

**MILWAUKEE ART MUSEUM, INC.**

Financial Statements and Schedule

August 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

**MILWAUKEE ART MUSEUM, INC.**

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6
<b>Schedule</b>	
Schedule of Endowment Funds	17



**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, 2007, 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 2006 financial statements, and in our report dated November 29, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide 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, 2007 and 2006, 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 10, 2007

**MILWAUKEE ART MUSEUM, INC.**

Statements of Financial Position

August 31, 2007 and 2006

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Assets:		
Cash and cash equivalents	\$ 2,718,138	1,300,893
Prepaid expenses and other assets	244,875	407,172
Inventories	516,537	671,636
Accounts receivable, net of allowance of \$2,000 in 2007 and 2006	468,304	298,386
Contributions receivable, net	3,263,621	7,901,983
Investment income receivable	65,575	82,664
Investments, at fair value	31,884,585	27,762,876
Beneficial interest in assets held in trust	745,599	686,562
Property and equipment, net	94,861,245	97,562,921
Total assets	<u>\$ 134,768,479</u>	<u>136,675,093</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,577,034	906,687
Deferred revenue	378,650	243,249
Notes payable	2,225,958	5,503,352
Total liabilities	<u>4,181,642</u>	<u>6,653,288</u>
Net assets:		
Unrestricted	8,740,618	7,007,757
Temporarily restricted	105,707,584	107,161,250
Permanently restricted	16,138,635	15,852,798
Total net assets	<u>130,586,837</u>	<u>130,021,805</u>
Total liabilities and net assets	<u>\$ 134,768,479</u>	<u>136,675,093</u>

See accompanying notes to financial statements.

**MILWAUKEE ART MUSEUM, INC.**

Statements of Activities

Year ended August 31, 2007 with  
summarized comparative financial information  
for the year ended August 31, 2006

	<b>Operating funds</b>	<b>Other funds</b>	<b>Unrestricted total</b>
Operating support and revenues:			
Contributions and membership	\$ 4,493,189	—	4,493,189
Grants and sponsorships	232,350	—	232,350
Milwaukee County War Memorial Center, Inc	526,000	—	526,000
Interest and dividends	27,162	44,836	71,998
Admission, tour fees, and parking	1,578,345	—	1,578,345
Education programs	201,822	—	201,822
Exhibition and curatorial income	935,583	—	935,583
Gross margin wholesale and retail operations (cost of sales \$966,405 in 2007 and \$892,210 in 2006)	707,888	—	707,888
Gross margin museum café (cost of sales \$363,296 in 2007 and \$281,940 in 2006)	614,342	—	614,342
Facility rental income	630,329	—	630,329
Fundraising events and auxiliary activities	28,369	—	28,369
Other	234,117	—	234,117
Investment return appropriated for operations	964,740	—	964,740
Net assets released from restrictions and other transfers	1,887,324	1,345,162	3,232,486
Total operating support and revenues and net assets released from restrictions	13,061,560	1,389,998	14,451,558
Operating expenses:			
Program services:			
Education	875,065	14,784	889,849
Audience, communication and member developmen	2,157,009	—	2,157,009
Presentation and curatorial	3,937,360	143,978	4,081,338
Business operations	1,074,780	—	1,074,780
Total program services	8,044,214	158,762	8,202,976
Supporting services:			
General and administrative	1,463,200	31,275	1,494,475
Financial development and volunteer services:	700,196	633,875	1,334,071
Building services	2,853,109	—	2,853,109
Total supporting services	5,016,505	665,150	5,681,655
Total operating expenses	13,060,719	823,912	13,884,631
Change in net assets from operating activities	841	566,086	566,927
Nonoperating revenue, support, gains and losses:			
Contributions designated for art purchases	—	—	—
Net assets released to fund acquisitions of art	—	1,246,896	1,246,896
Acquisitions of art	—	(1,269,689)	(1,269,689)
Investment return reduced by net appreciation appropriated for operations	—	967,509	967,509
Change in beneficial interest of assets held in trust	—	27,754	27,754
Contributions designated for capital expenditures	—	—	—
Contributions designated for endowment	—	374,134	374,134
Change in present value of contributions receivable	—	—	—
Net assets released for depreciation and interest	—	3,307,933	3,307,933
Depreciation and amortization	—	(3,252,569)	(3,252,569)
Interest expense	—	(236,034)	(236,034)
Total nonoperating revenue, support, gains, and losses	—	1,165,934	1,165,934
Change in net assets	841	1,732,020	1,732,861
Net assets, beginning of year	1,068,346	5,939,411	7,007,757
Net assets, end of year	\$ 1,069,187	7,671,431	8,740,618

