



FINANCIAL STATEMENTS

Detroit Institute of Arts
Year Ended June 30, 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Detroit Institute of Arts
Financial Statements
Year Ended June 30, 2011

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Report of Independent Auditors

Board of Trustees
Detroit Institute of Arts

We have audited the accompanying statement of financial position of the Detroit Institute of Arts as of June 30, 2011, and the related statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Detroit Institute of Art's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Detroit Institute of Art's 2010 financial statements and, in our report dated October 20, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Detroit Institute of Art's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Detroit Institute of Art's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Detroit Institute of Arts at June 30, 2011, and the results of its activities and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 28, 2011

STATEMENT OF FINANCIAL POSITION

DETROIT INSTITUTE OF ARTS

	June 30, 2011				June 30, 2010			
	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	Operating	Board Designated	Donor Designated	Donor Designated	Endowment	Endowment	Total	Total (Memorandum Only)
ASSETS								
CURRENT ASSETS								
Cash and short-term investments--Note D	\$ 4,885,309	\$ 6,453,845	\$ -	\$ 8,916,679	\$ -	\$ -	\$ 20,255,833	\$ 14,628,112
Accounts receivable, net--Notes A & C	198,078	-	-	1,601,668	-	-	1,799,746	2,272,253
Pledges receivable, current portion, net--Notes A, C & F	100,000	-	-	5,657,795	-	1,271,051	7,028,846	4,745,317
Inventories--museum shop	442,514	-	-	-	-	-	442,514	435,601
Prepaid expenses	114,060	-	-	-	-	-	114,060	128,630
TOTAL CURRENT ASSETS	5,739,961	6,453,845	-	16,176,142	-	1,271,051	29,640,999	22,207,913
OTHER ASSETS								
Investments--Note D	-	27,176,206	57,383,701	-	27,092,509	45,599,866	157,252,282	131,073,450
Pledges, less current portion, net--Notes A, C & F	-	-	-	5,822,269	-	946,052	6,768,321	8,689,152
Fixed assets, net of accumulated depreciation--Note G	661,084	-	-	-	-	-	661,084	783,634
TOTAL ASSETS	\$ 6,401,045	\$ 33,630,051	\$ 57,383,701	\$ 21,998,411	\$ 27,092,509	\$ 47,816,969	\$ 194,322,686	\$ 162,754,149
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable and accrued expenses	\$ 2,523,577	\$ -	\$ -	\$ 377,190	\$ -	\$ -	\$ 2,900,767	\$ 1,244,313
Notes payable - current portion--Note H	667	-	-	-	-	-	667	3,376,333
Accrued payroll and other employee benefits--Note I	194,336	1,830,462	-	-	-	-	2,024,798	1,872,816
Deferred revenue	824,450	-	-	20,018	-	-	844,468	1,143,949
TOTAL CURRENT LIABILITIES	3,543,030	1,830,462	-	397,208	-	-	5,770,700	7,637,411
OTHER LIABILITIES								
Notes payable - long-term portion--Note H	-	-	-	-	-	-	-	992,333
Unfunded pension plan obligation -- Note I	4,572,395	-	-	-	-	-	4,572,395	6,908,637
Postretirement healthcare obligation -- Note I	1,717,547	-	-	-	-	-	1,717,547	1,581,630
Interfund payables (receivables)--Note A	540,116	(540,116)	-	-	-	-	-	-
TOTAL LIABILITIES	10,373,088	1,290,346	-	397,208	-	-	12,060,642	17,120,011
NET ASSETS (DEFICIT)	(3,972,043)	32,339,705	57,383,701	21,601,203	27,092,509	47,816,969	182,262,044	145,634,138
TOTAL LIABILITIES AND NET ASSETS	\$ 6,401,045	\$ 33,630,051	\$ 57,383,701	\$ 21,998,411	\$ 27,092,509	\$ 47,816,969	\$ 194,322,686	\$ 162,754,149

See notes to financial statements.

