



JANSEN VALK THOMPSON REAHM PC

Certified Public Accountants and Consultants

November 6, 2015

To the Board of Trustees
Grand Rapids Art Museum
and Grand Rapids Art Museum Foundation

Audit Communications

We have audited the combined financial statements of Grand Rapids Art Museum and Grand Rapids Art Museum Foundation (collectively, the Organization) for the year ended September 30, 2014, and will issue our report thereon subsequent to presentation of this communication and the draft financial statements at our meeting scheduled for November 6, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 24, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the combined financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the combined financial statements in the proper period.

Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimates of the fair value of the Foundation's investments in a hedge fund and two publicly traded partnerships, and the fair value of a split interest agreement. The various valuation methods are described in Note C to the financial statements.

The combined financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated subsequent to our meeting referenced in the first paragraph.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's combined financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the combined financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the combined financial statements or to the combined financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

JANSEN VALK THOMPSON REAHM PC



Combined Financial Statements and Supplementary Information

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

Years ended September 30, 2014 and 2013

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

Years ended September 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 24 through 29 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

November 6, 2015

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Combined Statements of Financial Position

	September 30	
	2014	2013
Assets		
Cash	\$ 2,692,765	\$ 2,003,385
Accounts receivable	85,376	75,462
Inventories	135,845	95,006
Prepaid expenses	132,736	154,490
Prepaid exhibitions	92,599	184,605
Contributions receivable	1,607,402	570,527
Contribution receivable—split-interest agreement	570,000	538,000
Investments	16,964,454	16,847,663
Collections (Note G)	-	-
Cash restricted for investment in property and equipment	1,413	1,413
Property and equipment, less accumulated depreciation	67,585,614	69,442,171
Beverage license	42,444	42,444
Total assets	<u>\$ 89,910,648</u>	<u>\$ 89,955,166</u>
Liabilities		
Accounts payable	\$ 313,755	\$ 401,425
Other payables	261,353	205,581
Advance deposits	88,893	72,306
Long-term debt	9,424,500	9,425,836
Total liabilities	<u>10,088,501</u>	<u>10,105,148</u>
Net Assets		
Unrestricted:		
Board-designated for operations	200,000	75,000
Endowment:		
Board-designated	1,238,205	1,132,248
Donor-restricted	(73,713)	(91,436)
Undesignated	58,805,285	60,491,552
Total unrestricted	<u>60,169,777</u>	<u>61,607,364</u>
Temporarily restricted	3,820,538	2,460,072
Permanently restricted for endowment	15,831,832	15,782,582
Total net assets	<u>79,822,147</u>	<u>79,850,018</u>
Total liabilities and net assets	<u>\$ 89,910,648</u>	<u>\$ 89,955,166</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
Support and revenue:				
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
Total support and revenue	2,691,205	4,524,514	49,250	7,264,969
Net assets released from restrictions	2,966,518	(2,966,518)	-	-
Total support, revenue and reclassifications	5,657,723	1,557,996	49,250	7,264,969

**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
Expenses:				
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	7,095,310	-	-	7,095,310
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	61,607,364	2,460,072	15,782,582	79,850,018
Net assets, end of year	\$ 60,169,777	\$ 3,820,538	\$ 15,831,832	\$ 79,822,147

See accompanying notes to financial statements.

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

Combined Statement of Activities
Year ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	\$ 550,418	\$ 2,177,667	\$ 9,998	\$ 2,738,083
Retail sales	242,267	-	-	242,267
Membership programs	323,039	-	-	323,039
Food and beverage	323,462	-	-	323,462
Investment return	1,229,150	143,517	-	1,372,667
Change in value of split-interest agreement	-	-	24,000	24,000
Special events	276,812	-	-	276,812
Admissions	194,896	-	-	194,896
Facilities rental	205,303	-	-	205,303
Other income	1,148	-	-	1,148
Total support and revenue	3,346,495	2,321,184	33,998	5,701,677
Net assets released from restrictions	2,203,189	(2,203,189)	-	-
Total support, revenue and reclassifications	5,549,684	117,995	33,998	5,701,677

