

# **Milwaukee Art Museum, Inc.**

Milwaukee, Wisconsin

## **Consolidated Financial Statements and Additional Information**

Years Ended August 31, 2009 and 2008

# Milwaukee Art Museum, Inc.

## Consolidated Financial Statements and Additional Information

Years Ended August 31, 2009 and 2008

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## Independent Auditor's Report

Board of Trustees  
Milwaukee Art Museum, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying consolidated statement of financial position of the Milwaukee Art Museum, Inc., as of August 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Milwaukee Art Museum, Inc., as of and for the year ended August 31, 2008, were audited by other auditors, whose report dated December 9, 2008, expressed an unqualified opinion on those 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Milwaukee Art Museum, Inc., at August 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

December 9, 2009  
Milwaukee, Wisconsin

# Milwaukee Art Museum, Inc.

## Consolidated Statements of Financial Position

August 31, 2009 and 2008

<i>Assets</i>	2009	2008
Current assets:		
Cash and cash equivalents	\$ 854,257	\$ 606,840
Accounts receivable - Net	401,279	354,605
Current portion of pledges receivable	1,532,211	1,381,190
Investment income receivable	100,912	94,065
Inventories - Net	544,116	540,575
Prepaid expenses	494,002	374,469
Total current assets	3,926,777	3,351,744
Investments	35,260,849	32,901,643
Pledges receivable, less current portion	152,037	232,397
Beneficial interest in assets held in trusts	730,347	767,844
Property and equipment - Net	88,977,427	91,729,011
<b>TOTAL ASSETS</b>	<b>\$ 129,047,437</b>	<b>\$ 128,982,639</b>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,108,312	\$ 1,230,656
Deferred revenue	437,410	349,306
Total current liabilities	1,545,722	1,579,962
Net assets:		
Unrestricted:		
Board designated	1,810,692	4,915,873
Undesignated	89,473,843	93,069,625
Total unrestricted	91,284,535	97,985,498
Temporarily restricted	16,857,928	13,117,243
Permanently restricted	19,359,252	16,299,936
Total net assets	127,501,715	127,402,677
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 129,047,437</b>	<b>\$ 128,982,639</b>

See accompanying notes to financial statements

# Milwaukee Art Museum, Inc.

## Consolidated Statements of Activities

Years Ended August 31, 2009 and 2008

	Operating Funds	Other Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	2009
Operating support and revenue:						
Contributions and membership	\$ 4,342,369	\$ -	\$ 4,342,369	\$ 176,955	\$ -	\$ 4,519,324
Grants and sponsorships	1,500	-	1,500	1,811,825	-	1,813,325
Milwaukee County War Memorial Center, Inc.	565,333	-	565,333	250,000	-	815,333
Admission, tour fees, and parking	1,311,586	-	1,311,586	-	-	1,311,586
Education programs	122,242	-	122,242	-	-	122,242
Exhibition and curatorial income	52,944	-	52,944	-	-	52,944
Net wholesale and retail operations (cost of sales of \$655,056 in 2009 and \$681,594 in 2008)	362,999	-	362,999	-	-	362,999
Net museum café (cost of sales of \$449,609 in 2009 and \$398,167 in 2008)	761,162	-	761,162	-	-	761,162
Facility rental income	524,949	-	524,949	-	-	524,949
Fundraising events and auxiliary activities	43,036	-	43,036	950,582	-	993,618
Other	452,283	-	452,283	3,502	-	455,785
Investment return appropriated for operations	1,025,307	-	1,025,307	-	-	1,025,307
Net assets released from restrictions and other transfers	2,947,356	975,249	3,922,605	(4,182,966)	260,361	-
<b>Total operating support and revenue</b>	<b>12,513,066</b>	<b>975,249</b>	<b>13,488,315</b>	<b>(990,102)</b>	<b>260,361</b>	<b>12,758,574</b>
Operating expenses:						
Program services:						
Education	846,613	7,789	854,402	-	-	854,402
Audience, communication, and member development	1,861,585	-	1,861,585	-	-	1,861,585
Presentation and curatorial	2,902,835	118,852	3,021,687	-	-	3,021,687
Business operations	1,182,421	-	1,182,421	-	-	1,182,421
<b>Total program services</b>	<b>6,793,454</b>	<b>126,641</b>	<b>6,920,095</b>	<b>-</b>	<b>-</b>	<b>6,920,095</b>
Supporting services:						
General and administrative	1,695,439	10,905	1,706,344	-	-	1,706,344
Financial development and volunteer services	1,204,912	762,512	1,967,424	-	-	1,967,424
Building services	2,836,747	-	2,836,747	-	-	2,836,747
<b>Total supporting services</b>	<b>5,737,098</b>	<b>773,417</b>	<b>6,510,515</b>	<b>-</b>	<b>-</b>	<b>6,510,515</b>
<b>Total operating expenses</b>	<b>12,530,552</b>	<b>900,058</b>	<b>13,430,610</b>	<b>-</b>	<b>-</b>	<b>13,430,610</b>
Change in net assets from operating activities	(17,486)	75,191	57,705	(990,102)	260,361	(672,036)

