	<u>\$ 3,533,492</u>

Unrealized appreciation in investments is reported in investment return in the statements of activities. Unrealized appreciation (depreciation) in the split-interest agreement is reported as change in value of split-interest agreement in the statements of activities.



**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note D—Investments**

Investments consist of:

	<u>2015</u>	<u>2014</u>
Mutual funds:		
Commodities	\$ 766,159	\$ 1,124,051
Equities	8,209,952	8,649,207
Fixed income	3,197,693	3,113,535
Real estate and infrastructure	771,381	756,552
Other	322,999	357,617
Total mutual funds	<u>13,268,184</u>	14,000,962
Hedge fund	1,497,715	1,506,764
Publicly traded partnerships	1,455,734	1,456,728
Total	<u>\$ 16,221,633</u>	<u>\$ 16,964,454</u>

**Note E—Contributions Receivable**

Contributions receivable are summarized as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 1,014,597	\$ 1,269,200
Receivable in one year to five years	636,491	345,000
Total contributions receivable	<u>1,651,088</u>	1,614,200
Less discount to net present value	13,671	6,798
Net contributions receivable	<u>\$ 1,637,417</u>	<u>\$ 1,607,402</u>

Contributions receivable in more than one year were discounted at 1% per annum for 2015 and 2014.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note F—Contributions Receivable—Split-Interest Agreement**

The Foundation is named as one of the beneficiaries under a Trust Agreement. Annual earnings from the Trust are paid to the designated beneficiary of the Trust. The Trust will terminate at the death of the income beneficiary, at which date the Foundation will receive its share of the Trust’s assets. The Foundation’s beneficial interest in the Trust was \$526,000 and \$570,000 at September 30, 2015 and 2014, respectively. These interests, based on the fair market value of the underlying assets, have been recorded at the present value of the future distribution expected to be received based on the beneficiary’s life expectancy, using a discount rate of 2% for 2015 and 3% for 2014.

**Note G—Collections**

The Museum’s art collections consist of donated and purchased art objects, principally drawings, prints, study items and a reference library. Collection items acquired either through purchase or donations are not capitalized and so are not included in the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statements of activities.

**Note H—Property and Equipment**

Property and equipment are summarized by major classifications as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 7,575,615	\$ 7,575,615
Building	73,112,517	73,062,191
Leasehold improvements	3,800	3,800
Furniture and equipment	2,062,858	1,871,315
Vehicles	61,919	61,919
Total property and equipment	<u>82,816,709</u>	<u>82,574,840</u>
Less accumulated depreciation	16,895,299	14,989,226
Net property and equipment	<u>\$ 65,921,410</u>	<u>\$ 67,585,614</u>

## **Grand Rapids Art Museum and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

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### **Note H—Property and Equipment (continued)**

The Museum's facility is located in downtown Grand Rapids. Part of the land was acquired from the Downtown Development Authority of the City of Grand Rapids (DDA) for \$1. The deed on this land contains a covenant that, in the event the Museum discontinues operating a public art museum on the site and does not construct a new facility within a defined area of metropolitan Grand Rapids, the property and all structures thereon must be transferred to the DDA for \$1. If the Museum discontinues operating a public art museum on the site and constructs a new facility within the defined area, it must pay the then fair market value of the land to the DDA.

### **Note I—Long-term Debt**

In December 2007, the Museum entered into a loan agreement with the Michigan Strategic Fund to borrow \$10,000,000 to finance the construction, furnishing and equipping of the facility. The Michigan Strategic Fund issued tax exempt variable rate demand limited obligation revenue bonds (Series B) to provide the funds loaned to the Museum. The Series B bonds underlying the loan agreement, totaling \$9,420,000 at September 30, 2015, mature in a lump sum on May 1, 2041. The effective interest rate on the Series B bonds was 0.02% at September 30, 2015.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note J—Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
General operations	\$ 1,677,384	\$ 2,380,988
Exhibitions	287,145	217,000
Property and equipment	64,756	26,479
Furniture restoration and maintenance	12,173	12,949
Collections	561,405	692,183
American Art acquisitions	306,786	350,217
Library acquisitions and education programs	304,962	191,356
Total	<u>\$ 3,214,611</u>	<u>\$ 3,871,172</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2015</u>	<u>2014</u>
General operations	\$ 14,147,884	\$ 14,191,334
American Art acquisitions	1,000,000	1,000,000
Underprivileged and disabled	962,395	—
Education programs	545,956	545,506
Exhibitions	57,011	57,011
Library acquisitions	37,981	37,981
Total	<u>\$ 16,751,227</u>	<u>\$ 15,831,832</u>