STATEMENT OF FINANCIAL ACTIVITIES

DETROIT INSTITUTE OF ARTS

	Year Ended June 30, 2011							Year Ended June 30, 2010 Total (Memorandum Only)
	Unrestricted		Temporarily Restricted		Permanently Restricted			
	Operating	Board Designated	Donor Designated	Donor Designated	Restricted Endowment	Total		
		Designated	Endowment	Endowment	Endowment			
OPERATING REVENUES AND SUPPORT								
Membership and development	\$ 9,688,120	\$ 683,747	\$ 9,398,383	\$ -	\$ 31,718	\$ 20,304,059	\$ 21,712,750	
Investment income - Note D	3,387,013	1,026,331	1,119,306	1,350,204	-	14,506,085	11,346,896	
Programs and operational activities	3,139,417	637,017	762,506	-	-	4,538,940	4,454,334	
Government appropriations - Note B	10,510,000	-	-	-	-	10,510,000	738,600	
Board designation of government appropriation for capital projects - Note B	(10,000,000)	10,000,000	-	-	-	-	-	
Net assets used for board designated purposes	1,421,971	(1,421,971)	-	-	-	-	-	
Net assets released for program activities	2,248,877	-	(2,248,877)	-	-	-	-	
TOTAL OPERATING REVENUES AND SUPPORT	20,375,398	10,925,124	9,031,318	1,350,204	31,718	49,859,084	38,252,580	
OPERATING EXPENDITURES								
Programs and operational activities - Note J	19,192,928	-	-	-	-	19,192,928	19,554,512	
Membership and development - Note J	3,399,189	-	-	-	-	3,399,189	3,929,450	
Supporting services and other - Note J	5,030,995	-	-	-	-	5,030,995	4,092,338	
TOTAL OPERATING EXPENDITURES	27,623,112	-	-	-	-	27,623,112	27,576,300	
CHANGES IN NET ASSETS FROM OPERATIONS, BEFORE TEMPORARY MEASURES								
Temporary measures to address unrestricted operating deficit:	(7,247,714)	10,925,124	9,031,318	1,350,204	31,718	22,235,972	10,676,280	
Redirection of endowment income from art acquisitions - Note D	2,121,728	-	-	-	-	2,121,728	350,000	
Assets released from fundraising campaign - Note C	5,338,290	-	(5,338,290)	-	-	-	-	
CHANGES IN NET ASSETS FROM OPERATIONS								
212,304	212,304	10,925,124	3,693,028	1,350,204	31,718	24,357,700	11,026,280	
OTHER CHANGES IN NET ASSETS								
Contributions received for capital projects - Note B	-	-	750,000	-	-	750,000	-	
Investment income on government appropriations for capital projects	-	213,649	-	-	-	213,649	-	
Net assets released from restrictions to fund capital expenditures	467,953	(214,643)	(253,310)	-	-	-	(2,169,443)	
Capital expenditures - Note B	(588,369)	-	-	-	-	(588,369)	23,216	
Contributions received for art acquisitions	-	-	4,685,043	-	92,046	4,777,089	4,710,232	
Investment income on funds earmarked for art acquisitions - Note D	-	33,392	842,932	3,053,485	-	(2,461,012)	(3,502,563)	
Purchases of works of art	(2,461,012)	-	-	-	-	-	-	
Net assets released from restrictions to fund art acquisitions	2,461,012	(3,100)	(2,457,912)	-	-	3,274,636	347,080	
Proceeds from the sale of deaccessioned works of art	-	-	3,274,636	-	-	2,336,242	(2,612,230)	
Decrease (Increase) in unfunded pension plan obligation - Note I	2,336,242	-	-	-	-	(296,538)	6,034,772	
Change in postretirement healthcare obligation - Note I	(296,538)	-	-	-	-	-	-	
Other transfers--Notes A & E	-	-	(360,634)	(8,834)	369,468	-	-	
TOTAL CHANGE IN NET ASSETS	2,131,592	10,954,422	10,173,783	4,394,855	493,232	36,627,906	13,857,344	
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR								
(6,103,635)	(6,103,635)	21,385,283	11,427,420	22,697,654	47,323,737	145,634,138	131,776,794	
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (3,972,043)	\$ 32,339,705	\$ 21,601,203	\$ 27,092,509	\$ 47,816,969	\$ 182,262,044	\$ 145,634,138	

See notes to financial statements.

STATEMENT OF CASH FLOWS

DETROIT INSTITUTE OF ARTS

	Year Ended June 30, 2011	Year Ended June 30, 2010 (Memorandum Only)
OPERATING ACTIVITIES		
Change in net assets	\$ 36,627,906	\$ 13,857,344
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation - Note G	122,550	138,118
Net realized and unrealized gain on investments - Note D & E	(15,883,496)	(11,006,209)
Change in unfunded postretirement healthcare obligation - Note I	135,917	(5,665,544)
Change in unfunded pension plan obligation - Note I	(2,336,242)	2,612,230
Changes in:		
Accounts and pledges receivable	109,809	1,202,926
Inventories	(6,913)	33,800
Prepaid expenses	14,570	40,670
Other assets	-	751,407
Accounts payable and accrued expenses	1,656,454	(1,009,116)
Accrued payroll and other liabilities	(147,498)	(1,219,609)
Net cash provided by (used in) operating activities	<u>20,293,057</u>	<u>(263,983)</u>
INVESTING ACTIVITIES		
Purchase of investments	(31,745,655)	(25,081,437)
Proceeds from sale of investments	33,817,377	27,049,822
Net cash provided by investing activities	<u>2,071,722</u>	<u>1,968,385</u>
FINANCING ACTIVITIES		
Investment in long-term investments	(12,367,059)	(7,935,784)
Transfer out of postretirement benefits fund	-	6,558,668
Proceeds from borrowings - Note H	-	1,000,000
Repayments of borrowings - Note H	(4,367,999)	(319,000)
Net cash used in financing activities	<u>(16,735,058)</u>	<u>(696,116)</u>
Net increase in cash and short-term investments	5,629,721	1,008,286
Cash and short-term investments, beginning of year	14,626,112	13,617,826
Cash and short-term investments, end of year	<u>\$ 20,255,833</u>	<u>\$ 14,626,112</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE A — ORGANIZATION AND ACCOUNTING POLICIES

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

- assist the Arts Commission of the city of Detroit (the City) with the operation of the Museum under contract with the City;
- 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; and
- engage in other activities not prohibited by the laws of the state of Michigan (the State) in accordance with all powers under the provisions of the Non-profit Corporation Act (Act 162 of the Public Acts of 1982).

Financial Statements and Use of Estimates. Financial statements are prepared in conformity with United States generally accepted accounting principles (GAAP). Utilization of accrual accounting requires the DIA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The financial statements include certain prior year comparative information, summarized in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with United States GAAP. Accordingly, such information should be read in conjunction with the DIA's audited financial statements for the year ended June 30, 2010, from which the summarized information was derived. Certain items in the prior year financial statements have been reclassified to conform to the current year presentation.

Net Assets. The DIA ensures compliance with restrictions placed on the resources available to the DIA by maintaining records in accordance with the principles of fund accounting. Fund accounting classifies the financial activities of the DIA into funds established based on their nature and purposes. In our financial statements, funds that have similar characteristics have been combined into the net asset categories of permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets are endowments that must be held in perpetuity in accordance with donor restrictions. Earnings distributed from these assets can either be temporarily restricted or unrestricted. Types of restrictions include art acquisitions, programs for learning and interpretation, curatorial and conservation programs and staff positions, and operations.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE A — ORGANIZATION AND ACCOUNTING POLICIES — Continued

- Temporarily restricted net assets contain donor-imposed restrictions that permit the DIA to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the DIA. Under this caption are two sub-categories of temporarily restricted net assets: 1) Donor Designated, where the entire balance in the fund can be spent for the purpose(s) specified by the donor, and 2) Donor Designated Endowment, which represents the earnings distributed from the Permanently Restricted Endowments that are to be spent for the purpose(s) specified by the donor.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Under this caption are three sub-categories of unrestricted net assets: 1) Operating funds, 2) Board Designated, where the entire balance can be spent for operating purposes, as directed by the Board of Directors (Board), and 3) Board Designated Endowment, where only the income, not the principal, is spent for operating purposes, as directed by the Board.