Operating Funds	Other Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	2008
\$ 4,564,032	\$ -	\$ 4,564,032	\$ 325,018	\$ -	\$ 4,889,050
113,948	-	113,948	3,970,168	-	4,084,116
538,667	-	538,667	250,000	-	788,667
1,252,964	-	1,252,964	-	-	1,252,964
158,304	-	158,304	-	-	158,304
178,474	-	178,474	-	-	178,474
562,442	-	562,442	-	-	562,442
749,665	-	749,665	-	-	749,665
677,117	-	677,117	-	-	677,117
7,356	-	7,356	2,050,673	-	2,058,029
452,023	-	452,023	7,939	-	459,962
1,045,041	-	1,045,041	-	100,000	1,145,041
2,668,409	1,460,891	4,129,300	(4,243,537)	114,237	-
12,968,442	1,460,891	14,429,333	2,360,261	214,237	17,003,831
1,041,958	2,079	1,044,037	-	-	1,044,037
1,990,916	-	1,990,916	-	-	1,990,916
2,870,337	114,391	2,984,728	-	-	2,984,728
1,360,859	-	1,360,859	-	-	1,360,859
7,264,070	116,470	7,380,540	-	-	7,380,540
1,859,862	74,137	1,933,999	-	-	1,933,999
865,688	1,319,545	2,185,233	-	-	2,185,233
3,033,735	-	3,033,735	-	-	3,033,735
5,759,285	1,393,682	7,152,967	-	-	7,152,967
13,023,355	1,510,152	14,533,507	-	-	14,533,507
(54,913)	(49,261)	(104,174)	2,360,261	214,237	2,470,324

See accompanying notes to financial statements

# Milwaukee Art Museum, Inc.

## Consolidated Statements of Activities (Continued)

Years Ended August 31, 2009 and 2008

	Operating Funds	Other Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	2009
Nonoperating revenue, support, gains, and losses:						
Contributions designated for acquisition of art	-	-	-	6,774,452	-	6,774,452
Net assets released to fund acquisitions of art	-	457,721	457,721	(457,721)	-	-
Acquisitions of art	-	(565,606)	(565,606)	-	-	(565,606)
Investment income (loss)	21,051	(847,254)	(826,203)	(599,893)	-	(1,426,096)
Net assets released from endowment for operations	-	(572,444)	(572,444)	(452,863)	-	(1,025,307)
Contributions designated for endowment	-	70,378	70,378	47,902	-	118,280
Depreciation and amortization	-	(3,029,808)	(3,029,808)	-	-	(3,029,808)
Other	(2,573)	(32,309)	(34,882)	(29,013)	(10,946)	(74,841)
Total nonoperating revenue, support, gains, and losses	18,478	(4,519,322)	(4,500,844)	5,282,864	(10,946)	771,074
Other changes in net assets:						
Recharacterization of net assets (Note 16)	-	(2,257,824)	(2,257,824)	(552,077)	2,809,901	-
Changes in net assets	992	(6,701,955)	(6,700,963)	3,740,685	3,059,316	99,038
Net assets at beginning of year, as restated for 2008 (Note 15)	1,069,988	96,915,510	97,985,498	13,117,243	16,299,936	127,402,677
Net assets at end of year	\$ 1,070,980	\$ 90,213,555	\$ 91,284,535	\$ 16,857,928	\$ 19,359,252	\$ 127,501,715

Operating Funds	Other Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	2008
-	-	-	390,848	-	390,848
-	685,115	685,115	(685,115)	-	-
-	(685,115)	(685,115)	-	-	(685,115)
55,714	(1,290,178)	(1,234,464)	99,489	-	(1,134,975)
-	-	-	(1,045,041)	(100,000)	(1,145,041)
-	131,001	131,001	71,389	2,500	204,890
-	(3,319,697)	(3,319,697)	-	-	(3,319,697)
-	(47,256)	(47,256)	37,298	44,564	34,606
55,714	(4,526,130)	(4,470,416)	(1,131,132)	(52,936)	(5,654,484)
-	-	-	-	-	-
801	(4,575,391)	(4,574,590)	1,229,129	161,301	(3,184,160)
1,069,187	101,490,901	102,560,088	11,888,114	16,138,635	130,586,837
\$ 1,069,988	\$ 96,915,510	\$ 97,985,498	\$ 13,117,243	\$ 16,299,936	\$ 127,402,677

