Detroit Institute of Arts

Financial Report
June 30, 2019

Contents

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Independent Auditor's Report

To the Board of Directors
Detroit Institute of Arts

We have audited the accompanying financial statements of Detroit Institute of Arts, which comprise the statement of financial position as of June 30, 2019 and 2018 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Detroit Institute of Arts as of June 30, 2019 and 2018 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Detroit Institute of Arts

Emphasis of Matters

As discussed in Note 17 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, Detroit Institute of Arts adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

October 24, 2019

Statement of Financial Position

June 30, 2019 and 2018

	2019	2018 (As restated)
Assets		
Current Assets		
Cash and short-term investments	$ 22,873,972	$ 33,977,249
Restricted cash	2,799,074	3,668,784
Receivables - Net:		
Accounts	3,934,179	2,760,817
Pledges (Note 4)	4,448,975	2,863,470
Grand Bargain pledges (Note 5)	1,485,600	3,707,600
Inventories	400,922	489,960
Prepaid expenses	562,495	287,067
Total current assets	36,505,217	47,754,947
Investments (Note 9)	304,484,350	261,237,012
Long-term Receivables - Net		
Pledges - Less current portion (Note 4)	13,560,297	13,249,951
Grand Bargain pledges - Less current portion (Note 5)	24,205,103	25,918,939
Pension Asset (Note 12)	157,702	564,957
Fixed Assets - Net (Note 10)	24,202,825	24,192,438
Total assets	**$ 403,115,494**	**$ 372,918,244**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,423,475	$ 1,840,542
Accrued payroll and other employee benefits	2,526,919	2,338,922
Deferred revenue	12,201,296	12,714,919
Due to Foundation for Detroit's Future (Note 11)	375,000	375,000
Total current liabilities	17,526,690	17,269,383
Due to Foundation for Detroit's Future - Less current portion (Note 11)	4,101,727	4,335,414
Postretirement Healthcare Obligation (Note 12)	3,243,068	3,126,705
Total liabilities	24,871,485	24,731,502
Net Assets		
Without donor restrictions:		
Undesignated	15,075,882	33,339,524
Board designated (Note 15)	193,513,711	157,101,609
With donor restrictions (Notes 8 and 15)	169,654,416	157,745,609
Total net assets	378,244,009	348,186,742
Total liabilities and net assets	**$ 403,115,494**	**$ 372,918,244**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018
(As restated)

