

MILWAUKEE ART MUSEUM, INC.

Financial Statements and Schedule

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

MILWAUKEE ART MUSEUM, INC.

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KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Trustees
Milwaukee Art Museum, Inc.:

We have audited the accompanying statement of financial position of Milwaukee Art Museum, Inc. (the Art Museum) as of August 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Art Museum'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 Art Museum's 2007 financial statements, and in our report dated December 10, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Art Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Art Museum as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule 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 whole.

KPMG LLP

December 9, 2008

MILWAUKEE ART MUSEUM, INC.

Statements of Financial Position

August 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Assets:		
Cash and cash equivalents	\$ 606,840	2,718,138
Prepaid expenses and other assets	374,469	244,875
Inventories	540,575	516,537
Accounts receivable, net of allowance of \$2,000 in both 2007 and 2008	354,605	468,304
Contributions receivable, net	1,613,587	3,263,621
Investment income receivable	94,065	65,575
Investments, at fair value	32,901,643	31,884,585
Beneficial interest in assets held in trust	767,844	745,599
Property and equipment, net	91,729,011	94,861,245
Total assets	<u>\$ 128,982,639</u>	<u>134,768,479</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,230,656	1,577,034
Deferred revenue	349,306	378,650
Notes payable	—	2,225,958
Total liabilities	<u>1,579,962</u>	<u>4,181,642</u>
Net assets:		
Unrestricted	7,257,775	8,740,618
Temporarily restricted	103,844,966	105,707,584
Permanently restricted	16,299,936	16,138,635
Total net assets	<u>127,402,677</u>	<u>130,586,837</u>
Total liabilities and net assets	<u>\$ 128,982,639</u>	<u>134,768,479</u>

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Statements of Activities

Year ended August 31, 2008 with
summarized comparative financial information
for the year ended August 31, 2007

	Operating funds	Other funds	Unrestricted total
Operating support and revenues:			
Contributions and membership	\$ 4,564,032	—	4,564,032
Grants and sponsorships	113,948	—	113,948
Milwaukee County War Memorial Center, Inc.	538,667	—	538,667
Interest and dividends	55,714	33,008	88,722
Admission, tour fees, and parking	1,252,964	—	1,252,964
Education programs	158,304	—	158,304
Exhibition and curatorial income	178,474	—	178,474
Gross margin wholesale and retail operations (cost of sales \$681,594 in 2008 and \$966,405 in 2007)	562,442	—	562,442
Gross margin museum café (cost of sales \$398,167 in 2008 and \$363,296 in 2007)	749,665	—	749,665
Facility rental income	677,117	—	677,117
Fundraising events and auxiliary activities	7,356	—	7,356
Other	452,023	—	452,023
Investment return appropriated for operations	1,045,041	—	1,045,041
Net assets released from restrictions and other transfers	2,668,409	1,460,891	4,129,300
Total operating support and revenues and net assets released from restrictions	13,024,156	1,493,899	14,518,055
Operating expenses:			
Program services:			
Education	1,041,958	2,079	1,044,037
Audience, communication and member development	1,990,916	—	1,990,916
Presentation and curatorial	2,870,337	114,391	2,984,728
Business operations	1,360,859	—	1,360,859
Total program services	7,264,070	116,470	7,380,540
Supporting services:			
General and administrative	1,859,862	74,137	1,933,999
Financial development and volunteer services	865,688	1,319,545	2,185,233
Building services	3,033,735	—	3,033,735
Total supporting services	5,759,285	1,393,682	7,152,967
Total operating expenses	13,023,355	1,510,152	14,533,507
Change in net assets from operating activities	801	(16,253)	(15,452)
Nonoperating revenue, support, gains and losses:			
Contributions designated for art purchases	—	—	—
Net assets released to fund acquisitions of art	—	—	—
Investment return reduced by net appreciation appropriated for operations	—	(1,323,186)	(1,323,186)
Change in beneficial interest of assets held in trust	—	(27,408)	(27,408)
Contributions designated for capital expenditures	—	—	—
Contributions designated for endowment	—	131,001	131,001
Change in present value of contributions receivable	—	—	—
Net assets released for depreciation and interest	—	3,091,747	3,091,747
Depreciation and amortization	—	(3,319,697)	(3,319,697)
Interest expense	—	(19,848)	(19,848)
Total nonoperating revenue, support, gains, and losses	—	(1,467,391)	(1,467,391)
Change in net assets	801	(1,483,644)	(1,482,843)
Net assets, beginning of year	1,069,187	7,671,431	8,740,618
Net assets, end of year	\$ 1,069,988	6,187,787	7,257,775