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

Combined Statement of Activities (continued)

Year ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Administration	675,312	-	-	675,312
Bond related fees	4,176	-	-	4,176
Building operations	1,477,718	-	-	1,477,718
Community relations	116,547	-	-	116,547
Curatorial	345,389	-	-	345,389
Depreciation	1,904,488	-	-	1,904,488
Development/membership	423,480	-	-	423,480
Education	277,553	-	-	277,553
Exhibitions	417,163	-	-	417,163
Food and beverage	309,332	-	-	309,332
Interest	12,847	-	-	12,847
Investment management fees	70,278	-	-	70,278
Library	3,805	-	-	3,805
Public relations/marketing	197,915	-	-	197,915
Retail sales	242,751	-	-	242,751
Special events	128,258	-	-	128,258
Total expenses	6,607,012		-	6,607,012
Support, revenue and reclassifications over (under) expenses	(1,057,328)	117,995	33,998	(905,335)
Collection items purchased	-	(55,425)	-	(55,425)
Change in net assets	(1,057,328)	62,570	33,998	(960,760)
Net assets, beginning of year	62,664,692	2,397,502	15,748,584	80,810,778
Net assets, end of year	\$ 61,607,364	\$ 2,460,072	\$ 15,782,582	\$ 79,850,018

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	
	2014	2013
Operating activities		
Change in net assets	\$ (27,871)	\$ (960,760)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,897,151	1,904,488
Collection items purchased	197,530	55,425
Contributions restricted for endowment	(17,250)	(24,151)
Realized and unrealized net gain on investments	(738,605)	(908,513)
Change in value of split-interest agreement	(32,000)	(24,000)
Changes in operating assets and liabilities:		
Accounts/contributions receivable	(1,046,789)	481,101
Inventories	(40,839)	13,280
Prepaid expenses	21,754	(19,307)
Prepaid exhibitions	92,006	(164,825)
Accounts payable	(87,670)	100,211
Other payables	55,772	10,774
Advance deposits	16,587	17,453
Total adjustments	317,647	1,441,936
Net cash provided by operating activities	289,776	481,176
Investing activities		
Purchases of investments	(5,447,145)	(2,016,254)
Proceeds from sales of investments	6,068,959	2,166,810
Property and equipment expenditures	(40,594)	(79,194)
Collection items purchased	(197,530)	(55,425)
Net cash provided by investing activities	383,690	15,937
Financing activities		
Proceeds from contributions restricted for investment in property and equipment	-	5,000
Proceeds from contributions restricted for endowment	17,250	9,998
Principal payments on long-term debt	(1,336)	(81,573)
Net cash provided by (used in) financing activities	15,914	(66,575)
Net increase in cash	689,380	430,538
Cash, beginning of year	2,003,385	1,572,847
Cash, end of year	\$ 2,692,765	\$ 2,003,385

See accompanying notes to financial statements.

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Notes to Combined Financial Statements
September 30, 2014

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 26% of the Organization's support in 2014 and 54% in 2013 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 \$1,325,000 and \$300,000 at September 30, 2014 and 2013, 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 or 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—4.50% 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 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 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 November 6, 2015, 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)
September 30, 2014			
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>
 September 30, 2013			
Investments	\$ 16,847,663	\$ 14,380,587	\$ 2,467,076
Split-interest agreement	538,000	—	538,000
Total	<u>\$ 17,385,663</u>	<u>\$ 14,380,587</u>	<u>\$ 3,005,076</u>

**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 value of mutual funds is 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 3% for 2014 and 2013.