	2019			2018 (As Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Tricounty support (Note 3)	$ 25,909,185	$ -	$ 25,909,185	$ 25,203,441	$ -	$ 25,203,441
Membership and development	10,142,131	12,725,947	22,868,078	11,318,977	13,344,779	24,663,756
Program and operational activities	6,540,421	402,988	6,943,409	6,340,852	601,302	6,942,154
Investment income - Net (Note 6)	11,789,639	3,036,704	14,826,343	14,104,016	3,302,203	17,406,219
Net assets released from restrictions	2,733,454	(2,733,454)	-	4,639,712	(4,639,712)	-
Total revenue, gains, and other support	57,114,830	13,432,185	70,547,015	61,606,998	12,608,572	74,215,570
Operating Expenses						
Program and operational activities	29,934,532	-	29,934,532	29,915,195	-	29,915,195
Membership and development	4,227,292	-	4,227,292	3,693,040	-	3,693,040
Supporting services	4,165,004	-	4,165,004	3,896,767	-	3,896,767
Total operating expenses	38,326,828	-	38,326,828	37,505,002	-	37,505,002
Changes in Net Assets from Operations	18,788,002	13,432,185	32,220,187	24,101,996	12,608,572	36,710,568
Other Changes in Net Assets						
Contributions received for art acquisitions	-	69,395	69,395	-	45,781	45,781
Investment return earmarked for art acquisitions (Note 6)	14,669	4,171,559	4,186,228	37,897	5,220,573	5,258,470
Purchases of works of art	(5,809,641)	-	(5,809,641)	(3,724,370)	-	(3,724,370)
Proceeds from the sale of deaccessioned art	-	23,255	23,255	-	171,565	171,565
Net assets released from restrictions to fund art acquisitions	5,787,587	(5,787,587)	-	3,373,204	(3,373,204)	-
Change in pension plan obligation (Note 12)	(440,237)	-	(440,237)	2,963,338	-	2,963,338
Change in postretirement healthcare obligation (Note 12)	(191,920)	-	(191,920)	567,077	-	567,077
Total other changes in net assets	(639,542)	(1,523,378)	(2,162,920)	3,217,146	2,064,715	5,281,861
Increase in Net Assets - Before transfers	18,148,460	11,908,807	30,057,267	27,319,142	14,673,287	41,992,429
Transfers	-	-	-	(735,310)	735,310	-
Total Changes in Net Assets	18,148,460	11,908,807	30,057,267	26,583,832	15,408,597	41,992,429
Net Assets - Beginning of year - As restated	190,441,133	157,745,609	348,186,742	163,857,301	142,337,012	306,194,313
Net Assets - End of year	**$ 208,589,593**	**$ 169,654,416**	**$ 378,244,009**	**$ 190,441,133**	**$ 157,745,609**	**$ 348,186,742**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program and Operational Activities	Membership and Development	Supporting Services	Total
Salaries and benefits	$ 16,429,956	$ 2,083,580	$ 2,179,655	$ 20,693,191
Building operations and utilities	3,756,607	330,316	116,587	4,203,510
Contract services	2,506,122	506,817	850,243	3,863,182
Office and technology	964,676	209,054	474,722	1,648,452
Advertising and promotion	1,264,204	188,305	-	1,452,509
Auxiliary events, travel, and hospitality	797,487	471,516	182,365	1,451,368
Depreciation and amortization	1,285,364	762	77,234	1,363,360
Cost of sales	894,469	-	-	894,469
Insurance	650,670	-	115,859	766,529
Bus subsidies for schools and seniors	581,689	-	-	581,689
Art packing, transportation, and other	333,001	-	32	333,033
Other	470,287	436,942	168,307	1,075,536
Total expenses	**$ 29,934,532**	**$ 4,227,292**	**$ 4,165,004**	**$ 38,326,828**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program and Operational Activities	Membership and Development	Supporting Services	Total
Salaries and benefits	$ 15,800,527	$ 1,479,629	$ 1,958,460	$ 19,238,616
Building operations and utilities	3,437,093	374,034	112,082	3,923,209
Contract services	2,417,082	545,235	898,084	3,860,401
Office and technology	1,183,507	261,349	371,419	1,816,275
Advertising and promotion	1,750,021	167,267	-	1,917,288
Auxiliary events, travel, and hospitality	692,172	471,895	196,919	1,360,986
Depreciation and amortization	1,152,599	3,656	78,256	1,234,511
Cost of sales	1,007,343	-	-	1,007,343
Insurance	403,880	-	113,440	517,320
Bus subsidies for schools and seniors	586,857	-	-	586,857
Art packing, transportation, and other	478,514	-	-	478,514
Other	1,005,600	389,975	168,107	1,563,682
Total expenses	**$ 29,915,195**	**$ 3,693,040**	**$ 3,896,767**	**$ 37,505,002**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 30,057,267	$ 41,992,429
Adjustments to reconcile change in net assets to net cash and short-term investments provided by operating activities:		
Depreciation	995,082	856,781
Amortization on Grand Bargain obligation	141,313	148,119
Amortization on pledge discounts	(1,136,732)	(677,709)
Net realized and unrealized gains on long-term investments	(14,522,900)	(17,644,479)
Contributions restricted for long-term purposes	(10,182,522)	(13,165,592)
Net periodic benefit cost pension and postretirement medical benefits and related settlements	(277,188)	279,052
Change in pension obligation	484,066	(3,351,009)
Change in postretirement healthcare obligation	407,297	(475,501)
Acquisitions of art	5,809,641	3,724,370
Changes in operating assets and liabilities that provided (used) cash and short-term investments:		
Accounts and pledges receivable	1,586,631	3,256,351
Inventories	89,038	(137,644)
Prepaid expenses	(275,428)	709,069
Accounts payable and accrued expenses	582,933	(100,295)
Deferred revenue	(513,623)	467,094
Accrued payroll and other liabilities	187,997	23,141
Pension asset	(15,000)	(1,200,000)
Unfunded postretirement healthcare obligation	(75,557)	(76,488)
Net cash and short-term investments provided by operating activities	13,342,315	14,627,689
Cash Flows from Investing Activities		
Purchase of fixed assets	(1,005,469)	(3,337,893)
Acquisition of art objects	(5,809,641)	(3,724,370)
Purchase of investments	(101,794,069)	(134,991,437)
Proceeds from sale of investments	73,069,631	123,667,512
Net cash and short-term investments used in investing activities	(35,539,548)	(18,386,188)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term purposes	5,663,596	6,473,002
Payments to Foundation for Detroit's Future	(375,000)	(375,000)
Payments received on Grand Bargain pledges receivable	4,935,650	4,288,700
Net cash and short-term investments provided by financing activities	10,224,246	10,386,702
Net (Decrease) Increase in Cash and Short-term Investments	(11,972,987)	6,628,203
Cash and Short-term Investments - Beginning of year	37,646,033	31,017,830
Cash and Short-term Investments - End of year	**$ 25,673,046**	**$ 37,646,033**
Statement of Financial Position Classification of Cash and Short-term Investments		
Cash and short-term investments	$ 22,873,972	$ 33,977,249
Cash for restricted purposes	2,799,074	3,668,784
Total cash and short-term investments	**$ 25,673,046**	**$ 37,646,033**

See notes to financial statements.

Note 1 - Nature of Business

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

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

Note 2 - Significant Accounting Policies

Basis of Presentation

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

Cash and Short-term Investments

Cash and short-term investments consist of cash and money market funds, excluding amounts held temporarily in the long-term investment portfolio.

Accounts Receivable

Receivables include amounts due from other museums for costs associated with the loan of works of art, such as crating and shipping; amounts due from agencies for grants awarded and funds to be provided as reimbursement for expenses incurred; and amounts due from tricounties. See Note 3 for the millage revenue accounting policy. Management deems the nonmillage accounts receivable to be fully collectible.

