



Combined Financial Statements and Supplementary Information

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

Year ended September 30, 2016



JANSEN VALK THOMPSON REAHM PC
Certified Public Accountants and Consultants

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

Year ended September 30, 2016

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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 statement of financial position as of September 30, 2016, and the related combined statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Combining Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 20 through 22 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 audit 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

January 19, 2017

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

Combined Statement of Financial Position
September 30, 2016

Assets	
Cash	\$ 1,432,515
Accounts receivable	46,624
Pledges receivable	1,547,473
Inventories	110,294
Prepaid expenses	122,531
Pledge receivable—split-interest agreement	548,000
Investments	17,248,023
Collections (Note G)	-
Property and equipment, less accumulated depreciation	64,231,057
Beverage license	42,444
Total assets	<u>\$ 85,328,961</u>
Liabilities	
Accounts payable	\$ 185,768
Other payables	256,833
Advance deposits	60,164
Long-term debt	9,420,000
Total liabilities	<u>9,922,765</u>
Net Assets	
Unrestricted:	
Board-designated for operations	300,000
Endowment:	
Board-designated	1,177,269
Donor-restricted	(783,291)
Undesignated	55,028,659
Total unrestricted	<u>55,722,637</u>
Temporarily restricted	2,909,532
Permanently restricted for endowment	16,774,027
Total net assets	<u>75,406,196</u>
Total liabilities and net assets	<u>\$ 85,328,961</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions/pledges	\$ 845,898	\$ 2,931,801	\$ 800	\$ 3,778,499
Admissions	89,776	-	-	89,776
Memberships	218,377	-	-	218,377
Program fees	38,495	-	-	38,495
Special events	620,872	-	-	620,872
Museum store	259,567	-	-	259,567
Investment return	1,166,465	159,527	-	1,325,992
Change in value of split-interest agreement	-	-	22,000	22,000
Other income	16,654	-	-	16,654
Total support and revenue	3,256,104	3,091,328	22,800	6,370,232
 Net assets released from restrictions	 3,234,091	 (3,234,091)	 -	 -
Total support, revenue and reclassifications	6,490,195	(142,763)	22,800	6,370,232

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

Combined Statement of Activities (continued)

Year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Administration	1,157,807	-	-	1,157,807
Curatorial	922,056	-	-	922,056
Advancement	503,059	-	-	503,059
Communications	485,617	-	-	485,617
Membership	224,625	-	-	224,625
Learning & audience engagement	349,564	-	-	349,564
Facilities	1,099,782	-	-	1,099,782
Security	369,430	-	-	369,430
Guest services	126,368	-	-	126,368
Volunteer services	40,748	-	-	40,748
Museum store	249,726	-	-	249,726
Special events	363,497	-	-	363,497
GoSite	61,342	-	-	61,342
Interest	14,087	-	-	14,087
Investment management fees	68,743	-	-	68,743
Depreciation	1,947,608	-	-	1,947,608
Total expenses	7,984,059	-	-	7,984,059
Support, revenue and reclassifications over (under) expenses	(1,493,864)	(142,763)	22,800	(1,613,827)
Collection items purchased	-	(162,316)	-	(162,316)
Change in net assets	(1,493,864)	(305,079)	22,800	(1,776,143)
Net assets, beginning of year	57,216,501	3,214,611	16,751,227	77,182,339
Net assets, end of year	\$ 55,722,637	\$ 2,909,532	\$ 16,774,027	\$ 75,406,196

See accompanying notes to financial statements.

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

Combined Statement of Cash Flows
Year ended September 30, 2016

Operating activities	
Change in net assets	\$ (1,776,143)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,947,608
Collection items purchased	162,316
Contributions restricted for endowment	(800)
Realized and unrealized net gain on investments	(971,829)
Change in value of split-interest agreement	(22,000)
Payment of deferred compensation	(19,517)
Changes in operating assets and liabilities:	
Accounts/pledges receivable	148,713
Inventories	8,561
Prepaid expenses	134,603
Accounts payable	(85,803)
Other payables	(871)
Advance deposits	(35,290)
Total adjustments	<u>1,265,691</u>
Net cash used in operating activities	<u>(510,452)</u>
Investing activities	
Decrease in cash restricted for investment in property and equipment	1,413
Purchases of investments	(3,369,938)
Proceeds from sales of investments	3,334,894
Property and equipment expenditures	(257,255)
Collection items purchased	<u>(162,316)</u>
Net cash used in investing activities	<u>(453,202)</u>
Financing activities	
Proceeds from contributions restricted for endowment	<u>800</u>
Net decrease in cash	(962,854)
Cash, beginning of year	<u>2,395,369</u>
Cash, end of year	<u><u>\$ 1,432,515</u></u>

See accompanying notes to financial statements.

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Notes to Combined Financial Statements

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 42% of the Organization's support in 2016 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 \$1,330,155 at September 30, 2016.