See accompanying notes to financial statements.

<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2008 total</u>	<u>2007 total</u>
325,018	—	4,889,050	4,772,737
3,970,168	—	4,084,116	2,292,261
250,000	—	788,667	787,183
79,381	—	168,103	183,699
—	—	1,252,964	1,578,345
—	—	158,304	201,822
—	—	178,474	935,583
—	—	562,442	707,888
—	—	749,665	614,342
—	—	677,117	630,329
2,050,673	—	2,058,029	898,450
7,939	—	459,962	235,628
—	100,000	1,145,041	964,740
<u>(4,243,537)</u>	<u>114,237</u>	<u>—</u>	<u>—</u>
<u>2,439,642</u>	<u>214,237</u>	<u>17,171,934</u>	<u>14,803,007</u>
—	—	1,044,037	889,849
—	—	1,990,916	2,157,009
—	—	2,984,728	4,081,338
—	—	1,360,859	1,074,780
—	—	7,380,540	8,202,976
—	—	1,933,999	1,494,475
—	—	2,185,233	1,334,071
—	—	3,033,735	2,853,109
—	—	7,152,967	5,681,655
—	—	14,533,507	13,884,631
<u>2,439,642</u>	<u>214,237</u>	<u>2,638,427</u>	<u>918,376</u>
390,848	—	390,848	1,324,095
(685,115)	—	(685,115)	(1,269,689)
(1,024,933)	(100,000)	(2,448,119)	2,330,963
6,476	43,177	22,245	59,037
3,650	—	3,650	253,983
71,389	2,500	204,890	387,198
27,172	1,387	28,559	49,672
(3,091,747)	—	—	—
—	—	(3,319,697)	(3,252,569)
—	—	(19,848)	(236,034)
<u>(4,302,260)</u>	<u>(52,936)</u>	<u>(5,822,587)</u>	<u>(353,344)</u>
(1,862,618)	161,301	(3,184,160)	565,032
105,707,584	16,138,635	130,586,837	130,021,805
<u>103,844,966</u>	<u>16,299,936</u>	<u>127,402,677</u>	<u>130,586,837</u>

MILWAUKEE ART MUSEUM, INC.

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (3,184,160)	565,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,319,697	3,252,569
Contributions designated for long-term investment, capital expenditures and art purchases	(622,475)	(2,024,611)
Acquisitions of art	685,115	1,269,689
Net realized gains on sale of investments	(1,118,988)	(2,311,233)
Net change in unrealized losses (gains) on investments	3,719,524	(361,048)
Beneficial interest in assets held in trust	(22,245)	(59,037)
Changes in assets and liabilities:		
Investment income receivable	(28,490)	17,089
Prepaid expenses and other assets	(129,594)	162,297
Inventories	(24,038)	155,099
Accounts receivable	113,699	(169,918)
Contributions receivable, net	(85,878)	(40,027)
Accounts payable and accrued expenses	(346,378)	670,347
Deferred revenue	(29,344)	135,401
Net cash provided by operating activities	2,246,445	1,261,649
Cash flows from investing activities:		
Acquisitions of art	(685,115)	(1,269,689)
Purchases of investments	(32,767,569)	(20,813,272)
Proceeds from sale of investments	29,149,975	19,363,844
Capital expenditures	(187,463)	(550,893)
Net cash used in investing activities	(4,490,172)	(3,270,010)
Cash flows from financing activities:		
Net (payments) receipts on revolving credit note	(49,958)	16,606
Redemption of tax exempt bonds	(2,176,000)	(3,294,000)
Contributions designated for long-term investment received	2,358,387	6,703,000
Net cash provided by financing activities	132,429	3,425,606
Net (decrease) increase in cash and cash equivalents	(2,111,298)	1,417,245
Cash and cash equivalents, beginning of year	2,718,138	1,300,893
Cash and cash equivalents, end of year	\$ 606,840	2,718,138
Supplemental data:		
Cash paid for interest	\$ 33,224	256,038