See accompanying notes to financial statements.

<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>2007 total</b>	<b>2006 total</b>
279,548	—	4,772,737	4,522,608
2,059,911	—	2,292,261	2,801,942
261,183	—	787,183	777,400
111,701	—	183,699	66,728
—	—	1,578,345	1,561,175
—	—	201,822	157,939
—	—	935,583	224,124
—	—	707,888	545,602
—	—	614,342	441,895
—	—	630,329	686,680
870,081	—	898,450	1,089,494
1,511	—	235,628	168,132
—	—	964,740	890,314
(3,443,076)	210,590	—	—
<u>140,859</u>	<u>210,590</u>	<u>14,803,007</u>	<u>13,934,033</u>
—	—	889,849	788,590
—	—	2,157,009	1,791,015
—	—	4,081,338	2,999,070
—	—	1,074,780	884,765
—	—	<u>8,202,976</u>	<u>6,463,440</u>
—	—	1,494,475	1,707,222
—	—	1,334,071	1,356,974
—	—	2,853,109	2,566,437
—	—	<u>5,681,655</u>	<u>5,630,633</u>
—	—	13,884,631	12,094,073
<u>140,859</u>	<u>210,590</u>	<u>918,376</u>	<u>1,839,960</u>
1,324,095	—	1,324,095	825,867
(1,246,896)	—	—	—
—	—	(1,269,689)	(829,050)
1,363,454	—	2,330,963	1,164,853
960	30,323	59,037	(50,547)
253,983	—	253,983	10,853,601
—	13,064	387,198	255,161
17,812	31,860	49,672	304,615
(3,307,933)	—	—	—
—	—	(3,252,569)	(3,236,933)
—	—	(236,034)	(789,445)
<u>(1,594,525)</u>	<u>75,247</u>	<u>(353,344)</u>	<u>8,498,122</u>
(1,453,666)	285,837	565,032	10,338,082
<u>107,161,250</u>	<u>15,852,798</u>	<u>130,021,805</u>	<u>119,683,723</u>
<u>105,707,584</u>	<u>16,138,635</u>	<u>130,586,837</u>	<u>130,021,805</u>

**MILWAUKEE ART MUSEUM, INC.**

Statements of Cash Flows

Years ended August 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Change in net assets	\$ 565,032	10,338,082
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,252,569	3,236,933
Contributions designated for long-term investment, capital expenditures and art purchases	(2,024,611)	(11,403,409)
Acquisitions of art	1,269,689	829,050
Net realized gains on sale of investments	(2,311,233)	(1,687,680)
Net change in unrealized (gains) losses on investments	(361,048)	201,027
Beneficial interest in assets held in trust	(59,037)	50,547
Changes in assets and liabilities:		
Investment income receivable	17,089	1,362
Prepaid expenses and other assets	162,297	215,025
Inventories	155,099	3,550
Accounts receivable	(169,918)	14,442
Contributions receivable, net	(40,027)	(169,511)
Accounts payable and accrued expenses	670,347	(443,523)
Deferred revenue	135,401	42,349
Net cash provided by operating activities	1,261,649	1,228,244
Cash flows from investing activities:		
Acquisitions of art	(1,269,689)	(829,050)
Purchases of investments	(20,813,272)	(29,857,429)
Proceeds from sale of investments	19,363,844	27,432,442
Capital expenditures	(550,893)	(211,286)
Net cash used in investing activities	(3,270,010)	(3,465,323)
Cash flows from financing activities:		
Net payments on revolving credit note	16,606	(65,840)
Repayment of note payable	—	(375,000)
Redemption of tax exempt bonds	(3,294,000)	(15,555,000)
Contributions designated for long-term investment received	6,703,000	16,430,235
Net cash provided by financing activities	3,425,606	434,395
Net increase (decrease) in cash and cash equivalents	1,417,245	(1,802,684)
Cash and cash equivalents, beginning of year	1,300,893	3,103,577
Cash and cash equivalents, end of year	\$ 2,718,138	1,300,893
Supplemental data:		
Cash paid for interest	\$ 256,038	910,349