**Note K—Endowment Funds**

The Foundation's endowment consists of nine individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Foundation's Board of Trustees to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

## **Grand Rapids Art Museum and Grand Rapids Art Museum Foundation**

### Notes to Combined Financial Statements (continued)

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#### **Note K—Endowment Funds (continued)**

The Board of Trustees 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Foundation's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, including funds designated by the Board of Trustees to function as endowments, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income and capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity securities, debt securities and alternative strategies, which are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.25% (4.0% effective October 1, 2015), while growing the funds. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately the consumer price index plus 4.25% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed so as not to expose the fund to unacceptable levels of risk.

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note K—Endowment Funds (continued)**

*Spending Policy.* The Organization has a policy of appropriating for distribution each year 4.25% of its endowment fund’s average fair value of the prior 16 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned for all amounts except for those received as part of the “Imagine a Place” campaign. Funds received as part of the “Imagine a Place” campaign are distributed at 4.25% of the balance without consideration of the prior 16 quarter average balance. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at the consumer price index rate. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>September 30, 2015</b>				
Donor-restricted endowment funds	\$ (1,239,512)	\$ 337,972	\$ 16,751,227	\$ 15,849,687
Unrestricted board- designated funds	1,135,539	—	—	1,135,539
Total funds	<u>\$ (103,973)</u>	<u>\$ 337,972</u>	<u>\$ 16,751,227</u>	<u>\$ 16,985,226</u>
<b>September 30, 2014</b>				
Donor-restricted endowment funds	\$ (73,713)	\$ 689,732	\$ 15,831,832	\$ 16,447,851
Unrestricted board- designated funds	1,238,205	—	—	1,238,205
Total funds	<u>\$ 1,164,492</u>	<u>\$ 689,732</u>	<u>\$ 15,831,832</u>	<u>\$ 17,686,056</u>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

**Note K—Endowment Funds (continued)**

Changes in endowment net assets for the year ended September 30, 2015 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,164,492	\$ 689,732	\$ 15,831,832	\$ 17,686,056
Investment return:				
Investment income	74,790	379,560	—	454,350
Net depreciation	(1,174,597)	(196,959)	—	(1,371,556)
Total investment return	(1,099,807)	182,601	—	(917,206)
Contributions	—	—	963,395	963,395
Additional designation of funds	16,408	—	—	16,408
Change in value of split- interest agreement	—	—	(44,000)	(44,000)
Amounts appropriated for expenditure	(185,066)	(534,361)	—	(719,427)
Endowment net assets, end of year	<b>\$ (103,973)</b>	<b>\$ 337,972</b>	<b>\$ 16,751,227</b>	<b>\$ 16,985,226</b>

Changes in endowment net assets for the year ended September 30, 2014 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,040,812	\$ 328,648	\$ 15,782,582	\$ 17,152,042
Investment return:				
Investment income	89,151	320,343	—	409,494
Net appreciation	164,311	572,980	—	737,291
Total investment return	253,462	893,323	—	1,146,785
Contributions	—	—	17,250	17,250
Additional designation of funds	71,391	—	—	71,391
Change in value of split- interest agreement	—	—	32,000	32,000
Amounts appropriated for expenditure	(201,173)	(532,239)	—	(733,412)
Endowment net assets, end of year	<b>\$ 1,164,492</b>	<b>\$ 689,732</b>	<b>\$ 15,831,832</b>	<b>\$ 17,686,056</b>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Notes to Combined Financial Statements (continued)

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**Note L—Investment Return**

Investment return is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 486,070	\$ 417,186
Realized and unrealized net gain (loss) on investments	<u>(1,382,894)</u>	738,605
Total	<u>\$ (896,824)</u>	<u>\$ 1,155,791</u>

**Note M—Retirement Plan**

The Museum has an IRC Section 401(k) retirement plan covering all eligible employees. The Museum's matching contributions to the plan totaled \$35,501 in 2015 and \$29,322 in 2014.