Art Objects and Collection. In conformity with allowable museum financial statement presentation practice, the value of the art collection is excluded from the statements of financial position. Title to art objects purchased by or donated to the DIA is offered to the City's Arts Department and title is transferred when accession to the permanent collection has been approved by the Board of Directors of the DIA (the Board) and the Arts Commission of the City. The works of art are held 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 \$7,464,314 (unaudited) for the year ended June 30, 2011.

Cash and Short-Term Investments. Cash and short-term investments consist of cash, money market funds, and certain highly liquid interest-bearing deposits with maturities that may extend longer than twelve months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

Receivables. Receivables include amounts due from other museums for expenses associated with the loan of works of art and amounts due from granting agencies.

Inventories. Inventories are stated at the lower of average cost or market. 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.

Investments. Investments in equity and debt securities and mutual funds are stated at fair value. Fair value is defined as 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 (exit price). See Note F for further discussion and disclosures related to fair value measurements. The estimated fair value of certain common trust funds and hedge funds is based on valuations provided by the investment managers. The components of the individual investments within these funds may not be

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE A — ORGANIZATION AND ACCOUNTING POLICIES — Continued

readily determinable and are accounted for on the equity method. Because common trust funds and hedge funds are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material.

Pledges. Pledges are unconditional promises to give and are recognized as membership and development revenues discounted to their present value at the end of each reporting period. The discount rates used to calculate the present value of these pledges were based on the Daily Treasury Yield Curve Rates and varied depending on the number of years remaining in the receivable balance for each fundraising campaign. The rates ranged from 0.45% for two years receivable and 3.18% for 10 years. Pledges due in one year or less are classified as current assets and pledges due beyond one year are classified as non-current assets.

Pledges receivable are stated at amounts estimated by management to be at fair value. 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. Collateral generally is not required for pledges receivable.

Fixed Assets. Fixed assets are recorded at cost in unrestricted net assets. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets.

Deferred Revenues. The DIA receives monies for which goods or services will be provided in future periods. Such receipts include payments for gift cards, deposits for future events, and donations designated by the donor for support in subsequent fiscal years. Revenue is recorded in the period(s) when the goods or services are provided.

Revenues. Revenues are generally recognized as funds are received or services are provided. For unconditional promises to give, revenues are recorded as membership and development revenues in the year such promises are made. Other revenues related to food service and gift shop sales, admissions, and special event ticket sales are classified as programs and operational activities revenues when earned.

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

Expenditures. The costs to provide our various programs and other activities have been summarized on a functional basis in the statement of financial activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising is charged to expense when incurred and amounted to \$861,130 and \$1,060,181 for the years ended June 30, 2011 and 2010, respectively.

Interfund Borrowings. The interfund borrowings represent funds advanced between the board designated net assets and unrestricted operating net assets.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE A — ORGANIZATION AND ACCOUNTING POLICIES — Continued

Transfers. Transfers between funds are consistent with donor requests and/or Board directive.

Subsequent events. Management has evaluated subsequent events through October 28, 2011, the date the financial statements were available to be issued. No subsequent events have been identified by the DIA that impact amounts recorded in the financial statements or that would require additional disclosure.

NOTE B — RELATIONSHIP WITH THE CITY AND THE STATE OF MICHIGAN

Effective February 1, 1998, the DIA entered into an operating agreement with the City to administer, manage, and fundraise for the Museum with the mission to promote and maintain the excellence of the Museum. The City continues to own the Museum's permanent art collection, including works of art acquired prior or subsequent to the operating agreement, as well as the Museum building and grounds. The operating agreement expires June 30, 2018. As a result, capital expenditures incurred by the DIA for the benefit of the City related to art acquisitions and to Museum facility improvements are expensed as incurred. Such expenditures are reflected in other changes in net assets in the statement of financial activities.

The agreement was envisioned to help ensure the long-term viability and stability of the Museum as a first-class fine arts institution. The DIA has undertaken the management of the Museum without any obligation by the City to compensate the DIA for providing such services. The City provided operating support in the amount of \$500,000 for the City's fiscal year ending June 30, 2011, which is recorded as government appropriations in the unrestricted fund.

The State awards operating support to the Museum through the Michigan Council for Arts and Cultural Affairs (MCACA). The amounts awarded for the State's fiscal years ended September 30, 2010 and 2009 were \$20,000 and \$914,400, respectively. The award for the State fiscal year ended September 30, 2010 covered the six-month period beginning April 1, 2010. The award is recognized as government appropriations in the unrestricted fund proportionately over the State's fiscal year.

The DIA received a one-time appropriation of \$10 million from the State that has been designated by the Board to fund capital projects and recorded as government appropriations in the unrestricted fund. The DIA also received a grant of \$750,000 from the federal government, the department of Housing and Urban Development, for major repairs to the roof and is recorded as contributions received for capital projects in other changes in net assets.

The schedule below details the recognition of the State and City unrestricted operating support for the years ended June 30:

	2011	2010
City of Detroit operating support	\$ 500,000	\$ 500,000
State of Michigan one-time appropriation	10,000,000	—
State of Michigan grant (MCACA):		
For the State Fiscal Year 10/1/09 – 9/30/10	10,000	10,000
For the State Fiscal Year 10/1/08 – 9/30/09	—	228,600
	<u>\$ 10,510,000</u>	<u>\$ 738,600</u>

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE C — PLEDGES AND OTHER RECEIVABLES

Since April 1999, the DIA has conducted fund-raising campaigns with goals totaling \$485 million, for which \$351.3 million in total commitments has been secured, with combined purposes of building renovations and reinstallation of the works of art (completed), operating support (ongoing), and increasing the operating endowments (ongoing). Operating support totaled \$5.3 million and \$8.5 million for the years ended June 30, 2011 and 2010, respectively.