See accompanying notes to financial statements.

## MILWAUKEE ART MUSEUM, INC.

### Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

#### (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 fiscal year 2007, the Art Museum transferred \$294,000 from the operating fund to a board-designated reserve in other funds for future use. Without this transfer, the change in net assets for the operating fund would have been \$294,841.

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.

### Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

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, 2006, 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, 2007 with comparative amounts for 2006

(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, 2007 with comparative amounts for 2006

**(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 2007 and 2006.

**(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, 2007 with comparative amounts for 2006

**(m) 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 \$787,183 and \$777,400 for the years ended August 31, 2007 and 2006, respectively, of which \$526,000 and \$482,667 was provided in kind and \$261,183 and \$294,733 was received in cash. The Art Museum has recorded the in-kind value as support and reflected a corresponding expense entitled "contributed building services."

**(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 2007 and 2006, and therefore, no provision has been made for income taxes in the accompanying 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 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) Reclassifications**

Certain amounts as previously reported in the 2006 financial statements have been reclassified to conform to the 2007 presentation. Such reclassifications have no effect on the change in net assets.

**(r) Asbestos Removal Costs**

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement are conditional on the future event that may or may not be under the control of the entity.

**MILWAUKEE ART MUSEUM, INC.**

Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

FIN 47 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. The Art Museum adopted FIN 47 effective August 31, 2006. There was no impact on the Art Museum's financial statements as a result of adopting FIN 47.

**(3) Investments**

Investments comprise the following at August 31, 2007 and 2006:

	2007		2006	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 4,929,583	4,929,583	3,029,567	3,029,567
U.S. government obligations	5,474,589	5,444,327	5,116,706	5,065,947
U.S. government agency obligations	1,817,197	1,802,195	1,264,909	1,257,914
Corporate debt securities	1,731,327	1,708,357	2,515,866	2,476,920
Real estate investment trusts	—	—	46,695	50,874
Common and preferred stocks	14,140,994	18,000,123	12,359,286	15,881,654
Total	\$ 28,093,690	31,884,585	24,333,029	27,762,876

The Art Museum's return on investments as reported in the statements of activities for the years ended August 31, 2007 and 2006 is summarized as follows:

	2007	2006
Interest and dividend income, net of trustee fees:		
Operating activities	\$ 183,699	66,728
Nonoperating activities	623,422	568,514
Net realized gains	2,311,233	1,687,680
Unrealized gains (losses)	361,048	(201,027)
Total investment return	3,479,402	2,121,895
Less amount recognized in operating revenues	(1,148,439)	(957,042)
Nonoperating investment returns	\$ 2,330,963	1,164,853

Investment trustee and management fees of \$139,467 and \$121,727 were paid by the Art Museum for the years ended August 31, 2007 and 2006, respectively.

The Art Museum's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statements of financial position and statements of activities.

**MILWAUKEE ART MUSEUM, INC.**

Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

**(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:

	<b>2007</b>	<b>2006</b>
Total contributions receivable	\$ 3,432,311	8,130,007
Less allowance for doubtful contributions receivable	(95,000)	(102,600)
Net contributions receivable	3,337,311	8,027,407
Less adjustment to record future cash flows for contributions receivable at present value	(73,690)	(125,424)
Present value of net contributions receivable	\$ 3,263,621	7,901,983

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.