**Note N—Deferred Compensation Plan**

The Museum established an IRC Section 457 deferred compensation plan in 2002. Eligibility in the Plan is determined by the Board of Trustees in its sole discretion. Deferred compensation payable under the Plan was \$179,041 at September 30, 2015 and \$181,536 at September 30, 2014. Deferred compensation expense (credit) under the Plan was \$(2,495) in 2015 and \$13,972 in 2014.

**Note O—Risk and Uncertainties**

The Organization holds investments in various financial instruments under an investment objective consisting of any combination of mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amount reported in the statement of financial position.

**Note P—Supplemental Cash Flow Information**

Cash paid for interest was \$3,397 in 2015 and \$6,346 in 2014.



## Supplementary Information

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Financial Position

September 30, 2015

	<b>Grand Rapids Art Museum</b>	<b>Grand Rapids Art Museum Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Assets</b>				
Cash	\$ 1,974,171	\$ 421,198	\$ -	\$ 2,395,369
Accounts receivable	98,779	6,614	-	105,393
Inventories	118,855	-	-	118,855
Prepaid expenses	185,649	-	-	185,649
Prepaid exhibitions	71,485	-	-	71,485
Contributions receivable	1,637,417	-	-	1,637,417
Contribution receivable—split- interest agreement	-	526,000	-	526,000
Investments	179,041	16,042,592	-	16,221,633
Cash restricted for investment in property and equipment	1,413	-	-	1,413
Property and equipment, less accumulated depreciation	65,921,410	-	-	65,921,410
Beverage license	42,444	-	-	42,444
Total assets	<u>\$ 70,230,664</u>	<u>\$ 16,996,404</u>	<u>\$ -</u>	<u>\$ 87,227,068</u>
<b>Liabilities</b>				
Accounts payable	\$ 260,393	\$ 11,178	\$ -	\$ 271,571
Other payables	257,704	-	-	257,704
Advance deposits	95,454	-	-	95,454
Long-term debt	9,420,000	-	-	9,420,000
Total liabilities	<u>10,033,551</u>	<u>11,178</u>	<u>-</u>	<u>10,044,729</u>
<b>Net Assets</b>				
Unrestricted	57,320,474	(103,973)	-	57,216,501
Temporarily restricted	2,876,639	337,972	-	3,214,611
Permanently restricted for endowment	-	16,751,227	-	16,751,227
Total net assets	<u>60,197,113</u>	<u>16,985,226</u>	<u>-</u>	<u>77,182,339</u>
Total liabilities and net assets	<u>\$ 70,230,664</u>	<u>\$ 16,996,404</u>	<u>\$ -</u>	<u>\$ 87,227,068</u>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Financial Position  
September 30, 2014