See accompanying notes to financial statements



# Milwaukee Art Museum, Inc.

## Consolidated Statements of Cash Flows

Years Ended August 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 99,038	\$ (3,184,160)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for inventory obsolescence	84,200	-
Depreciation and amortization	3,029,808	3,319,697
Contributions designated for long-term investment, capital expenditures, and art purchases	(6,828,621)	(622,475)
Acquisitions of art	565,606	685,115
Net realized gains on sale of investments	1,406,262	(1,118,988)
Net change in unrealized losses on investments	717,761	3,719,524
Change in beneficial interest in assets held in trusts	37,497	(22,245)
Changes in assets and liabilities:		
Accounts receivable	(46,674)	113,699
Pledges receivable	225,229	(85,878)
Investment income receivable	(6,847)	(28,490)
Inventories	(87,741)	(24,038)
Prepaid expenses	(119,533)	(129,594)
Accounts payable and accrued expenses	(122,344)	(346,378)
Deferred revenue	88,104	(29,344)
<b>Net cash provided by (used in) operating activities</b>	<b>(958,255)</b>	<b>2,246,445</b>
Cash flows from investing activities:		
Acquisitions of art	(565,606)	(685,115)
Purchases of investments	(29,810,465)	(32,767,569)
Proceeds from sale of investments	25,327,236	29,149,975
Purchases of property and equipment	(278,224)	(187,463)
<b>Net cash used in investing activities</b>	<b>(5,327,059)</b>	<b>(4,490,172)</b>

# Milwaukee Art Museum, Inc.

## Consolidated Statements of Cash Flows (Continued)

Years Ended August 31, 2009 and 2008

	2009	2008
Cash flows from financing activities:		
Net payments on revolving credit note	-	(49,958)
Redemption of tax exempt bonds	-	(2,176,000)
Contributions designated for long-term investment received	6,532,731	2,358,387
Net cash provided by financing activities	6,532,731	132,429
Increase (decrease) in cash and cash equivalents	247,417	(2,111,298)
Cash and cash equivalents at beginning of year	606,840	2,718,138
Cash and cash equivalents at end of year	\$ 854,257	\$ 606,840

### Supplemental disclosures of cash flow information:

Cash paid during the period for interest	\$ 2,573	\$ 33,224
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# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies**

#### **Nature of Activities**

The Milwaukee Art Museum, Inc. (the "Art Museum") is a not-for-profit corporation and premier art museum with collections and exhibitions of internationally recognized excellence. Through its partnerships with volunteers, corporations, educational institutions, and art organizations, the Art Museum is committed to advancing the appreciation and understanding of the visual arts through collection, preservation, display, research, publication, education, and interpretation.

Milwaukee Art Museum, LLC, was formed in 2001 as a wholly owned for-profit subsidiary of Milwaukee Art Museum, Inc., for the purpose of contracting with a restaurateur and acquiring licenses related to that purpose.

#### **Consolidated Financial Statements**

The consolidated financial statements include the accounts of Milwaukee Art Museum, Inc., and its wholly owned subsidiary, Milwaukee Art Museum, LLC. Milwaukee Art Museum, LLC, had no significant activity for the years ended August 31, 2009 and 2008. All intercompany balances and transactions have been eliminated.

#### **Financial Statement Preparation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). The Art Museum maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors. Accordingly, net assets of the Art Museum and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The statement of activities categorizes unrestricted net assets between the operating fund and all other funds in which unrestricted net assets are recorded.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Financial Statement Preparation** (Continued)

The operating fund is the fund used by the Art Museum to record the carrying on of the day-to-day activities performed in accomplishing the appreciation, understanding, and education of the visual arts. At the end of each fiscal year, an amount equal to the surplus (deficit) in the operation fund is transferred to (from) the board-designated fund from (to) the operation fund.

Other funds classified as unrestricted net assets include deaccessioning funds, board-designated reserves, certain endowment earnings, and equipment.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Art Museum and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Art Museum. Generally, the donors of these assets permit the Art Museum to use all or part of the income earned on any related investments for general or specific purposes.

#### **Use of Estimates in Preparation of Financial Statements**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### **Subsequent Events**

Subsequent events have been evaluated through December 9, 2009, which is the date the financial statements were available to be issued.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Art Collections**

The Art Museum's collection comprises more than 26,000 works of art that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items.

The value of the art objects in the permanent collection is excluded from the statements of financial position. An addition of a work of art to the permanent collection is made either by donation from a benefactor or through a purchase from Art Museum acquisition funds. Art Museum funds designated for acquisitions may be classified as permanently restricted, for which only the income earned on the principal balances may be used for acquisitions; temporarily restricted, for which both the principal and earned income may be used for acquisitions; or unrestricted, representing funds designated by the board to be used for acquisitions. Proceeds from deaccessions of collection items are reflected as increases in the appropriate net asset classes.