Payments on pledges receivable at August 31, 2007 are expected to be received as follows:

Years ending August 31:	
2008	\$ 2,677,786
2009	376,525
2010	168,000
2011	50,000
2012	60,000
Thereafter	100,000
Total contributions receivable	\$ 3,432,311

**(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 \$298,034 and \$270,280 as of August 31, 2007 and 2006, 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 \$9,220 and \$9,430 from this fund during 2007 and 2006, respectively.

## MILWAUKEE ART MUSEUM, INC.

### Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

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 \$4,788,932 and \$3,406,230 at August 31, 2007 and 2006, respectively. The Art Museum received income distributions of \$102,540 and \$89,960 during 2007 and 2006, 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, 2007 and 2006 is approximately \$920,695 and \$887,600, respectively. The charitable remainder trusts are recorded at their present value of \$447,565 and \$416,282 at August 31, 2007 and 2006, respectively.

#### (6) Property and Equipment

Property and equipment comprise the following at August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Building	\$ 95,352,426	95,352,426
Building improvements	205,543	—
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,194,911	3,849,560
Leasehold improvements	5,040,409	5,040,409
	<u>116,284,187</u>	<u>115,733,293</u>
Less accumulated depreciation	21,422,942	18,170,372
Net property and equipment	<u>\$ 94,861,245</u>	<u>97,562,921</u>

#### (7) Notes Payable

Notes payable consist of the following at August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Tax-exempt bonds	\$ 2,176,000	5,470,000
Revolving credit note	49,958	33,352
Total notes payable	<u>\$ 2,225,958</u>	<u>5,503,352</u>

## MILWAUKEE ART MUSEUM, INC.

### Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

The bank revolving credit note had an available credit balance of \$2,950,042 as of August 31, 2007. The revolving credit note bears interest at LIBOR plus 200 basis points (7.327% at August 31, 2007) 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, 2007 and 2006. The bank revolving credit note expires on April 1, 2008.

At August 31, 2007, gross contributions receivable included \$2,135,184 related to the expansion project. Additionally, a pledge payment in the amount of \$1,500,000 was received by the Art Museum on August 31, 2007 and subsequently paid to the bank in September 2007 to reduce the balance of the line of credit and tax-exempt bonds. The revolving credit note requires that payments received by the Art Museum for contributions receivable be paid directly to the bank to service the related debt.

The tax-exempt bonds are revenue bonds issued by the Redevelopment Authority of the City of Milwaukee and have a final maturity date of April 2023. A group consisting of six commercial banks owns the bonds and has the absolute right to tender the bonds for payment in full in April 2008. The bonds bear interest at the tax equivalent yield of 90-day LIBOR plus 200 basis points (6.96% at August 31, 2007). The bonds require monthly interest payments only until the revolving credit note is paid in full, at which time the bonds require the remaining expansion project contributions receivable payments received by the Art Museum to be paid directly to the bank to service the related debt.

#### **(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 \$177,455 and \$138,876 for the years ended August 31, 2007 and 2006, 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 \$28,222 and \$30,997 for the years ended August 31, 2007 and 2006, respectively.



**MILWAUKEE ART MUSEUM, INC.**

Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

**(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, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Unrestricted:		
Designated by board:		
Quasi-endowment	\$ 5,097,539	3,881,539
Deaccessioning fund	546,935	543,512
Board-designated reserve	613,404	501,352
Unemployment compensation reserve	53,895	51,328
Total board designated	6,311,773	4,977,731
Nondesignated:		
Property and equipment, net	1,061,624	691,400
Other nondesignated	1,367,221	1,338,626
	\$ 8,740,618	7,007,757

Donor restrictions of temporarily restricted net assets at August 31, 2007 and 2006 are summarized as follows:

	<b>2007</b>	<b>2006</b>
Facility expansion project	\$ 95,053,884	98,107,011
Acquisition of art	5,215,762	4,067,798
Exhibitions	2,610,547	2,138,225
Education	1,204,831	717,353
Collection – care and maintenance	927,754	799,598
Auxiliary activities	340,247	486,868
Time restricted	226,687	799,717
Program services	127,872	44,680
Total temporarily restricted net assets	\$ 105,707,584	107,161,250