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(1) Organization

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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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.

The financial statements focus on the organization as a whole and net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Art Museum and changes therein are classified and reported as follows:

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

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 operating fund is transferred to (from) the board-designated fund from (to) the operating fund.

Other funds classified as unrestricted net assets include deaccessioning funds, board-designated reserves, certain endowment earnings, and equipment not related to the expansion project.

Temporarily Restricted Net Assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because the Art Museum has fulfilled the restriction.

Permanently Restricted Net Assets are those that are subject to donor-imposed stipulations that will never lapse, thus requiring the asset to be maintained permanently as endowment funds. Generally, the donors of these assets permit the Art Museum to use all or part of the income earned on related investments for general or specific purposes.

MILWAUKEE ART MUSEUM, INC.

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Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

The Art Museum recognizes gifts and grants, including unconditional pledges restricted for buildings and equipment, as increases in temporarily restricted net assets. These restricted net assets are amortized into nonoperating revenue, support, and gains and losses as net assets released from restrictions over the useful lives of the assets acquired or constructed.

(b) *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Art Museum's financial statements for the year ended August 31, 2007, from which the summarized information was derived.

(c) *Art Collections*

The Art Museum's collection comprises more than 24,000 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 for collection.

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 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.

(d) *Cash Equivalents*

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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(e) 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.

(f) Inventories

Inventories are recorded at the lower of actual cost or market.

(g) Investments

Investments are reported at their fair value based upon quoted market prices, except for cash equivalents and certificates of deposit, which are reported at cost, which approximates fair value.

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.

(h) Contributions Receivable

The receipt of unconditional promises to give with payments due in future periods is reported as temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period. Unconditional promises to give are reported at the present value of estimated future cash flows, net of the allowance for uncollectible pledges, using a discount rate that approximates the rate of government securities. Amortization of the discount is recorded as a change in present value of contributions receivable.

(i) Beneficial Interest in Charitable 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.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(j) Property and Equipment

Property and equipment are stated at cost as of 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:

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

Expansion property and equipment is classified as a temporarily restricted net asset. Depreciation expense related to the expansion property and equipment is charged to unrestricted net assets. An amount equal to the depreciation expense is reclassified from temporarily restricted net assets to unrestricted net assets.

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 has not recognized any impairment of long-lived assets during 2008 and 2007.

(k) Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period the contributions or the unconditional promise is received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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. Additionally, 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.

(l) 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.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(m) Donated Building Services

The Art Museum occupies a portion of its current facility (including land under a sublease) under the terms of an agreement between the Art Museum and the Milwaukee County War Memorial Center, Inc. (the War Memorial). Under those agreements, 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 \$788,667 and \$787,183 for the years ended August 31, 2008 and 2007, respectively, of which \$538,667 and \$526,000 was provided in kind and \$250,000 and \$261,183 was received in cash. The Art Museum has reflected the in-kind value as Milwaukee County War Memorial Center, Inc. operating revenue and support and has reflected a corresponding expense within building services expense on the Statement of Activities. In addition, the Art Museum leases land from the City of Milwaukee. The lease is currently under negotiation. The expenses under the existing or revised lease are not significant to the Art Museum's financial statements.

(n) 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.

(o) Income Taxes

The Art Museum has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes except for taxes pertaining to unrelated business income. The Art Museum's unrelated business income was less than the expenses related to this income in both 2008 and 2007, and therefore, no provision has been made for income taxes in the accompanying financial statements.