#### **Cash and Cash Equivalents**

The Art Museum considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents invested with investment managers are classified as investments.

#### **Accounts Receivable**

Accounts receivable are generally uncollateralized client obligations due upon receipt. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management individually reviews all past due accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of accounts receivable are reduced by an allowance of \$8,228 and \$2,000 that reflects management's estimate of uncollectible amounts at August 31, 2009 and 2008, respectively.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Pledges Receivable**

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets and reclassified to unrestricted net assets when received.

Pledges receivable are reported in the statements of financial position net of unamortized discounts and an allowance for uncollectible pledges. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate that approximates the rate of government securities applicable to the years in which payments are to be received. Amortization of the discount is recorded as a change in present value of contributions receivable. An allowance for uncollectible accounts is determined by management based on past collection history.

Pledges receivable consist primarily of pledges for the annual campaign, the facility expansion project, and exhibition and education programs.

#### **Inventories**

Inventories consist of retail items, publications, food and beverage items, and office supplies, and are valued at the lower of cost, determined using the average cost method, or market.

#### **Prepaid Expenses**

Prepaid expenses primarily include expenditures made in connection with the development of future exhibitions. These expenditures typically relate to research, organizational travel, and transport costs of the works to be included in the exhibitions. The costs are expensed in the period the exhibition occurs.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Investments**

Investments are carried at fair value in the statement of financial position. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investments received as gifts are stated at the fair value at the date of donation. Investment management and custodian fees are recorded as a reduction of investment income for financial reporting purposes.

Investment income and realized and unrealized gains or losses are reported as increases in temporarily or permanently restricted net assets if the terms of the gift impose restrictions on the use of the income or as increases in unrestricted net assets in all other cases.

#### **Beneficial Interest in Assets Held in Trusts**

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts. These agreements are recognized for financial reporting purposes if the Art Museum receives documentation of the terms of its beneficial interest and the designation of the Art Museum as beneficiary is irrevocable. The existence of agreements known to the Art Museum that do not meet both conditions are not recorded in the financial statements. The beneficial interest and related change in valuation for these agreements are classified as temporarily restricted. The interests in the charitable remainder trusts are recorded net of a discount based upon the applicable Internal Revenue Code Section 7520 rate (3.40% as of August 31, 2009) over the anticipated life expectancies of the donors.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Property and Equipment**

Property and equipment are recorded at cost on the date of acquisition or fair value at the date of donation if received as a contribution. Depreciation is provided on the straight-line basis of accounting over the estimated useful lives as follows:

Building	50 years
Building improvements	20 years
Land improvements	20 years
Leashold improvements	10 to 15 years
Furniture and equipment	3 to 7 years

The Art Museum periodically assesses the recoverability of long-lived assets (including property and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows, exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. The Art Museum did not recognize any impairment of long-lived assets during 2009 and 2008.

#### **Contributions**

Contributions, including unconditional promises to give, are recorded in the period the contribution or unconditional promise is received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.



# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Contributions** (Continued)

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized. In addition, the Art Museum receives a significant amount of volunteer time that does not meet the criteria for recognition as a contribution. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

#### **Admissions and Memberships**

Admission revenue is recorded when received. Membership revenue is recorded when received unless related to future annual membership periods, in which case the revenue is deferred until earned.

#### **Donated Building Services**

The Art Museum occupies a portion of its current facility under the terms of an agreement between the Art Museum and the Milwaukee County War Memorial Center, Inc. (the "War Memorial"). Under that agreement, the Art Museum is allowed to occupy permanently and perpetually, without cost, those premises as a memorial decorative arts gallery. With funds provided by Milwaukee County, the War Memorial provides building services, including building maintenance and repairs, utilities, and insurance. The War Memorial determines the fair value of the building services annually. The fair value of the facility and building services amounted to \$815,333 and \$788,667 for the years ended August 31, 2009 and 2008, respectively, of which \$565,333 and \$538,667 was provided in-kind, respectively, and \$250,000 was received in cash. The Art Museum has recorded the in-kind value as support and reflected a corresponding expense entitled "contributed building services." In addition, the Art Museum leases land from the City of Milwaukee. The expenses under the existing lease are not significant to the Art Museum's financial statements.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Purchases and Sales of Art**

All revenue and expenses associated with the purchases and sales of art objects, including restricted giving and the release and use of restricted and unrestricted funds for such purposes, are considered nonoperating revenues and expenses.

#### **Income Taxes**

The Art Museum is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Art Museum is also exempt from state income taxes on related income.

The Art Museum's unrelated business income was less than the expenses related to this income in both 2009 and 2008, and therefore, no provision has been made for income taxes in the accompanying financial statements.