	<b>Grand Rapids Art Museum</b>	<b>Grand Rapids Art Museum Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Assets</b>				
Cash	\$ 2,451,943	\$ 240,822	\$ -	\$ 2,692,765
Accounts receivable	79,649	92,319	(86,592)	85,376
Inventories	135,845	-	-	135,845
Prepaid expenses	132,736	-	-	132,736
Prepaid exhibitions	92,599	-	-	92,599
Contributions receivable	1,607,402	-	-	1,607,402
Contributions receivable—split- interest agreement	-	570,000	-	570,000
Investments	181,539	16,782,915	-	16,964,454
Cash restricted for investment in property and equipment	1,413	-	-	1,413
Property and equipment, less accumulated depreciation	67,585,614	-	-	67,585,614
Beverage license	42,444	-	-	42,444
Total assets	<u>\$ 72,311,184</u>	<u>\$ 17,686,056</u>	<u>\$ (86,592)</u>	<u>\$ 89,910,648</u>
<b>Liabilities</b>				
Accounts payable	\$ 400,347	\$ -	\$ (86,592)	\$ 313,755
Other payables	261,353	-	-	261,353
Advance deposits	88,893	-	-	88,893
Long-term debt	9,424,500	-	-	9,424,500
Total liabilities	10,175,093	-	(86,592)	10,088,501
<b>Net Assets</b>				
Unrestricted	58,954,651	1,164,492	-	60,119,143
Temporarily restricted	3,181,440	689,732	-	3,871,172
Permanently restricted for endowment	-	15,831,832	-	15,831,832
Total net assets	<u>62,136,091</u>	<u>17,686,056</u>	<u>-</u>	<u>79,822,147</u>
Total liabilities and net assets	<u>\$ 72,311,184</u>	<u>\$ 17,686,056</u>	<u>\$ (86,592)</u>	<u>\$ 89,910,648</u>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Activities  
Year ended September 30, 2015

	Grand Rapids Art Museum		Grand Rapids Art Museum Foundation			Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Support and revenue:</b>							
Contributions	\$ 791,386	\$ 2,511,789	\$ 16,408	\$ -	\$ 963,395	\$ -	\$ 4,282,978
Retail sales	280,657	-	-	-	-	-	280,657
Membership programs	254,796	-	-	-	-	-	254,796
Food and beverage	339,021	-	-	-	-	-	339,021
Investment return	20,382	-	(1,099,807)	182,601	-	-	(896,824)
Grand Rapids Art Museum Foundation support	634,507	-	-	-	-	(634,507)	-
Change in value of split-interest agreement	-	-	-	-	(44,000)	-	(44,000)
Special events	362,450	-	-	-	-	-	362,450
Admissions	138,700	-	-	-	-	-	138,700
Facilities rental	199,129	-	-	-	-	-	199,129
Other income	62,678	-	-	-	-	-	62,678
Total support and revenue	3,083,706	2,511,789	(1,083,399)	182,601	919,395	(634,507)	4,979,585
Net assets released from restrictions	2,602,190	(2,602,190)	534,361	(534,361)	-	-	-
Total support, revenue and reclassifications	5,685,896	(90,401)	(549,038)	(351,760)	919,395	(634,507)	4,979,585

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Activities (continued)  
Year ended September 30, 2015

	Grand Rapids Art Museum		Grand Rapids Art Museum Foundation			Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Expenses:</b>							
Administration	938,591	-	16,045	-	-	-	954,636
Bond related fees	3,000	-	-	-	-	-	3,000
Building operations	1,470,915	-	-	-	-	-	1,470,915
Community relations	266,142	-	-	-	-	-	266,142
Curatorial	412,532	-	-	-	-	-	412,532
Depreciation	1,906,073	-	-	-	-	-	1,906,073
Development/membership	467,335	-	-	-	-	-	467,335
Education	265,788	-	-	-	-	-	265,788
Exhibitions	502,427	-	-	-	-	-	502,427
Food and beverage	304,905	-	-	-	-	-	304,905
Grand Rapids Art Museum support	-	-	634,507	-	-	(634,507)	-
Interest	3,397	-	-	-	-	-	3,397
Investment management fees	-	-	68,875	-	-	-	68,875
Library	3,927	-	-	-	-	-	3,927
Public relations/marketing	358,914	-	-	-	-	-	358,914
Retail sales	273,093	-	-	-	-	-	273,093
Special events	143,034	-	-	-	-	-	143,034
Total expenses	7,320,073	-	719,427	-	-	(634,507)	7,404,993
Support, revenue and reclassifications over (under) expenses	(1,634,177)	(90,401)	(1,268,465)	(351,760)	919,395	-	(2,425,408)
Collection items purchased	-	(214,400)	-	-	-	-	(214,400)
Change in net assets	(1,634,177)	(304,801)	(1,268,465)	(351,760)	919,395	-	(2,639,808)
Net assets, beginning of year	58,954,651	3,181,440	1,164,492	689,732	15,831,832	-	79,822,147
Net assets, end of year	<u>\$ 57,320,474</u>	<u>\$ 2,876,639</u>	<u>\$ (103,973)</u>	<u>\$ 337,972</u>	<u>\$ 16,751,227</u>	<u>\$ -</u>	<u>\$ 77,182,339</u>