**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:

	Investments	Split-Interest Agreement	Total
Year ended September 30, 2014			
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>
 Year ended September 30, 2013			
Beginning balance	\$ 2,369,750	\$ 514,000	\$ 2,883,750
Unrealized appreciation included in change in net assets	97,326	24,000	121,326
Ending balance	<u>\$ 2,467,076</u>	<u>\$ 538,000</u>	<u>\$ 3,005,076</u>

Unrealized appreciation in investments is reported in investment return in the statements of activities. Unrealized appreciation 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:

	2014	2013
Mutual funds:		
Commodities	\$ 1,124,051	\$ 1,231,024
Equities	8,649,207	8,254,425
Fixed income	3,113,535	3,694,752
Real estate and infrastructure	756,552	719,996
Other	357,617	480,390
Total mutual funds	14,000,962	14,380,587
Hedge fund	1,506,764	1,425,345
Publicly traded partnerships	1,456,728	1,041,731
Total	<u>\$ 16,964,454</u>	<u>\$ 16,847,663</u>

Note E—Contributions Receivable

Contributions receivable are summarized as follows:

	2014	2013
Receivable in less than one year	\$ 1,269,200	\$ 447,990
Receivable in one year to five years	345,000	125,000
Total contributions receivable	1,614,200	572,990
Less discount to net present value	6,798	2,463
Net contributions receivable	<u>\$ 1,607,402</u>	<u>\$ 570,527</u>

Contributions receivable in more than one year were discounted at 1% per annum for 2014 and 2013.

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 \$570,000 and \$538,000 at September 30, 2014 and 2013, 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 3% for 2014 and 2013.

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:

	2014	2013
Land	\$ 7,575,615	\$ 7,575,615
Building	73,062,191	73,032,908
Leasehold improvements	3,800	3,800
Furniture and equipment	1,871,315	1,860,003
Vehicles	61,919	61,919
Total property and equipment	82,574,840	82,534,245
Less accumulated depreciation	14,989,226	13,092,074
Net property and equipment	\$ 67,585,614	\$ 69,442,171

Grand Rapids Art Museum and Grand Rapids Art Museum Foundation

Notes to Combined Financial Statements (continued)

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, 2014, mature in a lump sum on May 1, 2041.

In October 2007, the Museum entered into a loan agreement with an unrelated company to borrow \$150,000 to finance the purchase of equipment. The loan agreement has no stated interest rate and is payable in monthly installments of \$1,250. The loan was paid down to \$4,500 at September 30, 2013 and the balance is currently due and payable.

**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:

	2014	2013
General operations	\$ 2,380,988	\$ 937,577
Exhibitions	217,000	387,129
Property and equipment	26,479	93,230
Furniture restoration and maintenance	12,949	12,163
Collections	641,549	592,588
American Art acquisitions	350,217	272,481
Library acquisitions and education programs	191,356	164,904
Total	<u>\$ 3,820,538</u>	<u>\$ 2,460,072</u>

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

	2014	2013
General operations	\$ 14,191,334	\$ 14,143,834
American Art acquisitions	1,000,000	1,000,000
Education programs	545,506	543,756
Exhibitions	57,011	57,011
Library acquisitions	37,981	37,981
Total	<u>\$ 15,831,832</u>	<u>\$ 15,782,582</u>

Note K—Endowment Funds

The Foundation's endowment consists of eight 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)

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 4.50% (4.25% effective October 1, 2014 and 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 4.50% 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 4.50% 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 4.50% 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
September 30, 2014				
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>
 September 30, 2013				
Donor-restricted endowment funds	\$ (91,436)	\$ 328,648	\$ 15,782,582	\$ 16,019,794
Unrestricted board- designated funds	1,132,248	—	—	1,132,248
Total funds	<u>\$ 1,040,812</u>	<u>\$ 328,648</u>	<u>\$ 15,782,582</u>	<u>\$ 17,152,042</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, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	\$ 1,164,492	\$ 689,732	\$ 15,831,832	\$ 17,686,056