#### **New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In December 2008, the FASB issued Financial Accounting Standards Board Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which deferred the effective date of FIN 48 for certain nonpublic entities until the annual period beginning after December 15, 2008. The Art Museum expects to adopt this interpretation for the year beginning September 1, 2009. Management is currently analyzing the impact of adopting this interpretation for the year ending August 31, 2010, and management believes that the adoption will have no impact on the financial statements.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **New Accounting Pronouncements** (Continued)

Effective September 1, 2008, the Art Museum adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies how organizations are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value, and expanding disclosures about fair value measurements. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The adoption of SFAS No. 157 did not have a material impact on the Art Museum's results of operations or financial position.

The Art Museum was required to adopt FSP No. 117-1, *Endowments of Not-for-Profit Organizations*, for the year ended August 31, 2009. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP No. 117-1 also requires additional disclosures for organizations subject to UPMIFA to enable users of the financial statements to understand the net asset clarification, net asset composition, changes in net asset composition, spending policies, and related investment policies of an organization's endowment funds, both donor-restricted and board-designated. The disclosures are required for each period presented and are included in Note 10 to the financial statements. The adoption of FSP No. 117-1 had no effect on total net assets or the net asset classifications of the Art Museum.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

### Note 2 Inventories

Inventories at August 31, consisted of the following:

	2009	2008
Store inventory	\$ 288,690	\$ 309,099
Publications inventory	260,934	163,544
Café inventory	69,020	59,500
Miscellaneous inventory	9,672	8,432
Reserve for obsolescence	(84,200)	-
Inventories - Net	\$ 544,116	\$ 540,575

### Note 3 Investments

Investments, stated at fair value, include the following at August 31:

	2009	2008
Money market funds	\$ 5,688,136	\$ 7,479,590
U.S. government obligations	3,588,867	4,146,349
Mortgage-backed securities	2,734,136	2,034,551
Short-term bonds - Institutional	6,578,114	-
Corporate debt securities	4,054,262	3,130,842
Common and preferred stocks	12,617,334	16,110,311
Total investments	\$ 35,260,849	\$ 32,901,643

Investment income for the years ended August 31, is as follows:

	2009	2008
Interest and dividend income, net of trustee fees	\$ 694,738	\$ 1,465,561
Net realized (loss) gain	(1,406,263)	1,118,988
Unrealized loss	(714,571)	(3,719,524)
Total investment loss	\$ (1,426,096)	\$ (1,134,975)

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 3 Investments (Continued)

Investment trustee and management fees of \$115,317 and \$126,955 were paid by the Art Museum for the years ended August 31, 2009 and 2008, respectively.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

### Note 4 Pledges Receivable

Pledges receivable at August 31, are summarized as follows:

	2009	2008
Less than one year	\$ 1,532,211	\$ 1,381,190
One to five years	272,224	378,000
Gross pledges receivable	1,804,435	1,759,190
Less:		
Unamortized discount	30,187	40,603
Allowance for uncollectable amounts	90,000	105,000
Pledges receivable - Net	1,684,248	1,613,587
Less - Current portion	1,532,211	1,381,190
Pledges receivable, less current portion	\$ 152,037	\$ 232,397

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The Organization is using a discount rate of between 3.4% and 4.7%.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 5      **Beneficial Interest in Assets Held in Trust**

The Art Museum is the income beneficiary of certain funds maintained by the Greater Milwaukee Foundation, a community support foundation. The Milwaukee Art Museum Endowment Fund (the "Endowment Fund") is a component fund of the Greater Milwaukee Foundation. The assets of the Endowment Fund were donated by third-party donors to the Art Museum and then transferred by the Art Museum to the Greater Milwaukee Foundation, with the Art Museum named as beneficiary. According to the original gift agreement, there is no provision for distribution of principal to the Art Museum; however, periodic distributions of income are made to the Art Museum. Under GAAP, the fair value of the Endowment Fund of \$238,317 and \$270,626 as of August 31, 2009 and 2008, respectively, is recorded as a beneficial interest in assets held in trust in the accompanying statements of financial position. The Art Museum received income distributions of \$5,630 and \$9,643 from this fund during 2009 and 2008, respectively.

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts, the principal of which will be turned over to the Art Museum at a future date. The estimated future value of these charitable remainder trusts as of August 31, 2009 and 2008, is approximately \$651,536 and \$791,493, respectively. The charitable remainder trusts are recorded at their present value of \$492,030 and \$497,218 as of August 31, 2009 and 2008, respectively, and are recorded as a beneficial interest in assets held in trust in the accompanying statements of financial position.

