



MILWAUKEE ART MUSEUM, INC.

Financial Statements and Schedule

August 31, 2006 and 2005

(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, 2006, 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 2005 financial statements, and in our report dated December 2, 2005, 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, 2006 and 2005, 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

November 29, 2006

MILWAUKEE ART MUSEUM, INC.

Statements of Financial Position

August 31, 2006 and 2005

| Assets | 2006 | 2005 |
|--|-----------------------|--------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 1,300,893 | 3,103,577 |
| Accrued investment income receivable | 82,664 | 84,026 |
| Investments, at fair value (note 3) | 27,762,876 | 23,851,236 |
| Prepaid expenses and other assets | 407,172 | 622,197 |
| Inventories | 671,636 | 675,186 |
| Accounts receivable, net of allowance of \$2,000 in 2006 and 2005 | 298,386 | 312,828 |
| Contributions receivable, net (note 4) | 7,901,983 | 12,759,298 |
| Beneficial interest in assets held in trust (note 5) | 686,562 | 737,109 |
| Property and equipment, net (note 6) | 97,562,921 | 100,588,568 |
| Total assets | <u>\$ 136,675,093</u> | <u>142,734,025</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 906,687 | 1,350,210 |
| Deferred revenue | 243,249 | 200,900 |
| Notes payable (note 7) | 5,503,352 | 21,499,192 |
| Total liabilities | <u>6,653,288</u> | <u>23,050,302</u> |
| Net assets (note 9): | | |
| Unrestricted | 7,007,757 | 5,473,529 |
| Temporarily restricted | 107,161,250 | 98,457,294 |
| Permanently restricted | 15,852,798 | 15,752,900 |
| Total net assets | <u>130,021,805</u> | <u>119,683,723</u> |
| Total liabilities and net assets | <u>\$ 136,675,093</u> | <u>142,734,025</u> |

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Statements of Activities

Year ended August 31, 2006 with
summarized comparative financial information
for the year ended August 31, 2005

| | Operating funds | Other funds | Unrestricted total |
|--|----------------------------|------------------------|-------------------------------|
| Operating support and revenues: | | | |
| Contributions and membership | \$ 4,311,109 | 252,613 | 4,563,722 |
| Grants and sponsorships | 71,560 | — | 71,560 |
| Milwaukee County War Memorial Center, Inc. (note 2(m)) | 482,667 | — | 482,667 |
| Interest and dividends (note 3) | 16,377 | 17,192 | 33,569 |
| Admission, tour fees, and parking | 1,561,175 | — | 1,561,175 |
| Education income | 157,939 | — | 157,939 |
| Exhibition income | 224,124 | — | 224,124 |
| Sales of wholesale and retail operations | 1,437,812 | — | 1,437,812 |
| Museum café income | 791,527 | — | 791,527 |
| Facility rental income | 686,680 | — | 686,680 |
| Fundraising events and auxiliary activities | 50,991 | — | 50,991 |
| Other | 100,440 | — | 100,440 |
| Investment return appropriated for operations (note 3) | 890,314 | — | 890,314 |
| Net assets released from restrictions (note 9) | 1,939,762 | 1,556,553 | 3,496,315 |
| Total operating support and revenues and net assets released from restrictions | 12,722,477 | 1,826,358 | 14,548,835 |
| Operating expenses: | | | |
| Program services: | | | |
| Education | 778,428 | 10,162 | 788,590 |
| Audience, communication and member development | 1,828,378 | — | 1,828,378 |
| Presentation and curatorial | 2,763,644 | 234,862 | 2,998,506 |
| Cost of sales and expenses of wholesale and retail operations | 1,383,689 | — | 1,383,689 |
| Cost of sales and expenses of museum café | 729,884 | — | 729,884 |
| Total program services | 7,484,023 | 245,024 | 7,729,047 |
| Supporting Services | | | |
| General and administrative | 1,340,697 | 275,973 | 1,616,670 |
| Financial development and volunteer services | 676,543 | 679,526 | 1,356,069 |
| Building services | 2,566,437 | — | 2,566,437 |
| Total supporting services | 4,583,677 | 955,499 | 5,539,176 |
| Total operating expenses | 12,067,700 | 1,200,523 | 13,268,223 |
| Change in net assets from operating activities (note 2(a)) | 654,777 | 625,835 | 1,280,612 |
| Nonoperating revenue, support, gains and losses: | | | |
| Contributions for art purchases | — | — | — |
| Net assets released to fund acquisitions of art (note 9) | — | 829,050 | 829,050 |
| Acquisitions of art | — | (829,050) | (829,050) |
| Investment return reduced by net appreciation appropriated for operations (note 3) | — | 417,643 | 417,643 |
| Change in beneficial interest of assets held in trust | — | 13,651 | 13,651 |
| Contributions restricted for capital expenditures | — | — | — |
| Permanently restricted contributions | — | — | — |
| Change in present value of contributions receivable | — | — | — |
| Net assets released for depreciation and interest | — | 3,848,700 | 3,848,700 |
| Depreciation and amortization (note 2(j)) | — | (3,236,933) | (3,236,933) |
| Interest expense | (29,455) | (759,990) | (789,445) |
| Total nonoperating revenue, support, gains, and losses | (29,455) | 283,071 | 253,616 |
| Change in net assets | 625,322 | 908,906 | 1,534,228 |
| Net assets, beginning of year | 443,024 | 5,030,505 | 5,473,529 |
| Net assets, end of year | \$ 1,068,346 | 5,939,411 | 7,007,757 |