In February 2008, the Financial Accounting Standards Board (FASB) issued Staff Position FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FIN 48-2). FIN 48-2 defers the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, for certain nonpublic enterprises as defined in paragraph 289, as amended, of FASB Statement No. 109, *Accounting for Income Taxes*, including nonpublic not-for-profit organizations. The deferred elective date is intended to provide eligible nonpublic enterprises with more time to apply the provisions of FIN 48, which addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Art Museum is currently analyzing the impact of adopting this Interpretation for the year ending August 31, 2009, and management believes that the adoption will have no impact on the financial statements.

(p) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

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of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(q) New Accounting Pronouncements

In August 2008, the FASB issued FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (the FSP). The FSP provides 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). The FSP also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds), whether or not the organization is subject to UPMIFA. UPMIFA legislation has not been introduced or enacted in the State of Wisconsin. The provisions of the FSP are effective for fiscal years ending after December 15, 2008. The Art Museum will be required to implement this statement for the year ending August 31, 2009. The Art Museum is currently analyzing the impact of adopting the FSP for the year ending August 31, 2009.

(3) Investments

Investments comprise the following at August 31, 2008 and 2007:

	2008		2007	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 7,479,590	7,479,590	4,929,583	4,929,583
U.S. government obligations	4,123,108	4,146,349	5,474,589	5,444,327
U.S. government agency obligations	2,267,678	2,034,551	1,817,197	1,802,195
Corporate debt securities	3,260,282	3,130,842	1,731,327	1,708,357
Common and preferred stocks	15,699,614	16,110,311	14,140,994	18,000,123
Total	<u>\$ 32,830,272</u>	<u>32,901,643</u>	<u>28,093,690</u>	<u>31,884,585</u>

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

The Art Museum's return on investments as reported in the statements of activities for the years ended August 31, 2008 and 2007 is summarized as follows:

	2008	2007
Interest and dividend income, net of trustee fees:		
Operating activities	\$ 168,103	183,699
Nonoperating activities	1,297,458	623,422
Net realized gains	1,118,988	2,311,233
Unrealized (losses) gains	(3,719,524)	361,048
Total investment return	(1,134,975)	3,479,402
Less amount recognized in operating revenues	(1,313,144)	(1,148,439)
Nonoperating investment returns	\$ (2,448,119)	2,330,963

Investment trustee and management fees of \$126,955 and \$139,467 were paid by the Art Museum for the years ended August 31, 2008 and 2007, respectively.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

(4) Contributions Receivable

Contributions receivable consist primarily of pledges for the annual campaign, the facility expansion project, and exhibition and education programs. Net contributions receivable are summarized as follows:

	2008	2007
Total contributions receivable	\$ 1,759,190	3,432,311
Less allowance for doubtful contributions receivable	(105,000)	(95,000)
Net contributions receivable	1,654,190	3,337,311
Less adjustment to record future cash flows for contributions receivable at present value	(40,603)	(73,690)
Present value of net contributions receivable	\$ 1,613,587	3,263,621

The discount rates used to determine the present value of contributions are the risk-free interest rates applicable to the years in which the payments are to be received.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

Payments on pledges receivable at August 31, 2008 are expected to be received as follows:

Years ending August 31:		
2009	\$	1,381,190
2010		168,000
2011		50,000
2012		50,000
2013		50,000
Thereafter		<u>60,000</u>
Total contributions receivable	\$	<u>1,759,190</u>

(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 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 U.S. generally accepted accounting principles, the fair value of the Endowment Fund of \$270,626 and \$298,034 as of August 31, 2008 and 2007, respectively, is recorded by the Art Museum as a beneficial interest in assets held in trust in the accompanying statements of financial position. The Art Museum received income distributions of \$9,643 and \$9,220 from this fund during 2008 and 2007, respectively.