The Art Museum is also the income beneficiary of nine other designated funds of the Greater Milwaukee Foundation. Because these funds have been established at the Greater Milwaukee Foundation by third-party donors (not established by the Art Museum) and due to the Greater Milwaukee Foundation's explicit variance power over these funds, the Art Museum has not recorded any beneficial interest in these assets, nor does the Art Museum record any potential future distributions from the assets. The designated funds had a fair value of \$3,825,864 and \$4,370,601 at August 31, 2009 and 2008, respectively. The Art Museum received income distributions of \$174,540 and \$152,598 during 2009 and 2008, respectively, from these designated funds.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 6 Property and Equipment

Property and equipment consisted of the following at August 31:

	2009	2008
Building	\$ 95,352,426	\$ 95,352,426
Building improvements	206,787	205,543
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,584,323	4,377,301
Leasehold improvements	5,115,439	5,045,481
Total property and equipment	116,749,873	116,471,649
Less - Accumulated depreciation	27,772,446	24,742,638
Property and equipment - Net	\$ 88,977,427	\$ 91,729,011

### Note 7 Line of Credit

The Art Museum has a bank revolving credit note with an available credit balance of \$2,000,000 as of August 31, 2009 and 2008. The revolving credit note bears interest at the larger of LIBOR plus 225 basis points or 4% and is collateralized by certain contributions receivable and investments. The debt agreement contains covenants that restrict the Art Museum with regard to additional debt, disposition of assets, and use of endowment funds and requires the maintenance of certain financial and reporting covenants. Management believes the Art Museum was in compliance with all financial covenants as of August 31, 2009 and 2008. The bank revolving credit note expires April 27, 2010. There were no borrowings under the line of credit at August 31, 2009 and 2008.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 8 Employee Benefit Plans

The Art Museum maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all Art Museum employees on the first day of the month following their date of hire. The Art Museum matches employee contributions of 1% to 7% of gross salaries for qualified employees who have completed a minimum of one year of continuous employment of 1,000 hours or more. From September 1, 2008, through February 28, 2009, the maximum match was 7%; from March 1, 2009, to August 31, 2009, the maximum match was 2%. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Art Museum's contributions to the plan amounted to \$111,010 and \$175,356 for the years ended August 31, 2009 and 2008, respectively.

The Art Museum also contributes to a pension plan for eligible security staff as specified by an agreement between the Art Museum and District #10 International Association of Machinists and Aerospace Workers, the labor union representing the security staff. The security staff represents approximately 16% of Art Museum employees. The current agreement is in effect until August 31, 2010. Contributions to this plan on behalf of eligible union employees amounted to \$34,702 and \$37,013 for the years ended August 31, 2009 and 2008, respectively.

### Note 9 Board-Designated Net Assets

Certain unrestricted net assets are designated for specific purposes or used by the board of trustees (board designated endowment) or by various internal operating and administrative arrangements of the Art Museum. A summary of board designated net assets is as follows at August 31:

	2009	2008
Board-designated endowment	\$ 827,939	\$ 3,831,631
Deaccessioning fund	459,021	563,663
Board-designated reserve	467,861	465,035
Unemployment compensation reserve	55,871	55,544
Total board designated net assets	\$ 1,810,692	\$ 4,915,873



# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 9 Board Designated Net Assets (Continued)

The deaccessioning fund consists of amounts resulting from the sale of art from the collection, which are to be spent on acquisition of artwork.

### Note 10 Temporarily Restricted Net Assets

Donor restrictions of temporarily restricted net assets at August 31 are summarized as follows:

	2009	2008
Facility expansion project	\$ 1,285,267	\$ 1,271,014
Acquisition of art	11,630,971	5,383,594
Exhibitions	1,672,734	3,084,405
Education	793,330	1,735,556
Collection - Care and maintenance	523,436	717,756
Auxiliary activities	452,667	576,431
Time-restricted	85,185	188,181
Program services	7,500	160,306
Operations	406,838	-
Total temporarily restricted net assets	<u>\$ 16,857,928</u>	<u>\$ 13,117,243</u>

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 10 Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

	2009	2008
Temporarily restricted net assets released for operations:		
Education	\$ 525,024	\$ 642,064
Audience, communication, and member development	392,613	56,545
Presentation and curatorial	1,761,925	1,409,668
General, administrative, and development	1,047,319	1,809,055
Transfer to permanently restricted net assets to meet donor designation requirements	260,361	114,237
Building services	195,724	211,968
Total temporarily restricted net assets released for operations:	4,182,966	4,243,537
Accession of art for collection	457,721	685,115
Interest expense on debt related to facility expansion project	-	19,848
Total temporarily restricted net assets released from restrictions	\$ 4,640,687	\$ 4,948,500

### Note 11 Endowments

The Art Museum's endowments consist of various funds established to benefit the Art Museum for a variety of purposes. The Art Museum's endowments include both donor-restricted endowments and funds designated by the board to function as an endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 11      **Endowments** (Continued)

#### **Donor-Restricted Endowments**

The Art Museum has received various endowment gifts for which the donors have stipulated that the gift amount be invested and maintained permanently to generate annual income that benefits the Art Museum for a variety of purposes.