Changes in endowment net assets for the year ended September 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 558,033	\$ 228,939	\$ 15,748,584	\$ 16,535,556
Investment return:				
Investment income	422,176	36,569	—	458,745
Net appreciation	792,168	106,948	—	899,116
Total investment return	1,214,344	143,517	—	1,357,861
Contributions	—	—	9,998	9,998
Change in value of split- interest agreement	—	—	24,000	24,000
Amounts appropriated for expenditure	(731,565)	(43,808)	—	(775,373)
Endowment net assets, end of year	\$ 1,040,812	\$ 328,648	\$ 15,782,582	\$ 17,152,042

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

Notes to Combined Financial Statements (continued)

Note L—Investment Return

Investment return is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 417,186	\$ 464,154
Realized and unrealized net gain on investments	<u>738,605</u>	<u>908,513</u>
Total	<u>\$ 1,155,791</u>	<u>\$ 1,372,667</u>

Note M—Maintenance Contracts

The Museum had entered into two five-year maintenance contracts covering certain security equipment which ended September 30, 2013. Expense for these maintenance contracts totaled \$55,008 in 2013.

Note N—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 \$29,322 in 2014 and \$27,101 in 2013.

Note O—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 expense under the Plan was \$13,972 in 2014 and \$13,753 in 2013.

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

Notes to Combined Financial Statements (continued)

Note P—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 statements of financial position.

Note Q—Supplemental Cash Flow Information

Cash paid for interest was \$6,346 in 2014 and \$12,413 in 2013.

Supplementary Information

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

Combining Statement of Financial Position
September 30, 2014

	Grand Rapids Art Museum	Grand Rapids Art Museum Foundation	Eliminations	Combined
Assets				
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
Contribution 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>
Liabilities				
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
Net Assets				
Unrestricted	59,005,285	1,164,492	-	60,169,777
Temporarily restricted	3,130,806	689,732	-	3,820,538
Permanently restricted for endowment	-	15,831,832	-	15,831,832
Total net assets	62,136,091	17,686,056	-	79,822,147
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 Financial Position
September 30, 2013

	Grand Rapids Art Museum	Grand Rapids Art Museum Foundation	Eliminations	Combined
Assets				
Cash	\$ 1,897,420	\$ 105,965	\$ -	\$ 2,003,385
Accounts receivable	247,732	5,645	(177,915)	75,462
Inventories	95,006	-	-	95,006
Prepaid expenses	154,490	-	-	154,490
Prepaid exhibitions	184,605	-	-	184,605
Contributions receivable	570,277	250	-	570,527
Contributions receivable—split- interest agreement	-	538,000	-	538,000
Investments	167,566	16,680,097	-	16,847,663
Cash restricted for investment in property and equipment	1,413	-	-	1,413
Property and equipment, less accumulated depreciation	69,442,171	-	-	69,442,171
Beverage license	42,444	-	-	42,444
Total assets	<u>\$ 72,803,124</u>	<u>\$ 17,329,957</u>	<u>\$ (177,915)</u>	<u>\$ 89,955,166</u>
Liabilities				
Accounts payable	\$ 401,425	\$ 177,915	\$ (177,915)	\$ 401,425
Other payables	205,581	-	-	205,581
Advance deposits	72,306	-	-	72,306
Long-term debt	9,425,836	-	-	9,425,836
Total liabilities	10,105,148	177,915	(177,915)	10,105,148
Net Assets				
Unrestricted	60,566,552	1,040,812	-	61,607,364
Temporarily restricted	2,131,424	328,648	-	2,460,072
Permanently restricted for endowment	-	15,782,582	-	15,782,582
Total net assets	62,697,976	17,152,042	-	79,850,018
Total liabilities and net assets	<u>\$ 72,803,124</u>	<u>\$ 17,329,957</u>	<u>\$ (177,915)</u>	<u>\$ 89,955,166</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>		
Support and revenue:							
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		
Expenses:							
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	<u>7,016,928</u>	<u>-</u>	<u>733,412</u>	<u>-</u>	<u>-</u>	<u>(655,030)</u>	<u>7,095,310</u>
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	60,566,552	2,131,424	1,040,812	328,648	15,782,582	-	79,850,018
Net assets, end of year	<u>\$ 59,005,285</u>	<u>\$ 3,130,806</u>	<u>\$ 1,164,492</u>	<u>\$ 689,732</u>	<u>\$ 15,831,832</u>	<u>\$ -</u>	<u>\$ 79,822,147</u>