As of June 30, 2011, the DIA has cumulatively recognized the present value of unconditional commitments of \$332.5 million related to the fundraising campaigns. Of this amount, \$318.7 million in net payments had been received as of June 30, 2011. The remaining \$13.8 million of unconditional pledges (at present value) provides for payments to the Museum according to the following schedule, along with amounts due for other receivables:

Fiscal Year	Unrestricted Operating	Temporarily Restricted Donor Designated	Endowment
Short-term receivables:			
2011–2012			
Accounts receivable	\$ 210,126	\$ 1,601,668	\$ —
Pledges receivable	100,000	6,557,795	1,271,051
Allowance recognized	(12,048)	(900,000)	—
Net short-term receivables	<u>\$ 298,078</u>	<u>\$ 7,259,463</u>	<u>\$ 1,271,051</u>
Long-term receivables			
Pledges receivable:			
2012–2013		\$ 1,376,736	\$ 749,908
2013–2014		927,550	200,000
2014–2015		869,725	—
2015–2016		1,398,050	—
Beyond 6/30/2016		1,952,200	—
Subtotal		<u>6,524,261</u>	<u>949,908</u>
Present value discount		(701,992)	(3,856)
Net long-term receivables		<u>\$ 5,822,269</u>	<u>\$ 946,052</u>

In addition, the DIA has obtained but not recognized approximately \$18.8 million of conditional pledges, which depend on the occurrence of a specified future and uncertain event to bind the donor, shall be recognized as the funds are received or as conditions are met.

NOTE D — INVESTMENTS

The DIA generally invests operating cash in excess of daily requirements and board and donor designated funds in investments with maturities of 60 months or less. Endowment funds, whether permanently designated by the donor or by board designation, are invested for the long term on a pooled concept. Endowment income for the year was approximately \$19.1 million, consisting of interest and dividend income of approximately \$4.0 million, fees of \$0.8 million, net realized gains of \$3.2 million, and net unrealized gains of \$12.7 million. Under the endowment spending policy (payout), 4.6 percent of the average of the fair value at March 31 of each of the previous three years is made available for the purposes specified by the underlying endowments and is recorded as endowment income in the operating, board designated, and donor designated funds.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE D — INVESTMENTS — Continued

The following schedule summarizes the investment return and its classification in the statement of financial activities.

	Unrestricted			Temporarily Restricted		
	Operating	Board Designated	Board Designated Endowment	Donor Designated	Donor Designated Endowment	Total
Interest and dividends earned on investments (Net of fees of \$8,774)	\$ 7,271	\$ 134,333	\$ —	\$ (3,575)	\$ —	\$ 138,029
Endowment income (Net of fees of \$812,209)	4,169	541,815	11,377,062	904,168	6,289,588	19,116,802
Payout of endowment income	3,657,110	597,224	(3,419,131)	1,050,696	(1,885,899)	—
Total endowment income	3,661,279	1,139,039	7,957,931	1,954,864	4,403,689	19,116,802
Income from endowments held by others	1,840,191			10,949		1,851,140
Total investment income	\$ 5,508,741	\$ 1,273,372	\$ 7,957,931	\$ 1,962,238	\$ 4,403,689	\$ 21,105,971

The aggregate carrying amounts of investments by major type based on fair value for non-alternative investments and on the equity method for alternative investments are as follows:

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total
	Operating	Board Designated	Board Designated Endowment	Donor Designated	Donor Designated Endowment	Restricted Endowment	
Cash and money market funds	\$ 4,885,309	\$ 5,012,519		\$ 6,925,333			\$ 16,823,161
Short-term Investments:							
Debt securities		1,441,326		1,991,346			3,432,672
Total short-term investments (a)	\$ 4,885,309	\$ 6,453,845		\$ 8,916,679			\$ 20,255,833
Long-term Investments:							
Cash and money market funds	\$ (315,215)	\$ (665,590)		\$ (314,245)	\$ (528,911)		\$ (1,823,961)
Equity securities	541,008	1,142,360		539,341	907,774		3,130,483
Mutual funds	7,120,805	15,035,878		7,098,874	11,948,237		41,203,794
Subtotal non-alternative (a)	7,346,598	15,512,648		7,323,970	12,327,100		42,510,316
Alternative investments:							
Common trust funds-equity securities	5,025,043	10,610,590		5,009,567	8,431,689		29,076,889
Debt securities	7,717,316	16,295,437		7,693,549	12,949,143		44,655,445
Hedge funds	5,502,855	11,619,510		5,485,908	9,233,426		31,841,699
Other	1,584,394	3,345,516		1,579,515	2,658,508		9,167,933
Subtotal alternative	19,829,608	41,871,053		19,768,539	33,272,766		114,741,966
Total long-term investments	\$ 27,176,206	\$ 57,383,701		\$ 27,092,509	\$ 45,599,866		\$ 157,252,282
(a) Total investments at fair value (see Note F)	\$ 4,885,309	\$ 13,800,443	\$ 15,512,648	\$ 8,916,679	\$ 7,323,970	\$ 12,327,100	\$ 62,766,149

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

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NOTE D — INVESTMENTS — Continued

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 fifty 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, 2011 was approximately \$26.1 million. After September 25, 2019, the Tannahill Foundation Committee may, at its discretion, distribute any part, or all, of one-half of the Trust principal to the DIA, if in the Committee's opinion:

- the purpose of the Tannahill Trust would be best served by such a distribution;
- the DIA's basic purposes remain the same; and
- the condition of the DIA's affairs remains satisfactory when compared with the actual and expected conduct and condition of its affairs in 1961.