See accompanying notes to financial statements.

| Temporarily restricted | Permanently restricted | 2006 Total | 2005 Total |
|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| 211,497 | — | 4,775,219 | 4,032,845 |
| 2,730,382 | — | 2,801,942 | 1,750,212 |
| 294,733 | — | 777,400 | 766,817 |
| 33,159 | — | 66,728 | 25,769 |
| — | — | 1,561,175 | 1,689,216 |
| — | — | 157,939 | 191,343 |
| — | — | 224,124 | 236,881 |
| — | — | 1,437,812 | 1,855,889 |
| — | — | 791,527 | 739,377 |
| — | — | 686,680 | 580,381 |
| 1,038,503 | — | 1,089,494 | 1,656,280 |
| — | — | 100,440 | 121,040 |
| — | — | 890,314 | 1,250,652 |
| (3,654,559) | 158,244 | — | — |
| <u>653,715</u> | <u>158,244</u> | <u>15,360,794</u> | <u>14,896,702</u> |
| — | — | 788,590 | 881,326 |
| — | — | 1,828,378 | 2,044,190 |
| — | — | 2,998,506 | 2,949,133 |
| — | — | 1,383,689 | 1,599,291 |
| — | — | 729,884 | 646,833 |
| — | — | <u>7,729,047</u> | <u>8,120,773</u> |
| — | — | 1,616,670 | 1,584,102 |
| — | — | 1,356,069 | 1,882,943 |
| — | — | <u>2,566,437</u> | <u>2,494,478</u> |
| — | — | <u>5,539,176</u> | <u>5,961,523</u> |
| — | — | <u>13,268,223</u> | <u>14,082,296</u> |
| 653,715 | 158,244 | 2,092,571 | 814,406 |
| 825,867 | — | 825,867 | 53,642 |
| (829,050) | — | — | — |
| — | — | (829,050) | (522,849) |
| 747,210 | — | 1,164,853 | 1,700,494 |
| (3,188) | (61,010) | (50,547) | (943,941) |
| 10,853,601 | — | 10,853,601 | 18,888,231 |
| — | 2,550 | 2,550 | 1,588 |
| 304,501 | 114 | 304,615 | (98,306) |
| (3,848,700) | — | — | — |
| — | — | (3,236,933) | (3,313,665) |
| — | — | (789,445) | (1,368,246) |
| <u>8,050,241</u> | <u>(58,346)</u> | <u>8,245,511</u> | <u>14,396,948</u> |
| 8,703,956 | 99,898 | 10,338,082 | 15,211,354 |
| 98,457,294 | 15,752,900 | 119,683,723 | 104,472,369 |
| <u>107,161,250</u> | <u>15,852,798</u> | <u>130,021,805</u> | <u>119,683,723</u> |

MILWAUKEE ART MUSEUM, INC.