Pledges Receivable

Pledges are unconditional promises to give and are recognized as membership and development revenue discounted to their present value at the end of each reporting period.

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

Inventories

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

Prepaid Expenses

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

Note 2 - Significant Accounting Policies (Continued)

Investments

Investments are recorded at fair market value, as described in Note 9. The estimated fair market value of certain alternative investments is provided by external investment managers. Management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and significant assumptions used in determining fair value of the nonmarketable alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for these securities existed.

Fixed Assets

Fixed assets are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the gift. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets must be maintained; expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

	Depreciable Life - Years
Buildings and improvements	10-40
Parking facilities	20
Furniture and equipment	5-7
Software	3

Deferred Revenue

The DIA receives monies for which goods or services will be provided in future periods. Such receipts include proceeds from the tricounty art services agreement (see Note 3), payments for gift cards, and deposits for future events. Revenue is recorded in the period in which the goods or services are provided.

Classification of Net Assets

Net assets of the DIA are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled by the DIA. Under this category are three subcategories of net assets without donor restrictions: (1) undesignated; (2) board designated, where the entire balance can be spent for operating purposes, as directed by the board of directors of the DIA (the "Board"); and (3) board-designated endowment, where only the income, not the principal, is spent for operating purposes, as directed by the Board.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the DIA or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Earnings on endowment assets are classified as net assets with donor restrictions until such time as the related donor restrictions have been met, if applicable, and the funds have been appropriated for expenditure by the governing board. Types of restrictions include art acquisitions, programs for learning and audience engagement, curatorial and conservation, and operations.

Note 2 - Significant Accounting Policies (Continued)

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Contributions

Contributions, including cash and in-kind contributions, without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as contributions without donor restrictions. For unconditional promises to give, revenue is recorded as membership and development revenue in the year such promises are made. Membership dues are considered contribution revenue and are recorded when received. Other revenue related to food service, gift shop sales, admissions, and special event ticket sales are classified as program and operational activities when earned. See Note 3 for the millage revenue accounting policy.

Contributed Goods and Services

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

Museum Collections

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

Such art is accessioned to the permanent collection of the Museum upon approval of the Board. The works of art are held in charitable trust for educational, research, and curatorial purposes. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed annually. Sales of works of art are subject to a policy that requires proceeds from their sales be used to acquire other items for the collection. Contributed works of art are not reflected in the financial statements. The donor-stated value of contributed works of art totaled approximately $12.7 million and $1.7 million (unaudited) for the years ended June 30, 2019 and 2018, respectively.

Functional Allocation of Expenses

Costs of providing the program, fundraising, and management services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Occupancy is allocated on the basis of square footage for the appropriate area of usage. Depreciation and amortization are allocated on the basis of the program or support service that uses the fixed asset. Costs have been allocated between the various programs and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Other Changes in Net Assets

Operating revenue and expenses are those directly related to the purpose and primary mission of the Museum. As a result, other activity, including artwork transactions and pension and postretirement obligations, is reported as nonoperating revenue and expenses.

Note 2 - Significant Accounting Policies (Continued)

The Grand Bargain

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

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

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

The Grand Bargain included an option for the funders to retire their portion of the obligation early at a discount of 6.75 percent. See Note 11 for more information on the Museum's obligation to FDF. See Note 5 for more information about pledges receivable from donors related to the Grand Bargain.

Adoption of New Accounting Pronouncements

The year ended June 30, 2019, applied retrospectively to all years presented, the DIA adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories: without donor restrictions and with donor restrictions. This standard requires additional information about the DIA's functional allocation of expenditures and natural classification of those expenditures. Finally, the standard requires additional disclosures from the DIA, including information about the liquidity and availability of the DIA's resources. The standard was adopted on a retrospective basis. Net assets of $63,595,766 previously reported as temporarily restricted net assets and net assets of $94,149,843 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions. Additionally, 2018 functional expenses on the statement of activities and changes in net assets have been restated to increase program and operational expenses by $1,294,274, membership and development expenses by $292,606, and decrease supporting services expenses by $1,882,975.

Also for the year ended June 30, 2019, applied retrospectively to all years presented, the DIA adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This standard requires the presentation of the service cost component of net benefit cost to be in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost are presented separately from the service cost component and outside of income from operations. As a result, total costs of $296,095 related to the pension and postretirement plans have been reclassified from program and operational activities expenses within operating activities to changes in pension and postretirement healthcare obligations within other changes in net assets for the year ended June 30, 2018.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the DIA's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. Management is currently evaluating which application will be used. The Museum expects the new standard could have a significant impact on the recognition of revenue from the tricounties.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the DIA's year ending June 30, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Upon adoption, the Museum will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments, which will be an immaterial amount. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Museum’s fiscal year ending June 30, 2020 and will be applied on a modified prospective basis. The Museum expects the standard to have a significant impact on the timing of revenue recognition for the tricounty millage revenue, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions. Under this new guidance, management expects the tricounty millage revenue will be considered unconditional contribution revenue that will be fully recognized in the financial statements when received. Management estimates that deferred revenue of approximately $11.8 million will be recognized as revenue in the year of implementation.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 24, 2019, which is the date the financial statements were available to be issued.

