

Milwaukee Art Museum, Inc.

Milwaukee, Wisconsin

Financial Statements and Additional Information

Years Ended August 31, 2010 and 2009

Milwaukee Art Museum, Inc.

Financial Statements and Additional Information

Years Ended August 31, 2010 and 2009

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of the Milwaukee Art Museum, Inc., as of August 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Milwaukee Art Museum, Inc., at August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

December 6, 2010
Milwaukee, Wisconsin

Milwaukee Art Museum, Inc.

Statements of Financial Position

August 31, 2010 and 2009

<i>Assets</i>	2010	2009
Current assets:		
Cash and cash equivalents	\$ 452,751	\$ 854,257
Accounts receivable - Net	354,887	401,279
Current portion of pledges receivable	1,272,967	1,532,211
Investment income receivable	99,954	100,912
Inventories - Net	407,255	544,116
Prepaid expenses	382,245	494,002
Total current assets	2,970,059	3,926,777
Investments	42,249,090	35,260,849
Pledges receivable, less current portion	2,191,985	152,037
Beneficial interest in assets held in trusts	779,326	730,347
Property and equipment - Net	86,142,524	88,977,427
TOTAL ASSETS	\$ 134,332,984	\$ 129,047,437
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,068,713	\$ 1,108,312
Deferred revenue	332,151	437,410
Total current liabilities	1,400,864	1,545,722
Net assets:		
Unrestricted:		
Board designated	1,919,711	1,810,692
Undesignated	87,201,525	89,473,843
Total unrestricted	89,121,236	91,284,535
Temporarily restricted	22,631,593	16,857,928
Permanently restricted	21,179,291	19,359,252
Total net assets	132,932,120	127,501,715
TOTAL LIABILITIES AND NET ASSETS	\$ 134,332,984	\$ 129,047,437

See accompanying notes to financial statements

Milwaukee Art Museum, Inc.

Statements of Activities

Years Ended August 31, 2010 and 2009

	2010					Totals
	Operating Funds	Other Funds	Subtotal Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating support and revenue:						
Contributions and membership	\$ 4,425,005	\$ 95,524	\$ 4,520,529	\$ 854,603	\$ -	\$ 5,375,132
Grants and sponsorships	-	-	-	4,543,549	-	4,543,549
Milwaukee County War Memorial Center, Inc.	579,667	-	579,667	250,000	-	829,667
Admission, tour fees, and parking	1,643,223	-	1,643,223	-	-	1,643,223
Education programs	125,772	-	125,772	-	-	125,772
Exhibition and curatorial income	787,459	-	787,459	-	-	787,459
Net retail operations (cost of sales of \$889,163 in 2010 and \$655,056 in 2009)	457,737	-	457,737	-	-	457,737
Net museum café (cost of sales of \$454,718 in 2010 and \$649,609 in 2009)	676,100	-	676,100	-	-	676,100
Facility rental income	355,383	-	355,383	-	-	355,383
Fundraising events and auxiliary activities	68,714	-	68,714	842,966	-	911,680
Other	474,702	-	474,702	11,536	-	486,238
Investment return appropriated for operations	640,000	-	640,000	-	-	640,000
Net assets released from restrictions and other transfers	2,025,850	1,635,186	3,661,036	(3,584,808)	(76,228)	-
Total operating support and revenue	12,259,612	1,730,710	13,990,322	2,917,846	(76,228)	16,831,940
Operating expenses:						
Program services:						
Education	848,675	2,019	850,694	-	-	850,694
Audience, communication, and member development	2,003,792	-	2,003,792	-	-	2,003,792
Presentation and curatorial	2,975,315	38,366	3,013,681	-	-	3,013,681
Business operations	1,082,115	-	1,082,115	-	-	1,082,115
Total program services	6,909,897	40,385	6,950,282	-	-	6,950,282
Supporting services:						
General and administrative	1,563,191	24,204	1,587,395	-	-	1,587,395
Financial development and volunteer services	1,179,778	912,710	2,092,488	-	-	2,092,488
Building services	2,615,583	-	2,615,583	-	-	2,615,583
Total supporting services	5,358,552	936,914	6,295,466	-	-	6,295,466
Total operating expenses	12,268,449	977,299	13,245,748	-	-	13,245,748
Change in net assets from operating activities	(8,837)	753,411	744,574	2,917,846	(76,228)	3,586,192

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

See accompanying notes to financial statements

Milwaukee Art Museum, Inc.