Statements of Cash Flows

Years ended August 31, 2006 and 2005

| | 2006 | 2005 |
|---|---------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 10,338,082 | 15,211,354 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 3,236,933 | 3,313,665 |
| Contributions designated for long-term investment, capital expenditures and art purchases | (11,403,409) | (18,790,655) |
| Acquisitions of art | 829,050 | 522,849 |
| Net realized gains on sale of investments | (1,687,680) | (743,296) |
| Net change in unrealized (gains) losses on investments | 201,027 | (1,741,723) |
| Beneficial interest in assets held in trust | 50,547 | 943,941 |
| Changes in assets and liabilities: | | |
| Accrued investment income receivable | 1,362 | (1,640) |
| Prepaid expenses and other assets | 215,025 | 173,233 |
| Inventories | 3,550 | (138,138) |
| Accounts receivable | 14,442 | 64,669 |
| Contributions receivable, net | (169,511) | 43,716 |
| Accounts payable and accrued expenses | (443,523) | 500,699 |
| Deferred revenue | 42,349 | 37 |
| Net cash provided by (used in) operating activities | 1,228,244 | (641,289) |
| Cash flows from investing activities: | | |
| Acquisitions of art | (829,050) | (522,849) |
| Purchases of investments | (29,857,429) | (18,232,139) |
| Proceeds from sale of investments | 27,432,442 | 18,534,324 |
| Capital expenditures | (211,286) | (62,379) |
| Net cash used in investing activities | (3,465,323) | (283,043) |
| Cash flows from financing activities: | | |
| Net payments on revolving credit note | (65,840) | (2,360,184) |
| Repayment of note payable | (375,000) | — |
| Redemption of tax exempt bonds | (15,555,000) | (7,975,000) |
| Contributions designated for long-term investment received | 16,430,235 | 12,036,388 |
| Net cash provided by financing activities | 434,395 | 1,701,204 |
| Net increase (decrease) in cash and cash equivalents | (1,802,684) | 776,872 |
| Cash and cash equivalents at beginning of year | 3,103,577 | 2,326,705 |
| Cash and cash equivalents at end of year | \$ 1,300,893 | 3,103,577 |
| Supplemental data: | | |
| Cash paid for interest | \$ 910,349 | 1,253,475 |

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2006 with comparative amounts for 2005

(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.

During 2007, a donor contributed to the Art Museum a gift restricted to pay off the Art Museum's accumulated operating debt in the amount of \$625,000. Without this gift, the change in net assets for the operating fund would have been \$322.

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, 2006 with comparative amounts for 2005

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, 2005, 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.

(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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2006 with comparative amounts for 2005

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, 2006 with comparative amounts for 2005

(j) Property and Equipment

Property and equipment are stated at cost as of the date of acquisition or their 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 |
| 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, plant 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 impairments of long-lived assets during 2006 and 2005.

(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.

(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,

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2006 with comparative amounts for 2005

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 \$777,400 and \$766,817 for the years ended August 31, 2006 and 2005, of which \$482,667 and \$453,333 was provided in kind and \$294,733 and \$313,484 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 2006 and 2005, 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) 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 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.

FIN 47 requires an asset retirement obligation (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.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2006 with comparative amounts for 2005

(3) Investments

Investments comprise the following at August 31, 2006 and 2005:

| | 2006 | | 2005 | |
|------------------------------------|----------------------|-------------------|-------------------|-------------------|
| | <u>Cost</u> | <u>Fair value</u> | <u>Cost</u> | <u>Fair value</u> |
| Cash and cash equivalents | \$ 3,029,567 | 3,029,567 | 631,098 | 631,098 |
| U.S. government obligations | 5,116,706 | 5,065,947 | 1,530,231 | 1,564,810 |
| U.S. government agency obligations | 1,264,909 | 1,257,914 | 3,429,848 | 3,428,718 |
| Corporate debt securities | 2,515,866 | 2,476,920 | 2,771,551 | 2,784,782 |
| Real estate investment trusts | 46,695 | 50,874 | — | — |
| Common and preferred stocks | 12,359,286 | 15,881,654 | 11,857,634 | 15,441,828 |
| Total | <u>\$ 24,333,029</u> | <u>27,762,876</u> | <u>20,220,362</u> | <u>23,851,236</u> |

The Art Museum's return on investments as reported in the statements of activities for the years ended August 31, 2006 and 2005 is summarized as follows:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|------------------|
| Interest and dividend income, net of trustee fees: | | |
| Operating activities | \$ 66,728 | 25,769 |
| Nonoperating activities | 568,514 | 466,127 |
| Net realized gains | 1,687,680 | 743,296 |
| Unrealized gains (losses) | (201,027) | 1,741,723 |
| Total investment return | <u>2,121,895</u> | <u>2,976,915</u> |
| Less amount recognized in operating revenues | (957,042) | (1,276,421) |
| Nonoperating investment returns | <u>\$ 1,164,853</u> | <u>1,700,494</u> |

Investment trustee and management fees of \$121,727 and \$122,723 were paid by the Art Museum for the years ended August 31, 2006 and 2005, 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, 2006 with comparative amounts for 2005

(4) Contributions Receivable

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

| | 2006 | 2005 |
|---|--------------|-------------|
| Total contributions receivable | \$ 8,130,007 | 13,263,945 |
| Less allowance for doubtful contributions receivable | (102,600) | (84,500) |
| Net contributions receivable | 8,027,407 | 13,179,445 |
| Less adjustment to record future cash flows for contributions receivable at present value | (125,424) | (420,147) |
| Present value of net contributions receivable | \$ 7,901,983 | 12,759,298 |

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, 2006 are expected to be received as follows:

| | |
|--------------------------------|--------------|
| Years ending August 31: | |
| 2007 | \$ 6,767,978 |
| 2008 | 743,114 |
| 2009 | 270,915 |
| 2010 | 128,000 |
| 2011 | 60,000 |
| Thereafter | 160,000 |
| Total contributions receivable | \$ 8,130,007 |

(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 \$270,280 and \$256,629 as of August 31, 2006 and 2005, 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 \$9,430 and \$10,980 from this fund during 2006 and 2005, respectively.