Note 3 - Relationship with the Tricounties

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

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

All agreements are based on providing services over a calendar year. Proceeds from the millage are forwarded to the DIA as received by the counties. For the years ended June 30, 2019 and 2018, the DIA has recognized approximately $25.9 million and $25.2 million, respectively, in service agreement revenue. The net revenue is recorded as tricounty support without donor restrictions. As these proceeds are received on a calendar year basis, the balance of the estimated proceeds not recognized as revenue in the current fiscal year totaled approximately $11.8 million and $12.5 million for 2019 and 2018, respectively, and is recorded as deferred revenue. The gross outstanding receivable balance is approximately $0.7 million and $1.5 million as of June 30, 2019 and 2018, respectively. Based on the consistency of collections in prior years, there is no reserve for doubtful accounts receivable at June 30, 2019 and 2018. The reserves are based on historic and actual collection activity.

Note 4 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	2019	2018
Gross promises to give	$ 21,087,366	$ 19,108,434
Less allowance for uncollectible pledges	(1,200,000)	(980,000)
Present value adjustment (0.47 - 2.61 percent)	(1,878,094)	(2,015,013)
Net pledges receivable	$ 18,009,272	$ 16,113,421
Amounts due in:		
Less than one year	$ 4,448,975	$ 2,863,470
One to five years	11,105,880	9,801,153
More than five years	5,532,511	6,443,811
Total	$ 21,087,366	$ 19,108,434

In addition, the DIA has obtained, but not recognized, approximately $1.3 million in pledges at June 30, 2019 and 2018, respectively, which depend on the occurrence of specified future and uncertain events to bind the donor. These pledges will be recognized as the conditions are met.

Note 5 - Grand Bargain Pledges

The DIA's board of directors passed a resolution in the year ended June 30, 2016 to extinguish the Grand Bargain obligation by electing to prepay a majority of the balance in lieu of paying over 20 years. This resolution released the remaining pledges from donor restriction, as the donor-restricted purpose of paying the obligation has been met. Subsequent to the payoff, the Board passed a resolution to allocate the remaining Grand Bargain pledges to the board-designated endowment.

Note 5 - Grand Bargain Pledges (Continued)

Grand bargain pledges receivable at June 30 are as follows:

	2019	2018
Gross promises to give	$ 30,902,700	$ 35,838,350
Less allowance for uncollectible pledges	(310,000)	(443,000)
Present value adjustment (1.12% - 3.07%)	(4,901,997)	(5,768,811)
Total	$ 25,690,703	$ 29,626,539
Amounts due in:		
Less than one year	$ 1,485,600	$ 3,707,600
One to five years	13,955,850	15,013,250
More than five years	15,461,250	17,117,500
Total	$ 30,902,700	$ 35,838,350

Note 6 - Investment Income

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

Investment income is composed of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	$ 5,235,486	$ 4,800,960
Trust distributions (Note 7)	1,609,410	1,615,119
Net realized and unrealized gains	14,049,501	17,644,479
Investment management fees	(1,881,826)	(1,395,869)
Total	$ 19,012,571	$ 22,664,689

Note 7 - Beneficial Interests

The DIA is the recipient of substantial gifts from the investment of the Robert H. Tannahill Trust (the "Tannahill Trust"). The Robert H. Tannahill Foundation Committee is instructed to allocate 50 percent of its annual income to the DIA for the acquisition of art objects in certain specified categories. The market value of one-half of the Tannahill Trust principal at June 30, 2019 and 2018 was approximately $26.5 million. The beneficial interest in the trust has not been recorded on the Museum’s statement of financial position because the trustees had the power to change the beneficiaries. In 2016, the Tannahill Trust transferred 100 percent of the trust principal to the Community Foundation for Southeast Michigan (CFSEM) to hold and manage the fund. The fund is subject to variance power maintained by CFSEM. The fund is invested as a component fund of CFSEM. Income earned is available to be distributed to the DIA at the discretion of CFSEM. Earnings distributions totaled $1,468,835 and $1,475,000 in 2019 and 2018, respectively, and are recorded on the statement of activities and changes in net assets under other changes in net assets as investment return on funds earmarked for art acquisitions. The cash received from the Tannahill Trust is included in restricted cash on the statement of financial position.

Note 7 - Beneficial Interests (Continued)

The DIA is an income beneficiary of an endowment fund (the "Fund") held and managed by CFSEM for funds donated by outside donors for the benefit of the Museum. The total market value of the Fund at June 30, 2019 and 2018 was approximately $17 million and $16 million, respectively. The beneficial interest in these funds has not been recorded on the Museum's statement of financial position because CFSEM maintains variance power over the funds. New gifts to the Fund are largely attributable to the DIA's participation in CFSEM fundraising initiatives. The Fund is invested as a component fund of CFSEM. Income earned is available to be distributed to the DIA at the discretion of CFSEM. Starting on July 1, 2013, the DIA requested and CFSEM approved the suspension of the payout from the Fund for operating purposes. This measure was taken to help build the endowment fund. Earnings distributions to the DIA for specific operating programs are $127,331 and $126,988 for the years ended June 30, 2019 and 2018, respectively.