The Art Museum is also the income beneficiary of nine other designated funds of the Greater Milwaukee Foundation. As 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 \$4,370,601 and \$4,788,932 at August 31, 2008 and 2007, respectively. The Art Museum received income distributions of \$152,598 and \$102,540 during 2008 and 2007, respectively, from these designated funds.

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, 2008 and 2007 is approximately \$791,143 and \$920,695, respectively. The charitable remainder trusts are recorded at their present value of \$497,218 and \$447,565 at August 31, 2008 and 2007, respectively.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(6) Property and Equipment

Property and equipment comprise the following at August 31, 2008 and 2007:

	2008	2007
Building	\$ 95,352,426	95,352,426
Building improvements	205,543	205,543
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,377,301	4,194,911
Leasehold improvements	5,045,481	5,040,409
	116,471,649	116,284,187
Less accumulated depreciation	24,742,638	21,422,942
Net property and equipment	\$ 91,729,011	94,861,245

(7) Notes Payable

The Art Museum has a bank revolving credit note with an available credit balance of \$2,000,000 and \$2,950,042 as of August 31, 2008 and 2007, respectively. The revolving credit note bears interest at LIBOR plus 175 basis points (4.21% at August 31, 2008) 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. The Art Museum was in compliance with all financial covenants as of August 31, 2008 and 2007. The bank revolving credit note expires on April 27, 2009.

At August 31, 2007, the Art Museum had tax-exempt revenue bonds issued by the Redevelopment Authority of the City of Milwaukee with a final maturity date of April 2023. A group consisting of six commercial banks owned the bonds and had the absolute right to tender the bonds for payment in full in April 2008. The bonds were paid in full by the Art Museum in December, 2007. As such, there is no notes payable balance as of August 31, 2008.

(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 after 90 days of employment. 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. 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 \$175,356 and \$177,455 for the years ended August 31, 2008 and 2007, 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. Contributions to this plan on behalf of eligible union employees amounted to \$37,013 and \$28,222 for the years ended August 31, 2008 and 2007, respectively.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

(9) Net Assets

Unrestricted net assets are those net assets that are not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses by the board of trustees (quasi-endowment) or by various internal operating and administrative arrangements of the Art Museum. The board of trustees can release this quasi-endowment at its discretion. The deaccessioning fund consists of amounts resulting from the sale of art from the collection, which are to be spent on acquisitions of artwork. A summary of unrestricted net assets is as follows at August 31, 2008 and 2007:

	2008	2007
Unrestricted:		
Designated by board:		
Quasi-endowment	\$ 3,831,631	5,097,539
Deaccessioning fund	563,663	546,935
Board-designated reserve	465,035	613,404
Unemployment compensation reserve	55,544	53,895
Total board designated	4,915,873	6,311,773
Nondesignated	2,341,902	2,428,845
	\$ 7,257,775	8,740,618

Donor restrictions of temporarily restricted net assets at August 31, 2008 and 2007 are summarized as follows:

	2008	2007
Facility expansion project	\$ 91,998,737	95,053,884
Acquisition of art	5,383,594	5,215,762
Exhibitions	3,084,405	2,610,547
Education	1,735,556	1,204,831
Collection – care and maintenance	717,756	927,754
Auxiliary activities	576,431	340,247
Time restricted	188,181	226,687
Program services	160,306	127,872
Total temporarily restricted net assets	\$ 103,844,966	105,707,584

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2008 and 2007

Reclassifications from temporarily restricted net assets to unrestricted net assets occur when the Art Museum fulfills the purpose for which the net assets were restricted by the donor, the donor-imposed restrictions expire with the passage of time, or a restriction is withdrawn. During 2008 and 2007, net assets released from restriction as reported on the statements of activities were \$7,906,162 and \$7,787,315, respectively, and were for the following program and supporting services:

	2008	2007
Education	\$ 642,064	314,503
Audience, communication, and member development	56,545	88,086
Presentation and curatorial	1,409,668	1,733,193
General, administrative and development	1,809,055	889,142
Building services	211,968	207,562
Net assets released from restrictions for operations	4,129,300	3,232,486
Accession of art for collection	685,115	1,246,896
Depreciation of facility expansion project	3,071,899	3,071,899
Interest expense on debt related to facility expansion project	19,848	236,034
Total net assets released from restrictions	\$ 7,906,162	7,787,315

(10) Subsequent Events

For the period from September 1, 2008 to December 9, 2008, the date of this report, overall market and credit conditions have deteriorated and impacted financial markets.