On March 31, 2010, the Wayne County Probate Court granted the petition made by the trustees of the Tannahill Trust to deviate from the terms of the trust agreement and allow the distribution of income made by the Trust be used as operating funds, and not for the acquisition of art, for up to five years from June 30, 2010 through May 2015. Total distributions, received quarterly, for the year ended June 30 2011 were \$1.4 million and are recorded as income from endowments held by others in the unrestricted operating fund. This measure was taken to help offset the current operating deficit, as shown in the statement of financial activities, to temporarily reduce the pressure on fundraising needed to cover the difference between annual operating expenses and other revenues as the DIA works toward achieving long-term financial stability. If financial stability is achieved before the end of the five year period, the income will return to its original purpose.

In July 2010, the trustee of the Ernest and Rosemarie Kanzler Foundation granted permission to allow the income from the Ernest and Rosemarie Kanzler Foundation Endowment for Art Acquisitions, one of the DIA's endowment funds, be used as operating funds, and not for the acquisition of art, for up to five years for fiscal years 2011 through 2015. For the year ended June 30, 2011, income of \$721,728 is recorded as endowment income in the unrestricted operating fund. This measure was taken to help offset the current operating deficit, as shown in the statement of financial activities, to temporarily reduce the pressure on fundraising needed to cover the difference between annual operating expenses and other revenues as the DIA works toward achieving long-term financial stability. If financial stability is achieved before the end of the five year period, the income will return to its original purpose.

The DIA is an income beneficiary of an endowment fund (the Fund) at the Community Foundation for Southeast Michigan (CFSEM). The total market value of the Fund at June 30, 2011 was approximately \$9.8 million. 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 the CFSEM and the income earned is distributed to the DIA in accordance with the spending policy adopted by the CFSEM and recorded as investment income (income from endowments held by others) in the unrestricted operating fund. Contributions to the fund are recognized as donor designated development revenues for the charitable deductible value of the gifts and as other supporting services expenditures to reflect the holding of the funds by the CFSEM (see Note J). Contributions totaled \$500,790 for the year ended June 30, 2011. This activity is recorded in the year the funds are received at the CFSEM. The value of any planned gifts is not reflected in the market value of the endowment funds held by the CFSEM until such time as the gifts mature.

NOTES TO FINANCIAL STATEMENTS

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NOTE E – NET ASSET CLASSIFICATION OF ENDOWMENTS

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-10, *Not-for-Profit Entities-Disclosures*, provides, among other things, guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The State enacted UPMIFA in September 2009.

The DIA's endowment consists of approximately 130 individual funds established for a variety of purposes. The endowment includes donor designated endowment funds and funds designated by the Board of Directors (Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The DIA has interpreted the Michigan Prudent Management of Institutional funds Act (MPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the DIA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor designated endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the DIA in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, the DIA considers the following factors in making a determination to appropriate or accumulate donor designated funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the DIA and the donor designated endowment fund
- (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 DIA
- (7) The investment policies of the DIA.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE E – NET ASSET CLASSIFICATION OF ENDOWMENTS – Continued

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

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

The DIA is to record the annual income as temporarily restricted and appropriated for expenditure upon meeting donor stipulations. If donor stipulations are broad the annual income is recognized as unrestricted. In establishing this policy, the DIA considered the long-term expected return on its endowment. Accordingly, over the long term, the DIA expects the current spending policy to allow its endowment to grow at an average annual rate of 3 to 4 percent. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns in excess of inflation.

From time to time, the fair value of assets associated with individual donor designated endowment funds may fall below the level that the donor or MPMIFA requires the DIA to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011.

At June 30, 2011, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated funds	\$ -	\$ 27,092,509	\$ 47,816,969	\$ 74,909,478
Board designated funds	57,383,701	-	-	57,383,701
Total funds	<u>\$ 57,383,701</u>	<u>\$ 27,092,509</u>	<u>\$ 47,816,969</u>	<u>\$ 132,293,179</u>

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE E – NET ASSET CLASSIFICATION OF ENDOWMENTS – Continued

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 48,903,679	\$ 22,697,654	\$ 47,323,737	\$ 118,925,070
Investment return:				
Investment income (a)	1,148,324	634,829	-	1,783,153
Net appreciation (realized and unrealized)	10,228,738	5,654,759	-	15,883,497
Total investment return	11,377,062	6,289,588	-	17,666,650
Contributions	522,091	-	123,764	645,855
Appropriation of endowment assets for expenditure	(3,419,131)	(1,885,899)	-	(5,305,030)
Other changes:				
Reinvestment of appropriation of endowment assets to the endowment fund per donor instructions	-	(8,834)	369,468	360,634
Endowment net assets, end of year	<u>\$ 57,383,701</u>	<u>\$ 27,092,509</u>	<u>\$ 47,816,969</u>	<u>\$ 132,293,179</u>

(a) Investment income includes interest and dividend income, net of fees.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE E – NET ASSET CLASSIFICATION OF ENDOWMENTS – Continued

At June 30, 2010, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated funds	\$ -	\$ 22,697,654	\$ 47,323,737	\$ 70,021,391
Board designated funds	48,903,679	-	-	48,903,679
Total funds	<u>\$ 48,903,679</u>	<u>\$ 22,697,654</u>	<u>\$ 47,323,737</u>	<u>\$ 118,925,070</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 42,870,728	\$ 18,166,222	\$ 42,647,883	\$ 103,684,833
Investment return:				
Investment income (a)	1,343,854	635,467	-	1,979,321
Net appreciation (realized and unrealized)	7,472,635	3,533,576	-	11,006,211
Total investment return	8,816,489	4,169,043	-	12,985,532
Contributions	619,711	-	3,302,053	3,921,764
Appropriation of endowment assets for expenditure	(3,403,249)	(1,629,236)	-	(5,032,485)
Other changes:				
Reinvestment of appropriation of endowment assets to the endowment fund per donor instructions	-	1,991,625	1,373,801	3,365,426
Endowment net assets, end of year	<u>\$ 48,903,679</u>	<u>\$ 22,697,654</u>	<u>\$ 47,323,737</u>	<u>\$ 118,925,070</u>

(a) Investment income includes interest and dividend income, net of fees.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE F — FAIR VALUE MEASUREMENTS

Fair value is defined as 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 (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE F — FAIR VALUE MEASUREMENTS – Continued

The following table presents the financial instruments carried at fair value on a recurring basis as of June 30, 2011 by caption on the statement of financial position, as well as by valuation hierarchy defined previously.