In addition, certain funds donated by outside donors for the benefit of the DIA are held and managed by the Ann Arbor Area Community Foundation (AAACF). The fair market value of these funds was approximately $325,000 at both June 30, 2019 and 2018. The beneficial interest in these funds has not been recorded on the Museum's statement of financial position because AAACF maintains variance power over the funds. Earnings are available for distribution to the DIA for operations at the discretion of AAACF. Earnings distributions to the DIA operations were $13,244 and $13,131 for the years ended June 30, 2019 and 2018, respectively.

Note 8 - Donor-restricted and Board-designated Endowments

The DIA's endowment consists of approximately 100 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The DIA is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the DIA had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, DIA considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The DIA has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the DIA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the DIA and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

- The expected total return from income and the appreciation of investments
- Other resources of the DIA
- The investment policies of the DIA

	Endowment Net Asset Composition by Type of Fund as of June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 138,181,963	$ -	$ 138,181,963
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	102,207,065	102,207,065
Accumulated investment gains	-	18,401,153	18,401,153
Term endowment	-	21,825,091	21,825,091
Total donor-restricted endowment funds	-	142,433,309	142,433,309
Total	$ 138,181,963	$ 142,433,309	$ 280,615,272

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 108,488,353	$ 132,240,884	$ 240,729,237
Investment return:			
Investment income	2,132,526	1,048,585	3,181,111
Net appreciation (realized and unrealized)	7,094,455	3,463,324	10,557,779
Total investment return	9,226,981	4,511,909	13,738,890
Contributions	-	8,034,240	8,034,240
Appropriation of endowment assets for expenditure	(414,865)	(2,385,113)	(2,799,978)
Other changes:			
Board resolution to designate unrestricted bequests	1,395,588	-	1,395,588
Transfers based on board or donor request	19,485,906	31,389	19,517,295
Endowment net assets - End of year	$ 138,181,963	$ 142,433,309	$ 280,615,272

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 108,488,353	$ -	$ 108,488,353
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	94,149,843	94,149,843
Accumulated investment gains	-	16,577,331	16,577,331
Term endowment	-	21,513,710	21,513,710
Total donor-restricted endowment funds	-	132,240,884	132,240,884
Total	$ 108,488,353	$ 132,240,884	$ 240,729,237

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 97,757,029	$ 117,929,168	$ 215,686,197
Investment return:			
Investment income	2,055,114	1,166,010	3,221,124
Net appreciation (realized and unrealized)	7,918,974	4,492,989	12,411,963
Total investment return	9,974,088	5,658,999	15,633,087
Contributions	-	10,360,281	10,360,281
Appropriation of endowment assets for expenditure	(442,543)	(2,377,640)	(2,820,183)
Other changes:			
Board resolution to designate unrestricted bequests	1,935,089	-	1,935,089
Transfers based on board or donor request	(735,310)	670,076	(65,234)
Endowment net assets - End of year	$ 108,488,353	$ 132,240,884	$ 240,729,237

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MPMIFA requires the DIA to retain as a fund of perpetual duration. As of June 30, 2019 and 2018, there were no funds with deficiencies.

Strategies Employed for Achieving Objectives

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

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The DIA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the DIA must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, that is equal to or greater than the approved endowment payout (currently 4.6 percent) over the long term. Actual returns in any given year may vary from this amount.

Note 9 - Fair Value Measurements

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

The following tables present information about the DIA’s assets measured at fair value on a recurring basis at June 30, 2019 and 2018 and the valuation techniques used by the DIA to determine those fair values.

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

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

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

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

Management believes the investment portfolio is sufficiently liquid to meet the DIA’s needs. As of June 30, 2019, 26.7 percent of the fair value of the investments was available for withdrawal on a daily basis, 26.1 percent on a monthly basis, 20.5 percent on a quarterly basis, 4.2 percent on a semiannual basis, 4.7 percent on an annual basis, and 17.8 percent in greater than one year.

Note 9 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Balance at June 30, 2019
Cash and short-term investments - Money market funds	$ 10,472,727	$ -	$ 10,472,727
Investments:			
Money market funds	6,903,312	-	6,903,312
Mutual funds:			
Debt securities	23,203,427	-	23,203,427
International equities	11,972,715	-	11,972,715
Domestic equities	40,080,340	-	40,080,340
Alternative investments:			
Common trust	-	29,368,074	29,368,074
Hedge funds	-	50,358,594	50,358,594
Partnerships	-	54,927,085	54,927,085
Foreign corporations	-	34,512,669	34,512,669
Private equity	-	18,286,156	18,286,156
Private credit	-	34,871,978	34,871,978
Total investments at fair value	82,159,794	222,324,556	304,484,350
Total assets at fair value	$ 92,632,521	$ 222,324,556	$ 314,957,077

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Balance at June 30, 2018
Cash and short-term investments - Money market funds	$ 15,650,640	$ -	$ 15,650,640
Investments:			
Money market fund	2,721,208	-	2,721,208
Mutual funds:			
Debt securities	14,823,427	-	14,823,427
International equities	11,577,625	-	11,577,625
Domestic equities	42,135,651	-	42,135,651
Alternative investments:			
Common trust	-	33,617,000	33,617,000
Hedge funds	-	53,015,162	53,015,162
Partnerships	-	49,125,091	49,125,091
Foreign corporations	-	30,957,328	30,957,328
Private equity	-	2,669,416	2,669,416
Private credit	-	20,595,104	20,595,104
Total investments at fair value	71,257,911	189,979,101	261,237,012
Total assets at fair value	$ 86,908,551	$ 189,979,101	$ 276,887,652

Excluded from the total investments at fair value in the table above is $21,861,037 of pending trades at June 30, 2018. There were no pending trades as of June 30, 2019.