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—4.00% 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)

Note A—Summary of Accounting Policies (continued)

Use of Estimates

Management uses estimates and assumptions in preparing the Organization's combined 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 \$1,000. 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)

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 combined 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 January 19, 2017, which is the date the combined 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 at September 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Investments	\$ 17,248,023	\$ 14,197,922	\$ 3,050,101
Split-interest agreement	548,000	—	548,000
Total	\$ 17,796,023	\$ 14,197,922	\$ 3,598,101

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

Notes to Combined Financial Statements (continued)

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 2016.

**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 for the year ended September 30, 2016:

	Investments	Split-Interest Agreement	Total
Beginning balance	\$ 2,953,449	\$ 526,000	\$ 3,479,449
Unrealized appreciation included in change in net assets	96,652	22,000	118,652
Sales	—	—	—
Ending balance	<u>\$ 3,050,101</u>	<u>\$ 548,000</u>	<u>\$ 3,598,101</u>

Unrealized appreciation in investments is reported in investment return in the combined statement of activities. Unrealized appreciation in the split-interest agreement is reported as change in value of split-interest agreement in the combined statement of activities.

Note D—Investments

Investments consist of the following at September 30, 2016:

Mutual funds:	
Commodities	\$ 1,199,130
Equities	8,801,503
Fixed income	3,139,326
Real estate and infrastructure	749,937
Other	308,026
Total mutual funds	<u>14,197,922</u>
Hedge fund	1,589,313
Publicly traded partnerships	1,460,788
Total	<u>\$ 17,248,023</u>

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

Notes to Combined Financial Statements (continued)

Note E—Pledges Receivable

Pledges receivable are summarized as follows at September 30, 2016:

Receivable in less than one year	\$ 1,429,690
Receivable in one year to five years	<u>120,150</u>
Total pledges receivable	1,549,840
Less discount to net present value	<u>2,367</u>
Net pledges receivable	<u><u>\$ 1,547,473</u></u>

Pledges receivable in more than one year were discounted at 1% per annum for 2016.

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 \$548,000 at September 30, 2016. This interest, 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 2016.

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 combined statement 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 combined statement of activities.

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

Notes to Combined Financial Statements (continued)

Note H—Property and Equipment

Property and equipment are summarized by major classifications as follows at September 30, 2016:

Land	\$ 7,575,615
Building	73,112,517
Leasehold improvements	3,800
Furniture and equipment	2,320,112
Vehicles	<u>61,919</u>
Total property and equipment	83,073,963
Less accumulated depreciation	<u>18,842,906</u>
Net property and equipment	<u><u>\$ 64,231,057</u></u>

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, 2016, mature in a lump sum on May 1, 2041. The effective interest rate on the Series B bonds was 0.48% at September 30, 2016.

**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 at September 30, 2016:

American Art acquisitions	\$ 389,117
Collections	474,987
Education programs	87,460
Exhibitions	108,978
Furniture restoration and maintenance	13,115
General operations	781,420
Programs	899,300
Property and equipment	53,071
Public outreach	40,000
Research	27,250
Underprivileged and disabled patrons	34,834
Total	<u>\$ 2,909,532</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support at September 30, 2016:

American Art acquisitions	\$ 1,000,000
Education programs	546,256
Exhibitions	57,011
General operations	14,170,384
Library acquisitions	37,981
Underprivileged and disabled patrons	962,395
Total	<u>\$ 16,774,027</u>

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Notes to Combined Financial Statements (continued)

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.

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 4.00% , 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 4.00% 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 4.00% 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. 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 at September 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (783,291)	\$ 466,767	\$ 16,774,027	\$ 16,457,503
Unrestricted board- designated funds	1,177,269	—	—	1,177,269
Total funds	\$ 393,978	\$ 466,767	\$ 16,774,027	\$ 17,634,772

**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, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (103,973)	\$ 337,972	\$ 16,751,227	\$ 16,985,226
Investment return:				
Investment income	315,441	38,452	—	353,893
Net appreciation	852,152	121,075	—	973,227
Total investment return	1,167,593	159,527	—	1,327,120
Contributions	—	—	800	800
Change in value of split- interest agreement	—	—	22,000	22,000
Amounts appropriated for expenditure	(669,642)	(30,732)	—	(700,374)
Endowment net assets, end of year	<u>\$ 393,978</u>	<u>\$ 466,767</u>	<u>\$ 16,774,027</u>	<u>\$ 17,634,772</u>

Note L—Investment Return

Investment return is summarized as follows for the year ended September 30, 2016:

Interest and dividends	\$ 354,163
Realized and unrealized net gain on investments	<u>971,829</u>
Total	<u>\$ 1,325,992</u>

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Notes to Combined Financial Statements (continued)

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 \$42,944 in 2016.

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 \$177,639 at September 30, 2016. Deferred compensation expense under the plan was \$1,401 in 2016.

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 combined statement of financial position.

Note P—Supplemental Cash Flow Information

Cash paid for interest was \$14,450 in 2016.