The Art Museum is also the income beneficiary of nine (eight in 2005) other designated funds of the Greater Milwaukee Foundation. As these funds have been established at the Greater Milwaukee

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

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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 \$3,406,230 and \$2,356,170 at August 31, 2006 and 2005, respectively. The Art Museum received income distributions of \$89,960 and \$105,160 during 2006 and 2005, 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, 2006 is approximately \$887,600. The charitable remainder trusts are recorded at their present value of \$416,282 at August 31, 2006.

During fiscal year 2005, the Art Museum determined that its status as beneficiary of three charitable remainder trusts with recorded present values of \$978,447 was revocable and subsequently removed the three trusts from the financial statements. The adjustment has been recorded as a change in beneficial interests in assets held in trust in the accompanying statement of activities for fiscal year 2005, with a net impact of \$(978,447). As of August 31, 2005, the recorded present value of all charitable remainder trusts was \$480,480.

(6) Property and Equipment

Property and equipment comprises the following at August 31, 2006 and 2005:

| | 2006 | 2005 |
|-------------------------------|---------------|-------------|
| Building | \$ 95,352,426 | 95,352,427 |
| Land improvements | 11,490,898 | 11,490,898 |
| Furniture and equipment | 3,849,560 | 4,160,273 |
| Leasehold improvements | 5,040,409 | 5,061,977 |
| | 115,733,293 | 116,065,575 |
| Less accumulated depreciation | 18,170,372 | 15,477,007 |
| Net property and equipment | \$ 97,562,921 | 100,588,568 |

(7) Notes Payable

Notes payable consists of the following at August 31, 2006 and 2005:

| | 2006 | 2005 |
|-----------------------|--------------|-------------|
| Revolving credit note | \$ 33,352 | 99,192 |
| Note payable | — | 375,000 |
| Tax-exempt bonds | 5,470,000 | 21,025,000 |
| Total notes payable | \$ 5,503,352 | 21,499,192 |

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August 31, 2006 with comparative amounts for 2005

The bank revolving credit note had an available credit balance of \$3,000,000 as of August 31, 2006. The revolving credit note bears interest at LIBOR plus 200 basis points (7.39% at August 31, 2006) 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, 2006 and 2005. The bank revolving credit note expires on April 1, 2008.

At August 31, 2006, there was \$6,845,836 in gross contributions receivable related to the expansion project. 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 (7.081% at August 31, 2006). 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 \$138,876 and \$133,996 for the years ended August 31, 2006 and 2005, 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 \$30,997 and \$26,669 for the years ended August 31, 2006 and 2005, respectively.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

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(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, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------------|---------------------|------------------|
| Unrestricted: | | |
| Designated by board: | | |
| Quasi-endowment | \$ 3,881,539 | 3,334,685 |
| Deaccessioning fund | 543,512 | 531,779 |
| Board-designated reserve | 501,352 | 210,000 |
| Unemployment compensation reserve | <u>51,328</u> | <u>50,220</u> |
| Total board designated | 4,977,731 | 4,126,684 |
| Nondesignated: | | |
| Property and equipment, net | 691,400 | 647,193 |
| Other nondesignated | <u>1,338,626</u> | <u>699,652</u> |
| | <u>\$ 7,007,757</u> | <u>5,473,529</u> |

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2006 with comparative amounts for 2005

Donor restrictions of temporarily restricted net assets at August 31, 2006 and 2005 are summarized as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-----------------------|-------------------|
| Facility expansion project | \$ 98,107,011 | 91,014,703 |
| Acquisition of art | 4,067,798 | 3,471,297 |
| Exhibitions | 2,138,225 | 1,929,877 |
| Education | 717,353 | 582,904 |
| Collection – care and maintenance | 799,598 | 549,166 |
| Auxiliary activities | 486,868 | 405,959 |
| Time restricted | 799,717 | 363,083 |
| Program services | 44,680 | 140,305 |
| Total temporarily restricted net assets | <u>\$ 107,161,250</u> | <u>98,457,294</u> |