	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>Investments:</u>				
Cash	\$ 9,679,272	\$ —	\$ —	\$ 9,679,272
Money Market	5,319,928	—	—	5,319,928
Mutual fund:				
PIMCO All Asset fund	34,239,646	—	—	34,239,646
GMO balanced assets	3,433,475	—	—	3,433,475
Schroders Emerging Mkt	3,530,673	—	—	3,530,673
Debt securities:				
US treasury notes	—	947,138	—	947,138
Corporate bonds	—	976,946	—	976,946
Collateralized mortgage obligations	—	514,833	—	514,833
Asset-backed securities	—	598,179	—	598,179
US federal agencies	—	91,859	—	91,859
Other	—	303,717	—	303,717
Equity securities:				
Small cap	3,130,480	3	—	3,130,483
Subtotal Investments	59,333,474	3,432,675	—	62,766,149
Pledges receivable	—	—	13,797,167	13,797,167
	<u>\$ 59,333,474</u>	<u>\$ 3,432,675</u>	<u>\$ 13,797,167</u>	<u>\$ 76,563,316</u>

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and money market funds – the carrying amounts reflected in the statement of financial position approximate fair value due to the short-term maturity of the instrument.

Mutual funds and small cap equity securities – the fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE F — FAIR VALUE MEASUREMENTS – Continued

Debt securities - the fair value is based on the NAV per share of the investments as reported by the fund manager.

Pledges receivable – the carrying value of unconditional promises to give is reported at net realizable value using present value techniques, which approximates fair value.

Alternative investments are recorded under the equity method of accounting and not subject to ASC 820. The alternative investments at June 30, 2011 totaled \$114,741,966. No liabilities are measured at fair value at June 30, 2011. See Note I regarding the fair value of pension assets.

The following table provides further detail of Level 3 fair value measurements:

	Balance 7/1/2010	Additions	Payments	Reclassifications	Balance 6/30/2011
Pledges receivable:					
Unrestricted:					
Short-term receivable	\$ —	\$ 200,000	\$ (100,000)	\$ —	\$ 100,000
Long-term receivable	—	—	—	—	—
Subtotal	—	200,000	(100,000)	—	100,000
Temporarily restricted – donor designated:					
Short-term receivable	5,179,267	8,969,463	(8,751,034)	1,160,099	6,557,795
Allowance for uncollectible	(1,235,000)	335,000	—	—	(900,000)
Subtotal short-term receivables	3,944,217	9,304,463	(8,751,034)	1,160,099	5,657,795
Long-term receivable	6,912,530	69,838	—	(1,160,099)	5,822,269
Subtotal	10,856,747	9,374,301	(8,751,034)	—	11,480,064
Permanently restricted:					
Short-term receivable	801,050	550,092	(930,154)	850,063	1,271,051
Long-term receivable	1,776,622	19,493	—	(850,063)	946,052
Subtotal	2,577,672	569,585	(930,154)	—	2,217,103
Total	<u>\$13,434,469</u>	<u>\$10,143,886</u>	<u>\$ (9,781,188)</u>	<u>\$ —</u>	<u>\$ 13,797,167</u>

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE G — FIXED ASSETS

Components of fixed assets reflected in the unrestricted operating net assets as of June 30 were as follows:

	2011	2010
Parking facilities	\$ 1,884,005	\$ 1,884,005
Furniture and equipment	602,972	602,972
	2,486,977	2,486,977
Accumulated depreciation	(1,825,893)	(1,703,343)
Total	\$ 661,084	\$ 783,634

Total depreciation expense was \$122,550 and \$138,118 for the years ended June 30, 2011 and 2010, respectively.

NOTE H — NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2011	2010
Revolving credit facility	\$ —	\$ 3,000,000
Financing of steam generation facility	—	1,360,000
Other	667	8,666
Total	667	4,368,666
Less, current portion	(667)	(3,376,333)
Notes payable, long-term	\$ —	\$ 992,333

During fiscal year 2007, the DIA obtained a \$25 million revolving credit facility with a 24-month term and the interest rate based on LIBOR plus a defined margin. It was renewed on January 13, 2011 for a twelve-month term to end January 12, 2012. It is collateralized by board-designated funds and is to be used for working capital needs. As of June 30, 2011, there were no amounts outstanding. The interest rate (all-in) as of June 30, 2011 was 1.436 percent. This agreement contains financial and reporting covenants for which the DIA is in compliance as of June 30, 2011.

On May 27, 2009, the DIA obtained a \$1.7 million five-year note payable for the financing of the engineering, design, and construction costs of the steam generation facility with an interest rate based on LIBOR plus 3.00 percentage points with a maturity date of June 1, 2014. The balance of \$1.36 million was paid as of June 30, 2011.

Total interest expensed and paid related to the above arrangements was \$123,234 and \$144,329 for the years ended June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS

The DIA has a defined benefit pension plan (the Plan) covering substantially all 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 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, 2011 and 2010.