Note 9 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

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

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

	2019	2018	2019		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Common trust	$ 29,368,074	$ 33,617,000	$ -	Monthly	10 days - by the 22nd of prior month
Hedge funds	50,358,594	53,015,162	-	Monthly - Annually on Anniversary	60 - 80 days
Partnerships	54,927,085	49,125,091	-	Weekly - Quarterly	5 - 60 days
Foreign corporations	34,512,669	30,957,328	-	Daily - Annually on Anniversary	14 - 90 days
Private equity	18,286,156	2,669,416	63,648,684	N/A	N/A
Private credit	34,871,978	20,595,104	26,476,742	N/A	N/A
Total	$ 222,324,556	$ 189,979,101	$ 90,125,426		

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

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

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

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

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

Note 10 - Fixed Assets

Fixed assets consist of the following as of June 30:

	2019	2018
Land	$ 2,667,703	$ 2,667,703
Building and improvements	20,338,697	18,790,641
Parking facilities	3,063,073	2,987,435
Construction in progress	710,919	1,643,588
Furniture and equipment	2,051,232	2,201,321
Software	577,767	577,767
Total cost	29,409,391	28,868,455
Accumulated depreciation and amortization	5,206,566	4,676,017
Net property and equipment	$ 24,202,825	$ 24,192,438

Total depreciation expense for the years ended June 30, 2019 and 2018 was approximately $1.0 million and $0.9 million, respectively.

Note 11 - Due to Foundation for Detroit's Future

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

The obligation to FDF consists of the following:

	Gross	Discount (3%)	Net
Balance as of July 1, 2017	$ 6,375,000	$ (1,437,705)	$ 4,937,295
Amortization of 3% discount	-	148,119	148,119
Payment made June 2018	(375,000)	-	(375,000)
Balance as of July 1, 2018	6,000,000	(1,289,586)	4,710,414
Amortization of 3% discount	-	141,313	141,313
Payment made June 2019	(375,000)	-	(375,000)
Balance as of June 30, 2019	$ 5,625,000	$ (1,148,273)	$ 4,476,727

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

2020	$ 375,000
2021	375,000
2022	375,000
2023	375,000
2024	375,000
2025 and thereafter	3,750,000
Total	$ 5,625,000

Note 12 - Pension and OPEB

The DIA has a defined benefit pension plan (the "Plan") covering substantially all of its employees who were hired before July 1, 2009. The benefits are based on years of service and level of compensation. Effective July 1, 2009, the Plan was amended to freeze accruals and to exclude employees hired on or after July 1, 2009. Vesting requirements for accrued benefits under the Plan were unchanged by the amendment. The DIA's funding policy is to contribute annually amounts sufficient to meet the benefits to be paid to participants and to satisfy minimum funding requirements, as required by the Employee Retirement Income Security Act of 1974, as amended (ERISA). The DIA has met the ERISA minimum funding requirements for the years ended June 30, 2019 and 2018.

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

The following tables set forth the plans' funded status, the cost the DIA recognized in its financial statements, and other information required for disclosure at June 30, 2019 and 2018:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Benefit obligation	$ 38,856,294	$ 36,050,777	$ 3,243,068	$ 3,126,705
Fair value of plan assets	39,013,996	36,615,734	-	-
Overfunded (underfunded) status	$ 157,702	$ 564,957	$ (3,243,068)	$ (3,126,705)

The benefit obligation above reflects the projected benefit obligation for pension benefits and the accumulated benefit obligation for other postretirement benefits. Due to the defined benefit plan being frozen as of July 1, 2009, the projected benefit obligation and the accumulated benefit obligation are the same.

Amounts recognized in the statement of financial position consist of the following:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Overfunded pension plan obligation	$ (157,702)	$ (564,957)	$ -	$ -
Postretirement healthcare obligation	-	-	3,243,068	3,126,705
(Overfunded) underfunded status	$ (157,702)	$ (564,957)	$ 3,243,068	$ 3,126,705

Note 12 - Pension and OPEB (Continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Net actuarial loss (gain)	$ 1,050,119	$ (2,408,354)	$ 18,568	$ (768,746)
Amortization of prior service costs	-	-	416,338	416,338
Amortization of net loss	(566,053)	(942,655)	(27,609)	(123,093)
Adjustment to pension liability and postretirement healthcare obligation - Loss (gain)	$ 484,066	$ (3,351,009)	$ 407,297	$ (475,501)

The amounts included in unrestricted net assets at June 30, 2019 that have not been recognized in net periodic benefit cost include approximately $8.5 million in unrecognized actuarial losses for the Plan and prior service cost credit of $1.9 million and unrecognized actuarial losses of approximately $0.6 million for the OPEB plan. The amount expected to be recognized in net periodic benefit cost during the fiscal year ended June 30, 2020 is an actuarial loss of approximately $0.6 million for the Plan and, for the OPEB plan, the actuarial loss of approximately $0.04 million and the amortization of net prior service credit of approximately $0.4 million.