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 2006 and 2005, net assets released from restriction as reported on the statement of activities were \$8,174,065 and \$7,845,841, respectively, and were for the following program and supporting services:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|------------------|
| Education | \$ 214,802 | 183,033 |
| Audience, communication, and member development | 22,800 | 34,035 |
| Presentation and curatorial | 1,299,201 | 1,143,000 |
| General and administrative | 785,572 | 79,073 |
| Development and volunteer service | 943,192 | 1,446,373 |
| Building services | 230,748 | 24,122 |
| Net assets released from restrictions for operations | 3,496,315 | 2,909,636 |
| Accession of art for collection | 829,050 | 466,059 |
| Depreciation of facility expansion project | 3,088,710 | 3,149,636 |
| Interest expense on debt related to facility expansion project | 759,990 | 1,320,510 |
| Total net assets released from restrictions | <u>\$ 8,174,065</u> | <u>7,845,841</u> |

MILWAUKEE ART MUSEUM, INC.

Schedule of Endowment Funds

August 31, 2006

| | <u>Permanently restricted</u> | <u>Temporarily restricted (1)</u> | <u>Unrestricted (1)</u> | <u>Total</u> |
|---|-----------------------------------|---------------------------------------|-------------------------|-------------------|
| General Operating Endowment | \$ 3,513,700 | — | 1,262,066 | 4,775,766 |
| Bradley Foundation Fund | 3,551,216 | — | 532,503 | 4,083,719 |
| NEA Challenge Endowment | 1,000,000 | — | 767,118 | 1,767,118 |
| Bradley Conservation/Maintenance Fund | 1,002,708 | 578,203 | — | 1,580,911 |
| Croasdaile Acquisition Fund | — | 1,381,235 | — | 1,381,235 |
| LaBahn Fund | 1,000,000 | 301,005 | — | 1,301,005 |
| Virginia Booth Vogel Acquisition Fund | 1,000,000 | 277,500 | — | 1,277,500 |
| Friends of Art Exhibition Fund | — | 1,255,226 | — | 1,255,226 |
| Patti Baker Education Endowment Fund | 1,000,000 | 160,303 | — | 1,160,303 |
| Constance P. Godfrey Acquisition Fund | 433,300 | 622,708 | — | 1,056,008 |
| Suzanne and Richard Pieper Family Fund | 990,015 | 6,631 | 8,385 | 1,005,031 |
| Ruth K. Abrams Fund | — | — | 922,671 | 922,671 |
| Laskin Fund | — | 824,231 | — | 824,231 |
| Expansion Operating Endowment | 584,428 | — | 29,753 | 614,181 |
| Endowment for Education | 430,050 | 101,143 | — | 531,193 |
| Richard & Ethel Herzfeld Photography Exhibition Fund | 264,747 | 189,404 | — | 454,151 |
| Abert Tooman Acquisition Fund | — | 367,622 | — | 367,622 |
| Pellegrin Family Endowment for Education | 250,000 | 43,924 | — | 293,924 |
| John Porter Retzer and Florence Horn Retzer Competition Fund | 155,000 | 99,681 | — | 254,681 |
| Doerfler Fund | 50,000 | 153,017 | — | 203,017 |
| Frederick Layton Lecture Series Fund | 100,000 | 101,501 | — | 201,501 |
| Board Designated Fund | — | — | 186,770 | 186,770 |
| Karen Johnson Boyd Fund | — | — | 172,273 | 172,273 |
| Rene von Schleinitz Memorial Fund | 125,000 | 42,455 | — | 167,455 |
| Boyd Fund | 50,000 | 44,665 | — | 94,665 |
| Erich C. Stern Fund | 58,250 | 29,462 | — | 87,712 |
| Catherine Jean Quirk Fund | 50,000 | 33,101 | — | 83,101 |
| James H. Brachman Fund | 50,000 | 15,957 | — | 65,957 |
| Jill and Jack Pelisek Fund | 34,799 | 26,111 | — | 60,910 |
| Joan Marcus Memorial Fund | 51,410 | 8,459 | — | 59,869 |
| Grootemaat Fund | 20,000 | 28,031 | — | 48,031 |
| Florence Eiseman Foundation Fund | 25,000 | 16,281 | — | 41,281 |
| Esther S. Weber Memorial Education Fund | 15,000 | 23,917 | — | 38,917 |
| Endowment for Conservation | 28,175 | 6,820 | — | 34,995 |
| Schuchardt Fund | 20,000 | 6,683 | — | 26,683 |
| Total | <u>\$ 15,852,798</u> | <u>6,745,276</u> | <u>3,881,539</u> | <u>26,479,613</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.