Effective July 1, 2009, the DIA adopted a 401(k) plan to replace the Plan. Under this plan, the DIA will contribute 3 percent of the salary of eligible employees and will match 100% of the employees' elective deferral contributions up to 2 percent of the employee's salary. The ability of the DIA to provide funding will be reviewed annually and will be based on available resources. Expense recognized related to the 401(k) plan was \$548,476 and \$419,088 for the years ended June 30, 2011 and 2010, respectively.

In addition to the pension and 401(k) plans, the DIA sponsors a postretirement medical benefits plan (OPEB) for eligible retirees and their spouses. As of January 1, 2010, the OPEB plan was amended to replace the post-65 retiree medical and dental benefits with a stipend payment, which reimburses eligible retirees for qualified expenses associated with the purchase of qualified medical benefits. The amount of the stipend will be up to \$150 per month for each eligible retiree and up to \$300 per month for married couples. Employees who are eligible to retire before the age of 65 and are at least 60 years of age will have retiree medical benefits provided through premium-based coverage. Under this provision, the retiree pays a share of the monthly premium, which is subject to adjustment annually. The accumulated postretirement benefit obligation continues to be computed in accordance with ASC 715, *Compensation – Retirement Benefits*.

The following tables set forth the plans' funded status, the cost we recognized in our financial statements, and other information required for disclosure at June 30, 2011 and 2010.

Funded Status

	At June 30			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets	\$ 22,689,222	\$ 19,507,207	\$ —	\$ —
Projected benefit obligation	(27,703,425)	(26,634,419)		
Accumulated benefit obligation			(1,718,226)	(1,581,630)
Underfunded status	<u>\$ (5,014,203)</u>	<u>\$ (7,127,212)</u>	<u>\$ (1,718,226)</u>	<u>\$ (1,581,630)</u>

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.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

Amounts Recognized in the Statement of Financial Position

	At June 30			
	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Accrued benefit cost	\$ (441,808)	\$ (218,575)		
Unfunded pension plan obligation	(4,572,395)	(6,908,637)		
Postretirement healthcare obligation			\$ (1,718,226)	\$ (1,581,630)
Underfunded obligation	\$ (5,014,203)	\$ (7,127,212)	\$ (1,718,226)	\$ (1,581,630)

Accrued benefit cost for the pension benefits is included in accounts payable and accrued expenses in the statement of financial position. The DIA has recorded the \$1,718,226 and \$1,581,630 postretirement obligation in the operating fund for fiscal years 2011 and 2010, respectively.

Other Changes in Plan Assets and Benefit Obligations Recognized as Changes in Net Assets

	At June 30			
	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Net actuarial loss gain	\$ 2,336,242	\$(2,612,230)	\$ 15,519	\$ 324,294
Net prior service cost credit	—	—	—	5,849,136
Amortization of prior service cost	—	—	(416,338)	(208,169)
Other	—	—	104,281	69,511
Adjustment to pension liability and postretirement health care obligation	\$ 2,336,242	\$(2,612,230)	\$ (296,538)	\$ 6,034,772

The amount included in change in net assets at June 30, 2011 that has not been recognized in net periodic benefit cost is unrecognized actuarial losses of \$4,572,395 for the Plan and, for the OPEB plan, prior service cost credit of \$5,224,630 and unrecognized actuarial losses of \$1,321,311. The amount expected to be recognized in net periodic benefit cost during the fiscal year ended June 30, 2012 is an actuarial loss of \$171,752 for the Plan and, for the OPEB plan, the actuarial loss of \$91,139 and the amortization of net prior service credit of \$416,338.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

Components of Net Periodic Benefit Cost

	For the Year Ended June 30			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Service cost	\$ —	\$ —	\$ 92,457	\$ 303,497
Interest cost	1,446,108	1,441,882	92,405	254,122
Expected return on plan assets	(1,435,469)	(1,314,623)	—	—
Amortization of actuarial losses	418,584	288,975	104,281	69,511
Amortization of prior service cost	—	—	(416,338)	(208,169)
	<u>\$ 429,223</u>	<u>\$ 416,234</u>	<u>\$ (127,195)</u>	<u>\$ 418,961</u>

Changes in Fair Value of Plans' Assets

	For the Year Ended June 30	
	<u>Pension Benefits</u>	
	<u>2011</u>	<u>2010</u>
Fair value, beginning of year	\$ 19,507,207	\$ 17,298,377
Actual return on assets	3,793,307	1,993,820
Employer contributions	205,990	958,128
Benefits paid	(817,282)	(743,118)
Fair value, end of year	<u>\$ 22,689,222</u>	<u>\$ 19,507,207</u>

Percentage Breakdown of Plan Assets by Category

	For the Year Ended June 30	
	<u>Pension Benefits</u>	
	<u>2011</u>	<u>2010</u>
Cash and equivalents	1.2%	9.9%
Domestic fixed income	1.0%	1.2%
Global asset allocation funds	69.5%	64.2%
Equity securities	28.3%	24.7%
	<u>100.0%</u>	<u>100.0%</u>

Target Asset Allocation of Plan Assets by Category

	<u>Pension Benefits</u>
Equity securities	29%
Global asset allocation funds	70%
Domestic fixed income	1%

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

Fair Value Measurement of Pension Assets

As previously described in Note F - Fair Value Measurements, above, ASC 820 and ASU 2009-12 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.