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Components of Net Periodic Benefit Costs (Gain)				
Service costs	$ -	$ -	$ 49,289	$ 67,552
Interest costs	1,476,547	1,420,088	124,063	134,117
Expected return on plan assets	(2,104,411)	(1,992,115)	-	-
Amortization of actuarial losses	566,053	942,655	27,609	123,093
Amortization of prior service credit	-	-	(416,338)	(416,338)
Total	$ (61,811)	$ 370,628	$ (215,377)	$ (91,576)

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Changes in Fair Value of Plan Assets				
Fair value, beginning of year	$ 36,615,734	$ 34,658,027	$ -	$ -
Actual return on assets	4,021,412	2,306,536	-	-
Employer contributions	15,000	1,200,000	75,557	76,488
Benefits paid	(1,638,150)	(1,548,829)	(75,557)	(76,488)
Total	$ 39,013,996	$ 36,615,734	$ -	$ -

There were no settlement costs recognized for the years ended June 30, 2019 and 2018.

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $643,282 and $560,248, respectively.

Note 12 - Pension and OPEB (Continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Discount rate	3.55%	4.2%	3.55%	4.2%
Rate of compensation increase	N/A	N/A	0	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Discount rate	4.2%	3.8%	4.2%	3.8 %
Expected long-term rate of return on plan assets	5.9%	5.9%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

For measurement purposes, a 7.68 percent and 7.84 percent annual rate of increase in healthcare costs at June 30, 2019 and 2018, respectively, was assumed, decreasing annually to the target rate of 5.00 percent for 2035 and thereafter.

Pension Plan Assets

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

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

As a result of recent increases in the funded status of the Plan, and in an effort to minimize volatility in the value of Plan assets, the Plan's investment committee has approved a target allocation of 75 percent domestic fixed income and 25 percent equity securities, to be achieved over time. The allocation of plan assets as of June 30, 2019 was 64 percent fixed income and 36 percent equity securities.

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

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

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

Note 12 - Pension and OPEB (Continued)

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

The fair values of the DIA's pension plan assets at June 30, 2019 and 2018 by major asset classes are as follows:

	Fair Value Measurements at June 30, 2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value (NAV)	Total
Asset Classes			
Short-term investments	$ 2,491,693	$ -	$ 2,491,693
Mutual funds:			
Debt securities	21,086,209	-	21,086,209
Domestic equities	3,184,764	-	3,184,764
Partnerships	-	7,582,780	7,582,780
Registered investment companies	-	736,465	736,465
Foreign corporations	-	3,932,085	3,932,085
Total	$ 26,762,666	$ 12,251,330	$ 39,013,996

	Fair Value Measurements at June 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value (NAV)	Total
Asset Classes			
Short-term investments	$ 425,355	$ -	$ 425,355
Mutual funds:			
Debt securities	20,628,002	-	20,628,002
Domestic equities	3,479,685	-	3,479,685
Partnerships	-	7,236,214	7,236,214
Foreign corporations	-	4,846,478	4,846,478
Total	$ 24,533,042	$ 12,082,692	$ 36,615,734

Partnerships valued at $7,582,780 have unfunded commitments of $2,406,999 as of June 30, 2019. Partnerships can be redeemed daily with an advanced redemption notice of at least 10 days. Foreign corporations valued at $3,932,085 have no unfunded commitments as of June 30, 2018. Foreign corporations can be redeemed monthly with an advanced redemption notice of at least 30 days.

The partnerships category includes investments in opportunistic investment funds that provide ownership interest in companies to grow new business and provide investment diversification. The foreign corporations category includes investments in equities of smaller companies outside of the United States.

As previously described in Note 9, fair value measurements require disclosures that provide a valuation hierarchy by major class for assets and liabilities measured at fair value and about valuation techniques and the inputs to those techniques for those assets and liabilities designated as Level 2 or Level 3.

Note 12 - Pension and OPEB (Continued)

Mutual funds are recorded at fair value using NAV based on quoted prices in active markets, such as the New York Stock Exchange or NASDAQ.

Partnerships and foreign corporations are recorded at fair value and measured using NAV provided by the administrator of the fund, which is based on the value of the underlying assets owned by the fund, less its liabilities, and then divided by the number of shares outstanding.

Cash Flow

<u>Contributions</u>

The DIA does not expect to contribute to its pension plan; however, it does expect to contribute $118,349 to its other postretirement benefit plan in 2020.