The Board of Directors of the Art Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Wisconsin state legislature, as requiring the Art Museum to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Art Museum classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted 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-restricted 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 Art Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Art Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Art Museum, and (7) the Art Museum's investment policies.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 11      **Endowments** (Continued)

#### **Board-Designated Endowment**

The Board of Directors has set aside certain unrestricted net assets for endowment purposes. Since these amounts are not restricted by the donor but are restricted only by Board policy, the amounts have been classified as unrestricted net assets. The Board's intent is that the board-designated endowment will always be equal to the unrestricted net assets of the Endowment Fund. The Board may designate additional amounts from time to time to be added to the endowment fund. The annual distribution policy the board has set will allow distributions made available to operations up to 5% of the average market value of the board-designated net assets over a three-year period.

#### **Investment Return Objectives, Risk Parameters, and Strategies**

The Art Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to preserve the fair value of the endowment assets. Under the Art Museum's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect principal, grow the aggregate portfolio value in excess of the rate of inflation and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and ensure that any risk assumed is commensurate with the given investment vehicle and the Art Museum's objectives.

To achieve its investment goals, the Art Museum targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control. The Art Museum's asset allocations include a blend of equity and debt securities and cash equivalents.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

### Note 11 Endowments (Continued)

Endowment net assets consisted of the following at August 31:

August 31, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ (812,883)	\$ 5,060,412	\$ 19,359,252	\$ 23,606,781
Board-designated endowment funds	827,939	-	-	827,939
Total	\$ 15,056	\$ 5,060,412	\$ 19,359,252	\$ 24,434,720

August 31, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ 2,617,781	\$ 6,940,117	\$ 16,299,936	\$ 25,857,834
Board-designated endowment funds	1,213,850	-	-	1,213,850
Total	\$ 3,831,631	\$ 6,940,117	\$ 16,299,936	\$ 27,071,684

#### Funds With Short falls

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the historical dollar value of the fund. In accordance with GAAP, this short fall of \$812,833 is reported in unrestricted net assets as of August 31, 2009. This short fall is the result of unfavorable market fluctuations which has reduced the assets of the donor-restricted endowment funds below the level required by the donor.

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

### Note 11 Endowments (Continued)

Changes in the endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments net assets at				
September 1, 2007	\$ 5,097,539	\$ 7,969,878	\$ 16,138,635	\$ 29,206,052
Contributions	131,001	71,389	2,500	204,890
Investment return:				
Interest and dividends	613,595	683,862	-	1,297,457
Net depreciation	(1,271,400)	(1,329,135)	144,564	(2,455,971)
Total investment return	(657,805)	(645,273)	144,564	(1,158,514)
Appropriation for expenditures	(665,381)	(379,660)	(100,000)	(1,145,041)
Designated transfers	(73,723)	(76,217)	114,236	(35,704)
Endowments net assets at				
August 31, 2008	3,831,631	6,940,117	16,299,935	27,071,683
Contributions	70,378	47,902	-	118,280
Investment return:				
Interest and dividends	299,705	325,653	-	625,358
Net depreciation	(1,153,356)	(978,488)	(10,946)	(2,142,790)
Total investment return	(853,651)	(652,835)	(10,946)	(1,517,432)
Recharacterization	(2,257,824)	(552,077)	2,809,901	-
Appropriation for expenditures	(572,444)	(452,863)	-	(1,025,307)
Designated transfers	(203,034)	(269,832)	260,362	(212,504)
Endowments net assets at				
August 31, 2009	\$ 15,056	\$ 5,060,412	\$ 19,359,252	\$ 24,434,720

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

### Note 12 Fair Value Measurements

As discussed in Note 1, the Art Museum adopted SFAS No. 157, *Fair Value Measurements*, effective September 1, 2008. SFAS No. 157 did not materially affect the Art Museum's results of operation or financial position; however, additional disclosures are now required. This statement describes a fair value hierarchy that includes three levels of inputs to be used to measure fair value. In general, the Art Museum determines fair values determined by Level 1 inputs utilizing quoted market prices in active markets, fair values determined by Level 2 inputs utilizing market information that is observable, such as quoted market prices for similar items, broker/dealer quotes, or models using market interest rates or yield curves, and fair values determined by Level 3 inputs utilizing unobservable inputs for the asset or liability to the extent that observable inputs are not available.