The following tables present the financial instruments measured at fair value on a recurring basis as of:

June 30, 2011				
	Level 1	Level 2	Level 3	Total
Common/collective trusts:				
State Street Global S&P 500				
Equal Weighted Index Fund	\$ —	\$ 2,784,745	\$ —	\$ 2,784,745
Comerica S&P 500 Index Fund	—	2,440,354	—	2,440,354
Comerica Foreign Equity Fund	—	1,170,632	—	1,170,632
Comerica Short-Term Fund	—	295,734	—	295,734
Mutual funds:				
PIMCO All Asset Fund International	8,244,271	—	—	8,244,271
GMO Global Balanced Asset				
Allocation Fund - III	7,520,210	—	—	7,520,210
PIMCO Extended Duration Fund	113,454	—	—	113,454
PIMCO Long-Term Credit Fund	119,822	—	—	119,822
	<u>\$ 15,997,757</u>	<u>\$ 6,691,465</u>	<u>\$ —</u>	<u>\$ 22,689,222</u>

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Common/collective trusts:				
State Street Global S&P 500				
Equal Weighted Index Fund	\$ —	\$ 2,048,338	\$ —	\$ 2,048,338
Comerica S&P 500 Index Fund	—	1,866,137	—	1,866,137
Comerica Foreign Equity Fund	—	888,821	—	888,821
Comerica Short-Term Fund	—	1,927,300	—	1,927,300
Mutual funds:				
PIMCO All Asset Fund International	6,762,381	—	—	6,762,381
GMO Global Balanced Asset				
Allocation Fund - III	5,782,491	—	—	5,782,491
PIMCO Extended Duration Fund	124,210	—	—	124,210
PIMCO Long-Term Credit Fund	107,529	—	—	107,529
	<u>\$ 12,776,611</u>	<u>\$ 6,730,596</u>	<u>\$ —</u>	<u>\$ 19,507,207</u>

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

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

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

Weighted-Average Assumptions and Dates

	For the Year Ended June 30			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Discount rate to determine benefit obligations	5.75%	5.50%	5.75%	5.50%
Expected rate of return on plan assets	7.50%	7.50%	N/A	N/A
Rate of increase in compensation levels	N/A	N/A	N/A	N/A
Discount rate to determine net periodic pension cost	5.50%	6.25%	5.50%	6.25%
Measurement date for benefit obligations at June 30	06/30/2011	06/30/2010	06/30/2011	06/30/2010
Measurement date used to calculate the net periodic benefit cost	07/01/2010	07/01/2009	07/01/2010	07/01/2009

For measurement purposes, an 11.0 percent annual rate of increase in health care costs at June 30, 2011 was assumed, decreasing annually to the target rate of 5 percent for 2035 and thereafter. The aforementioned assumption impacts both current year benefit costs (expense) and the accumulated benefit obligation.

Expected Future Employer Contributions and Benefit Payments

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Expected employer contributions during fiscal year ending June 30, 2012	\$1,314,070	\$ 58,984
Expected future benefit payments for fiscal years ending June 30:		
2012	\$1,031,559	\$ 58,984
2013	\$1,160,123	\$ 67,106
2014	\$1,278,493	\$ 65,915
2015	\$1,340,409	\$ 68,470
2016	\$1,515,254	\$ 74,759
2017-2021	\$9,195,477	\$533,336

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

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NOTE I — PENSION AND POSTRETIREMENT MEDICAL BENEFIT PLANS – Continued

Pension Plan Investment Policies and Strategies

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE J — FUNCTIONAL CLASSIFICATION OF OPERATING EXPENDITURES

Operating expenditures by functional classification for fiscal years 2011 and 2010 are as follows:

	2011	2010
Programs and operational activities:		
Conservation	\$ 786,221	\$ 709,754
Publications and graphic design	286,682	276,742
Learning and interpretation	1,067,237	1,000,020
Public programming	691,272	520,259
Exhibitions	1,062,669	1,647,202
Curatorial and curatorial support	3,918,488	3,938,857
Museum services	544,759	566,796
Marketing and public relations	1,229,152	1,076,878
Retail operations	927,555	1,036,481
Food services	412,845	414,585
Auxiliary and volunteer groups (a)	2,171,470	2,086,325
Maintenance and security	6,094,578	6,280,613
Total programs and operational activities	19,192,928	19,554,512
Membership and development	3,399,189	3,929,450
Supporting services:		
Administration	4,207,459	3,774,609
Recognition of donations to the DIA's endowment held at the CFSEM (Note D)	500,790	—
Other	322,746	317,719
Total supporting services	5,030,995	4,092,338
Total operating expenditures	\$ 27,623,112	\$ 27,576,300

- (a) This total includes the value of contributed services by volunteers with specialized skills to teach the public about art, engage the public in interpretive programs, and perform docent activities. The expense recorded was \$1.32 million and \$1.31 million for the years ended June 30, 2011 and 2010, respectively. This expense is offset by membership and development in-kind revenue recorded in the unrestricted operating fund.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE K — LEASES

The DIA leases storage space and recorded tour equipment that expires on various dates through 2023. At June 30, 2011, minimum commitments of future payments under these arrangements are as follows:

2012	\$ 148,075
2013	145,202
2014	175,214
2015	155,700
2016	155,700
2017–2023	<u>1,219,650</u>
TOTAL	<u>\$ 1,999,541</u>

Total rental expense for operating leases was \$166,167 for the year ended June 30, 2011.

NOTE L — INCOME TAXES

FASB ASC 740-10, *Income Taxes*, clarifies the accounting for uncertainty in income tax positions recognized in financial statements. This guidance requires that realization of an uncertain tax position must be “more likely than not” before it can be recognized in the financial statements. Effective July 1, 2009, the DIA adopted this guidance. The adoption did not have a material impact on the DIA’s financial position or results of operations. There are no material changes in the DIA’s unrecognized income tax position as June 30, 2011. The DIA does not expect an increase or decrease in unrecognized tax benefits within the next twelve months.

NOTES TO FINANCIAL STATEMENTS

DETROIT INSTITUTE OF ARTS

JUNE 30, 2011

NOTE M — NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASC ASU No. 2010-06, which guidance clarifies certain existing fair value measurement disclosure requirements of ASC 820 and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as Level 2 or Level 3 instruments. Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of Level 3 assets and liabilities. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed, the guidance in ASC 2010-06 became effective for the DIA as of July 1, 2010. The adoption of this guidance did not have a material effect on the financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, (ASU 2011-04). ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures although certain of these new disclosures will not be required for nonpublic entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the DIA's financial statements.

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