The Art Museum drew on its bank line of credit subsequent to August 31, 2008. At December 9, 2008, the balance on the bank line of credit is \$355,000.

MILWAUKEE ART MUSEUM, INC.

Schedule of Endowment Funds

August 31, 2008

	Permanently restricted	Temporarily restricted (1)	Unrestricted (1)	Total
Bradley Foundation Fund	\$ 3,759,886	—	241,155	4,001,041
General Operating Endowment	3,419,265	—	(382,768)	3,036,497
Pieper Challenge Grant Matching Fund	—	—	2,030,681	2,030,681
NEA Challenge Endowment	1,000,000	—	730,672	1,730,672
Bradley Conservation/Maintenance Fund	1,061,627	465,123	—	1,526,750
Croasdaile Acquisition Fund	—	1,492,319	—	1,492,319
Virginia Booth Vogel Acquisition Fund	1,000,000	383,327	—	1,383,327
LaBahn Fund	1,000,000	307,067	—	1,307,067
Friends of Art Exhibition Fund	—	1,231,605	—	1,231,605
Patti Baker Education Endowment Fund	1,000,000	148,812	—	1,148,812
Constance P. Godfrey Acquisition Fund	433,300	704,996	—	1,138,296
Suzanne and Richard Pieper Family Fund	1,079,950	(45,889)	(18,721)	1,015,340
Laskin Fund	—	888,063	—	888,063
Ruth K. Abrams Fund	—	—	834,135	834,135
Expansion Operating Endowment	667,928	—	16,763	684,691
Endowment for Education	430,599	90,303	—	520,902
Richard & Ethel Herzfeld Photography Exhibition Fund	264,747	180,110	—	444,857
Abert Tooman Acquisition Fund	—	398,487	—	398,487
Pellegrin Family Endowment for Education	250,000	37,978	—	287,978
John Porter Retzer and Florence Horn Retzer Competition Fund	155,000	94,467	—	249,467
Board Designated Fund	—	—	210,967	210,967
Frederick Layton Lecture Series Fund	100,000	97,325	—	197,325
Rene von Schleinitz Memorial Fund	125,000	53,046	—	178,046
Karen Johnson Boyd Fund	—	—	168,747	168,747
Doerfler Fund	50,000	113,113	—	163,113
Gift Annuity Reserve	100,000	129	—	100,129
Boyd Fund	50,000	42,707	—	92,707
Erich C. Stern Fund	58,250	28,046	—	86,296
Catherine Jean Quirk Fund	50,000	31,422	—	81,422
Jill and Jack Pelisek Fund	34,799	30,154	—	64,953
Leonard & Bebe Art Acquisition Fund	—	64,830	—	64,830
James H. Brachman Fund	50,000	14,523	—	64,523
Joan Marcus Memorial Fund	51,410	7,894	—	59,304
Grootemaat Fund	20,000	27,047	—	47,047
Florence Eiseman Foundation Fund	25,000	15,445	—	40,445
Esther S. Weber Memorial Education Fund	15,000	22,793	—	37,793
Endowment for Conservation	28,175	6,110	—	34,285
Schuchardt Fund	20,000	8,765	—	28,765
Total	\$ 16,299,936	6,940,117	3,831,631	27,071,684

- (1) Investment income derived from permanently restricted endowment funds are included in temporarily restricted or unrestricted net assets as stipulated by the donor. Realized and unrealized losses on the investments of donor-restricted endowment funds reduce temporarily and unrestricted net assets as stipulated by the donor. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in temporarily and unrestricted net assets.

See accompanying independent auditors' report.