<u>Estimated Future Benefit Payments</u>

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

Years Ending	Pension Benefits	Other Postretirement Benefits
2020	$ 2,006,615	$ 118,349
2021	2,101,529	139,896
2022	2,145,600	153,424
2023	2,194,300	161,084
2024	2,254,920	178,474
Thereafter	11,577,151	1,025,829

Note 13 - Leases

The DIA leases storage space and office equipment that expires on various dates through 2023. At June 30, 2019, minimum commitments of future payments under these arrangements are as follows:

Years Ending June 30	Amount
2020	$ 168,375
2021	140,400
2022	140,400
2023	117,000
Total	$ 566,175

Total rental expense for operating leases was approximately $200,000 for the years ended June 30, 2019 and 2018.

Note 14 - Defined Contribution Plan

The DIA sponsors a 401(k) plan for substantially all employees. The plan provides for the DIA to make a safe harbor nonelective contribution of 3 percent of the salary of eligible employees and matches 100 percent of the employees' elective deferral contributions up to 2 percent of the employees' salary. The DIA's contributions to the plan totaled $0.7 million for the years ended June 30, 2019 and 2018.

Note 15 - Net Assets

Net assets without donor restrictions consist of the following as of June 30:

	2019	2018
Board-designated net assets:		
Board-designated endowment	$ 138,181,963	$ 108,488,353
Operations	21,329,834	20,393,943
Capital expenditures	13,648,918	9,401,486
Special projects and initiatives	8,584,308	8,258,299
Exhibitions	7,854,371	5,611,812
Gallery reinstallation	3,245,811	4,259,424
Programs and other	668,506	688,292
Total board-designated net assets	193,513,711	157,101,609
Undesignated net assets	15,075,882	33,339,524
Total net assets without donor restriction	$ 208,589,593	$ 190,441,133

Net assets with donor restrictions as of June 30 are restricted for the following purposes:

	2019	2018
Subject to expenditures for a specified purpose:		
Operations	$ 4,465,265	$ 4,491,871
Art acquisitions, conservation, and curatorial	12,258,890	14,091,902
Program, capital, special projects, and other	5,715,128	2,356,008
Auxiliary and volunteer groups	2,572,192	2,304,871
Exhibitions and education	2,209,630	2,260,073
Total subject to expenditures for a specified purpose	27,221,105	25,504,725
Subject to the DIA's spending policy and appropriation:		
General operations	87,775,091	78,352,499
Artwork acquisitions	38,025,225	37,500,541
Conservation	1,067,815	1,066,862
Curatorial	3,174,631	3,127,491
Learning and audience engagement	9,643,154	9,508,738
Auxiliary and support groups	2,528,992	2,469,912
Capital funds	118,534	116,856
Exhibitions	56,425	55,629
Miscellaneous	43,444	42,356
Total subject to the DIA's spending policy and appropriations	142,433,311	132,240,884
Total	$ 169,654,416	$ 157,745,609

Investments in perpetuity, including amounts above the original donor gift amount of $102,207,065 and $94,149,843 as of June 30, 2019 and 2018, respectively, are expendable to support the purposes shown above once appropriated.

Note 16 - Liquidity and Availability of Financial Resources

The DIA structures its financial assets to be available to support forecasted expenditures and other obligations as they become due. In addition, provisions are made for unanticipated liquidity needs.

Note 16 - Liquidity and Availability of Financial Resources (Continued)

The DIA's endowment funds consist approximately of the following as of June 30:

	2019	2018
Board-designated endowments	$ 138,181,963	$ 108,488,353
Donor-restricted endowments	142,433,309	132,240,884

Income generated from donor-restricted endowments is restricted to the stated purpose, which includes support of operations, programming, art acquisitions, and other special purpose restrictions.

As described in Note 8, the DIA has adopted a spending policy for endowment assets that attempts to provide a steady stream of funding to programs supported by endowment funds. The current approved annual payout is 4.6 percent. For the fiscal years ended June 30, 2019 and 2018, the Board approved suspension of the payout on operating endowments, as current liquidity needs for operations are being met without the annual payout. Should liquidity needs change, the Board has the authority to reinstate the annual payout on the operating endowments.

Both the board-designated endowments and donor-restricted endowments contain investments with lockup provisions that would reduce the total investments that could be made available (see Note 9 for disclosures about investments). Currently, 26.1 percent of the $304.5 million in investments is available for withdrawal on a daily basis, for an additional $79.0 million of liquidity, if needed.

Additionally, as described in Note 7, the DIA is an income beneficiary of endowment funds held by the Community Foundation for Southeast Michigan. While the operating payout has been suspended from CFSEM, the suspended amount could be made available if necessary.

The DIA has restricted cash included in current assets that is not available for use on operating expenditures. The remaining current assets are available for use on operating expenditures.

Note 17 - Prior Period Adjustment

The accompanying financial statements for 2018 have been restated to correct an error made in accounting for certain contributions collected between 2010 and 2013. These contributions were previously classified as contributions with donor restrictions when, in fact, donor restrictions did not exist. As a result, as of July 1, 2017, net assets with donor restrictions were decreased by approximately $17.2 million from the amount previously reported, and net assets without donor restrictions were increased by the same amount. In addition, investment income associated with these gifts, totaling approximately $1.24 million for the year ended June 30, 2018, was previously reported as investment income with donor restrictions and has been reclassified to investment income without donor restrictions. The prior period adjustment had no impact on the previously reported assets, total changes in net assets, or cash flows for 2018.