**MILWAUKEE ART MUSEUM, INC.**

Notes to Financial Statements

August 31, 2007 with comparative amounts for 2006

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 2007 and 2006, net assets released from restriction as reported on the statement of activities were \$7,787,315 and \$8,174,065, respectively, and were for the following program and supporting services:

	<u>2007</u>	<u>2006</u>
Education	\$ 314,503	214,802
Audience, communication, and member development	88,086	22,800
Presentation and curatorial	1,733,193	1,299,201
General, administrative and development	889,142	1,728,764
Building services	<u>207,562</u>	<u>230,748</u>
Net assets released from restrictions for operations	3,232,486	3,496,315
Accession of art for collection	1,246,896	829,050
Depreciation of facility expansion project	3,071,899	3,088,710
Interest expense on debt related to facility expansion project	<u>236,034</u>	<u>759,990</u>
Total net assets released from restrictions	<u>\$ 7,787,315</u>	<u>8,174,065</u>

## MILWAUKEE ART MUSEUM, INC.

## Schedule of Endowment Funds

August 31, 2007

	<u>Permanently restricted</u>	<u>Temporarily restricted (1)</u>	<u>Unrestricted (1)</u>	<u>Total</u>
Bradley Foundation Fund	\$ 3,686,162	—	736,891	4,423,053
General Operating Endowment	3,516,765	—	240,156	3,756,921
NEA Challenge Endowment	1,000,000	—	913,302	1,913,302
Bradley Conservation/Maintenance Fund	1,040,811	647,234	—	1,688,045
Croasdaile Acquisition Fund	—	1,569,679	—	1,569,679
LaBahn Fund	1,000,000	443,631	—	1,443,631
Pieper Challenge Grant Matching Fund	—	—	1,385,177	1,385,177
Suzanne and Richard Pieper Family Fund	1,060,253	31,359	976	1,092,588
Friends of Art Exhibition Fund	—	1,361,328	—	1,361,328
Virginia Booth Vogel Acquisition Fund	1,000,000	341,276	—	1,341,276
Patti Baker Education Endowment Fund	1,000,000	266,483	—	1,266,483
Constance P. Godfrey Acquisition Fund	433,300	764,005	—	1,197,305
Laskin Fund	—	934,099	—	934,099
Ruth K. Abrams Fund	—	—	923,292	923,292
Board Designated Fund	—	—	671,081	671,081
Expansion Operating Endowment	624,751	—	40,113	664,864
Endowment for Education	429,212	144,694	—	573,906
Richard & Ethel Herzfeld Photography Exhibition Fund	264,747	227,044	—	491,791
Abert Tooman Acquisition Fund	—	419,144	—	419,144
Pellegrin Family Endowment for Education	250,000	68,352	—	318,352
John Porter Retzer and Florence Horn Retzer Competition Fund	155,000	120,787	—	275,787
Frederick Layton Lecture Series Fund	100,000	118,150	—	218,150
Doerfler Fund	50,000	154,505	—	204,505
Rene von Schleinitz Memorial Fund	125,000	62,276	—	187,276
Karen Johnson Boyd Fund	—	—	186,551	186,551
Boyd Fund	50,000	52,490	—	102,490
Erich C. Stern Fund	58,250	35,880	—	94,130
Catherine Jean Quirk Fund	50,000	40,011	—	90,011
James H. Brachman Fund	50,000	21,342	—	71,342
Jill and Jack Pelisek Fund	34,799	33,521	—	68,320
Joan Marcus Memorial Fund	51,410	14,093	—	65,503
Grootemaat Fund	20,000	32,010	—	52,010
Florence Eiseman Foundation Fund	25,000	19,712	—	44,712
Esther S. Weber Memorial Education Fund	15,000	26,790	—	41,790
Endowment for Conservation	28,175	9,725	—	37,900
Schuchardt Fund	20,000	10,257	—	30,257
Total	<u>\$ 16,138,635</u>	<u>7,969,877</u>	<u>5,097,539</u>	<u>29,206,051</u>

- (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.