Supplementary Information

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

Combining Statement of Financial Position
September 30, 2016

	Grand Rapids Art Museum	Grand Rapids Art Museum Foundation	Eliminations	Combined
Assets				
Cash	\$ 1,337,256	\$ 95,259	\$ -	\$ 1,432,515
Accounts receivable	125,495	1,423	(80,294)	46,624
Pledges receivable	1,547,473	-	-	1,547,473
Inventories	110,294	-	-	110,294
Prepaid expenses	122,531	-	-	122,531
Pledge receivable—split- interest agreement	-	548,000	-	548,000
Investments	177,639	17,070,384	-	17,248,023
Property and equipment, less accumulated depreciation	64,231,057	-	-	64,231,057
Beverage license	42,444	-	-	42,444
Total assets	<u>\$ 67,694,189</u>	<u>\$ 17,715,066</u>	<u>\$ (80,294)</u>	<u>\$ 85,328,961</u>
Liabilities				
Accounts payable	\$ 185,768	\$ 80,294	\$ (80,294)	\$ 185,768
Other payables	256,833	-	-	256,833
Advance deposits	60,164	-	-	60,164
Long-term debt	9,420,000	-	-	9,420,000
Total liabilities	<u>9,922,765</u>	<u>80,294</u>	<u>(80,294)</u>	<u>9,922,765</u>
Net Assets				
Unrestricted	55,328,659	393,978	-	55,722,637
Temporarily restricted	2,442,765	466,767	-	2,909,532
Permanently restricted for endowment	-	16,774,027	-	16,774,027
Total net assets	<u>57,771,424</u>	<u>17,634,772</u>	<u>-</u>	<u>75,406,196</u>
Total liabilities and net assets	<u>\$ 67,694,189</u>	<u>\$ 17,715,066</u>	<u>\$ (80,294)</u>	<u>\$ 85,328,961</u>

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

Combining Statement of Activities
Year ended September 30, 2016

	<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>		
Support and revenue:							
Contributions/pledges	\$ 845,898	\$ 2,931,801	\$ -	\$ -	\$ 800	\$ -	\$ 3,778,499
Admissions	89,776	-	-	-	-	-	89,776
Memberships	218,377	-	-	-	-	-	218,377
Program fees	38,495	-	-	-	-	-	38,495
Special events	620,872	-	-	-	-	-	620,872
Museum store	259,567	-	-	-	-	-	259,567
Grand Rapids Art Museum Foundation support	609,219	-	-	-	-	(609,219)	-
Investment return	(1,128)	-	1,167,593	159,527	-	-	1,325,992
Change in value of split-interest agreement	-	-	-	-	22,000	-	22,000
Other income	16,654	-	-	-	-	-	16,654
Total support and revenue	2,697,730	2,931,801	1,167,593	159,527	22,800	(609,219)	6,370,232
Net assets released from restrictions	3,203,359	(3,203,359)	30,732	(30,732)	-	-	-
Total support, revenue and reclassifications	5,901,089	(271,558)	1,198,325	128,795	22,800	(609,219)	6,370,232

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

Combining Statement of Activities (continued)
Year ended September 30, 2016

	Grand Rapids Art Museum		Grand Rapids Art Museum Foundation			Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
Expenses:							
Administration	1,135,395	-	22,412	-	-	-	1,157,807
Curatorial	922,056	-	-	-	-	-	922,056
Advancement	503,059	-	-	-	-	-	503,059
Communications	485,617	-	-	-	-	-	485,617
Membership	224,625	-	-	-	-	-	224,625
Learning & audience engagement	349,564	-	-	-	-	-	349,564
Facilities	1,099,782	-	-	-	-	-	1,099,782
Security	369,430	-	-	-	-	-	369,430
Guest services	126,368	-	-	-	-	-	126,368
Volunteer services	40,748	-	-	-	-	-	40,748
Museum store	249,726	-	-	-	-	-	249,726
Special events	363,497	-	-	-	-	-	363,497
GoSite	61,342	-	-	-	-	-	61,342
Interest	14,087	-	-	-	-	-	14,087
Investment management fees	-	-	68,743	-	-	-	68,743
Depreciation	1,947,608	-	-	-	-	-	1,947,608
Grand Rapids Art Museum support	-	-	609,219	-	-	(609,219)	-
Total expenses	7,892,904	-	700,374	-	-	(609,219)	7,984,059
Support, revenue and reclassifications over (under) expenses	(1,991,815)	(271,558)	497,951	128,795	22,800	-	(1,613,827)
Collection items purchased	-	(162,316)	-	-	-	-	(162,316)
Change in net assets	(1,991,815)	(433,874)	497,951	128,795	22,800	-	(1,776,143)
Net assets, beginning of year	57,320,474	2,876,639	(103,973)	337,972	16,751,227	-	77,182,339
Net assets, end of year	<u>\$ 55,328,659</u>	<u>\$ 2,442,765</u>	<u>\$ 393,978</u>	<u>\$ 466,767</u>	<u>\$ 16,774,027</u>	<u>\$ -</u>	<u>\$ 75,406,196</u>