Information regarding assets measured at fair value on a recurring basis as of August 31, 2009, is as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Money market funds	\$ -	\$ 5,688,136	\$ -	\$ 5,688,136
U.S. government obligations	3,588,867	-	-	3,588,867
Mortgage-backed securities	-	2,734,136	-	2,734,136
Short-term bonds - Institutional	-	6,578,114	-	6,578,114
Corporate debt securities	-	4,054,262	-	4,054,262
Common and preferred stocks	12,617,334	-	-	12,617,334
Beneficial interest in assets held in trust	-	730,347	-	730,347
Total	\$ 16,206,201	\$ 19,784,995	\$ -	\$ 35,991,196

# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 13      Concentrations

The Art Museum maintains depository relationships with area financial institutions, including banks participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under this Program, non-interest bearing transaction accounts are fully guaranteed by the FDIC through June 30, 2010. The Art Museum also maintains interest bearing transaction accounts, which are insured by the FDIC up to \$250,000. The Art Museum has not experienced any losses with these accounts. Management believes the Art Museum is not exposed to any significant risk on cash.

At August 31, 2009, pledges from two donors totaled 27.9% of total pledges receivable.

### Note 14      Commitment

The Art Museum has a letter of credit agreement with an area bank in the amount of \$92,466. The letter of credit agreement is secured by certain assets of the Art Museum and expires in December 2013. The letter of credit agreement is required by the State of Wisconsin since the Museum is self-funded in regard to unemployment insurance.

### Note 15      Change in Accounting Principle

At September 1, 2008, the Art Museum elected to change its method of accounting for its donor-restricted facility expansion project ("Project") net assets. Under the old method, the original contributions were recorded as temporarily restricted net assets and subsequently transferred to unrestricted net assets as the Art Museum recognized depreciation over the life of the Project. Under the new method, the Art Museum has elected to recharacterize all the donor-restricted facility project net assets that were spent on the Project as unrestricted net assets. The new method better recognizes the actual use of the funds spent while satisfying the restricted nature of the contribution.

The comparative financial statements of the prior year have been adjusted to apply the new method retrospectively. The beginning net assets as of September 1, 2007, have been restated as follows:



# Milwaukee Art Museum, Inc.

## Notes to Consolidated Financial Statements

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### Note 15 Change in Accounting Principle (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 1, 2007 as previously reported	\$ 8,740,618	\$ 105,707,584	\$ 16,138,635	\$ 130,586,837
Change in accounting principle	93,819,470	(93,819,470)	-	-
Net assets at September 1, 2007 as restated	\$ 102,560,088	\$ 11,888,114	\$ 16,138,635	\$ 130,586,837

### Note 16 Recharacterization of Net Assets

In August 2009, the Milwaukee Art Museum recharacterized \$2,809,901 of unrestricted and temporarily restricted net assets to permanently restricted net assets to meet specific donor restrictions.

### Note 17 Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 classifications.

## Additional Information

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# Milwaukee Art Museum, Inc.

## Schedule of Endowment Funds

August 31, 2009

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	<b>Total</b>
Donor-restricted endowments:	
Abert Tooman Acquisition Fund	\$ 375,448
Boyd Fund	81,773
Bradley Conservation/Maintenance Fund	1,267,870
Bradley Foundation Fund	3,529,194
Catherine Jean Quirk Fund	71,820
Constance P. Godfrey Acquisition Fund	1,072,485
Croasdaile Acquisition Fund	1,406,039
Doerfler Fund	153,683
Endowment for Conservation	30,242
Endowment for Education	460,208
Erich C. Stern Fund	79,373
Esther S. Weber Memorial Education Fund	33,332
Expansion Operating Endowment	647,764
Florence Eiseman Foundation Fund	35,675
Frederick Layton Lecture Series Fund	174,052
Friends of Art Exhibition Fund	1,086,365
General Operating Endowment	3,426,596
Grootemaat Fund	41,498
James H. Brachman Fund	56,912
Jill and Jack Pelisek Fund	50,476
Joan Marcus Memorial Fund	52,326
John Porter Retzer and Florence Horn Retzer Competition Fund	220,045
Katherine Smith Gift Annuity	4,970
LaBahn Fund	1,153,553
Laskin Fund	836,719
NEA Challenge Endowment-Match	1,144,915
Patti Baker Education Endowment Fund	1,013,674
Pellegrin Family Endowment for Education	254,016
Pieper Challenge Grant Matching Fund	1,913,276
Rene von Schleinitz Memorial Fund	167,753
Richard & Ethel Herzfeld Photography Exhibition Fund	392,392
Schuchardt Fund	23,518
Suzanne and Richard Pieper Family Fund	956,639
Virginia Booth Vogel Acquisition Fund	1,392,180
<b>Total donor-restricted endowments</b>	<b>23,606,781</b>

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# Milwaukee Art Museum, Inc.

## Schedule of Endowment Funds (Continued)

August 31, 2009

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	Total
Board-designated endowments:	
Ruth K. Abrams Fund	64,592
Board Designated Fund	262,650
Karen Johnson Boyd Fund	148,846
NEA Challenge Endowment- Grant funded	251,639
Gift Annuity Reserve	100,212
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Total board-designated endowments	827,939
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Total endowment funds	\$ 24,434,720

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