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Activities  
Year ended September 30, 2014

	<u>Grand Rapids Art Museum</u>		<u>Grand Rapids Art Museum Foundation</u>			<u>Eliminations</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<b>Support and revenue:</b>							
Contributions	\$ 559,213	\$ 3,631,191	\$ 71,391	\$ -	\$ 17,250	\$ -	\$ 4,279,045
Retail sales	246,349	-	-	-	-	-	246,349
Membership programs	285,024	-	-	-	-	-	285,024
Food and beverage	398,816	-	-	-	-	-	398,816
Investment return	9,006	-	253,462	893,323	-	-	1,155,791
Grand Rapids Art Museum Foundation support	655,030	-	-	-	-	(655,030)	-
Change in value of split-interest agreement	-	-	-	-	32,000	-	32,000
Special events	464,130	-	-	-	-	-	464,130
Admissions	171,614	-	-	-	-	-	171,614
Facilities rental	180,495	-	-	-	-	-	180,495
Other income	51,705	-	-	-	-	-	51,705
Total support and revenue	3,021,382	3,631,191	324,853	893,323	49,250	(655,030)	7,264,969
Net assets released from restrictions	2,434,279	(2,434,279)	532,239	(532,239)	-	-	-
Total support, revenue and reclassifications	5,455,661	1,196,912	857,092	361,084	49,250	(655,030)	7,264,969

**Grand Rapids Art Museum  
and Grand Rapids Art Museum Foundation**

Combining Statement of Activities (continued)  
Year ended September 30, 2014

	Grand Rapids Art Museum		Grand Rapids Art Museum Foundation			Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Expenses:</b>							
Administration	829,277	-	9,669	-	-	-	838,946
Bond related fees	3,000	-	-	-	-	-	3,000
Building operations	1,494,490	-	-	-	-	-	1,494,490
Community relations	164,572	-	-	-	-	-	164,572
Curatorial	335,985	-	-	-	-	-	335,985
Depreciation	1,897,151	-	-	-	-	-	1,897,151
Development/membership	520,467	-	-	-	-	-	520,467
Education	303,856	-	-	-	-	-	303,856
Exhibitions	581,319	-	-	-	-	-	581,319
Food and beverage	300,292	-	-	-	-	-	300,292
Grand Rapids Art Museum support	-	-	655,030	-	-	(655,030)	-
Interest	6,286	-	-	-	-	-	6,286
Investment management fees	-	-	68,713	-	-	-	68,713
Library	2,352	-	-	-	-	-	2,352
Public relations/marketing	207,520	-	-	-	-	-	207,520
Retail sales	231,956	-	-	-	-	-	231,956
Special events	138,405	-	-	-	-	-	138,405
Total expenses	7,016,928	-	733,412	-	-	(655,030)	7,095,310
Support, revenue and reclassifications over (under) expenses	(1,561,267)	1,196,912	123,680	361,084	49,250	-	169,659
Collection items purchased	-	(197,530)	-	-	-	-	(197,530)
Change in net assets	(1,561,267)	999,382	123,680	361,084	49,250	-	(27,871)
Net assets, beginning of year	60,515,918	2,182,058	1,040,812	328,648	15,782,582	-	79,850,018
Net assets, end of year	<u>\$ 58,954,651</u>	<u>\$ 3,181,440</u>	<u>\$ 1,164,492</u>	<u>\$ 689,732</u>	<u>\$ 15,831,832</u>	<u>\$ -</u>	<u>\$ 79,822,147</u>