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

Combining Statement of Activities
Year ended September 30, 2013

	<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	\$ 550,418	\$ 2,177,667	\$ -	\$ -	\$ 9,998	\$ -	\$ 2,738,083
Retail sales	242,267	-	-	-	-	-	242,267
Membership programs	323,039	-	-	-	-	-	323,039
Food and beverage	323,462	-	-	-	-	-	323,462
Investment return	14,806	-	1,214,344	143,517	-	-	1,372,667
Grand Rapids Art Museum Foundation support	696,428	-	-	-	-	(696,428)	-
Change in value of split-interest agreement	-	-	-	-	24,000	-	24,000
Special events	276,812	-	-	-	-	-	276,812
Admissions	194,896	-	-	-	-	-	194,896
Facilities rental	205,303	-	-	-	-	-	205,303
Other income	1,148	-	-	-	-	-	1,148
Total support and revenue	2,828,579	2,177,667	1,214,344	143,517	33,998	(696,428)	5,701,677
Net assets released from restrictions	2,159,381	(2,159,381)	43,808	(43,808)	-	-	-
Total support, revenue and reclassifications	4,987,960	18,286	1,258,152	99,709	33,998	(696,428)	5,701,677

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

Combining Statement of Activities (continued)
Year ended September 30, 2013

	Grand Rapids Art Museum		Grand Rapids Art Museum Foundation			Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
Expenses:							
Administration	666,645	-	8,667	-	-	-	675,312
Bond related fees	4,176	-	-	-	-	-	4,176
Building operations	1,477,718	-	-	-	-	-	1,477,718
Community relations	116,547	-	-	-	-	-	116,547
Curatorial	345,389	-	-	-	-	-	345,389
Depreciation	1,904,488	-	-	-	-	-	1,904,488
Development/membership	423,480	-	-	-	-	-	423,480
Education	277,553	-	-	-	-	-	277,553
Exhibitions	417,163	-	-	-	-	-	417,163
Food and beverage	309,332	-	-	-	-	-	309,332
Grand Rapids Art Museum support	-	-	696,428	-	-	(696,428)	-
Interest	12,847	-	-	-	-	-	12,847
Investment management fees	-	-	70,278	-	-	-	70,278
Library	3,805	-	-	-	-	-	3,805
Public relations/marketing	197,915	-	-	-	-	-	197,915
Retail sales	242,751	-	-	-	-	-	242,751
Special events	128,258	-	-	-	-	-	128,258
Total expenses	<u>6,528,067</u>	<u>-</u>	<u>775,373</u>	<u>-</u>	<u>-</u>	<u>(696,428)</u>	<u>6,607,012</u>
Support, revenue and reclassifications over (under) expenses	(1,540,107)	18,286	482,779	99,709	33,998	-	(905,335)
Collection items purchased	-	(55,425)	-	-	-	-	(55,425)
Change in net assets	(1,540,107)	(37,139)	482,779	99,709	33,998	-	(960,760)
Net assets, beginning of year	62,106,659	2,168,563	558,033	228,939	15,748,584	-	80,810,778
Net assets, end of year	<u>\$ 60,566,552</u>	<u>\$ 2,131,424</u>	<u>\$ 1,040,812</u>	<u>\$ 328,648</u>	<u>\$ 15,782,582</u>	<u>\$ -</u>	<u>\$ 79,850,018</u>