Statements of Activities (Continued)

Years Ended August 31, 2010 and 2009

	2010					Totals
	Operating Funds	Other Funds	Subtotal Unrestricted	Temporarily Restricted	Permanently Restricted	
Nonoperating revenue, support, gains, and losses:						
Contributions designated for acquisition of art	-		-	1,589,079	-	1,589,079
Net assets released to fund acquisitions of art	-	593,933	593,933	(593,933)	-	-
Acquisitions of art		(593,933)	(593,933)	-	-	(593,933)
Investment income	11,384	543,386	554,770	1,839,292	-	2,394,062
Net assets released from restricted for operations	-	(500,000)	(500,000)	-	(140,000)	(640,000)
Contributions designated for endowment or building fund	-	18,000	18,000	5,891	2,000,000	2,023,891
Depreciation and amortization	-	(2,990,330)	(2,990,330)	-	-	(2,990,330)
Other	(91)	9,778	9,687	15,490	36,267	61,444
Total nonoperating revenue, support, gains, and losses	11,293	(2,919,166)	(2,907,873)	2,855,819	1,896,267	1,844,213
Other changes in net assets:						
Recharacterization of net assets (Note 16)	-	-	-	-	-	-
Changes in net assets	2,456	(2,165,755)	(2,163,299)	5,773,665	1,820,039	5,430,405
Net assets at beginning of year	1,070,980	90,213,555	91,284,535	16,857,928	19,359,252	127,501,715
Net assets at end of year	\$ 1,073,436	\$ 88,047,800	\$ 89,121,236	\$ 22,631,593	\$ 21,179,291	\$ 132,932,120

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

Milwaukee Art Museum, Inc.

Statements of Cash Flows

Years Ended August 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 5,430,405	\$ 99,038
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for inventory obsolescence	12,300	84,200
Depreciation and amortization	2,990,330	3,029,808
Contributions designated for long-term investment, capital expenditures, and art purchases	(4,064,553)	(6,828,621)
Acquisitions of art	593,933	565,606
Net realized (gains) losses on sale of investments	(841,947)	1,406,262
Net change in unrealized (gains) losses on investments	(664,724)	717,761
Change in beneficial interest in assets held in trusts	(48,979)	37,497
Changes in assets and liabilities:		
Accounts receivable	46,392	(46,674)
Pledges receivable	(1,810,933)	225,229
Investment income receivable	958	(6,847)
Inventories	124,561	(87,741)
Prepaid expenses	111,757	(119,533)
Accounts payable and accrued expenses	(39,599)	(122,344)
Deferred revenue	(105,259)	88,104
Net cash provided by (used in) operating activities	1,734,642	(958,255)
Cash flows from investing activities:		
Acquisitions of art	(593,933)	(565,606)
Purchases of investments	(28,122,403)	(29,810,465)
Proceeds from sale of investments	22,640,833	25,327,236
Purchases of property and equipment	(155,427)	(278,224)
Net cash used in investing activities	(6,230,930)	(5,327,059)

Milwaukee Art Museum, Inc.

Statements of Cash Flows (Continued)

Years Ended August 31, 2010 and 2009

	2010	2009
Net cash provided by financing activities - Contributions designated for long-term investment received	4,094,782	6,532,731
(Decrease) increase in cash and cash equivalents	(401,506)	247,417
Cash and cash equivalents at beginning of year	854,257	606,840
Cash and cash equivalents at end of year	\$ 452,751	\$ 854,257

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Nature of Activities

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

Milwaukee Art Museum, LLC, was formed in 2001 as a wholly owned for-profit subsidiary of Milwaukee Art Museum, Inc., for the purpose of contracting with a restaurateur and acquiring licenses related to that purpose. Milwaukee Art Museum, LLC, had no significant activity for the years ended August 31, 2010 and 2009.

Financial Statement Preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP).

The Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC) effective for financial statements for annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative GAAP in one comprehensive set of guidance organized by subject area. In accordance with ASC, references to previously issued accounting standards have been replaced by ASC references.

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.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Financial Statement Preparation (Continued)

Accordingly, net assets of the Art Museum and changes therein are classified and reported as follows:

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

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

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

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

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Use of Estimates in Preparation of Financial Statements

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

Subsequent Events

Subsequent events have been evaluated through December 6, 2010, which is the date the financial statements were available to be issued.

Art Collections

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

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

Cash and Cash Equivalents

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Accounts Receivable

Accounts receivable are generally uncollateralized client obligations due upon receipt. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management individually reviews all past due accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of accounts receivable are reduced by allowances of \$13,500 and \$8,228 that reflect management's estimate of uncollectible amounts at August 31, 2010 and 2009, respectively.

Pledges Receivable

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

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

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Inventories

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

Prepaid Expenses

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

Investments

Investments are carried at fair value in the statement of financial position. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated based on 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.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Beneficial Interest in Assets Held in Trusts

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts. These agreements are recognized for financial reporting purposes if the Art Museum receives documentation of the terms of its beneficial interest and the designation of the Art Museum as beneficiary is irrevocable. The existence of agreements known to the Art Museum that do not meet both conditions are not recorded in the financial statements. The beneficial interest and related change in valuation for these agreements are classified as temporarily restricted. The interests in the charitable remainder trusts are recorded net of a discount based upon the applicable Internal Revenue Code Section 7520 rate (2.6% as of August 31, 2010) over the anticipated life expectancies of the donors.

Property and Equipment

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

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

The Art Museum periodically assesses the recoverability of long-lived assets (including property and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows, exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. The Art Museum did not recognize any impairment of long-lived assets during 2010 and 2009.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Contributions

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

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

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

Admissions and Memberships

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs charged to expense in fiscal 2010 and fiscal 2009 were \$866,291 and \$761,479, respectively.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

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 \$829,667 and \$815,333 for the years ended August 31, 2010 and 2009, respectively, of which \$579,667 and \$565,333 was provided in-kind, respectively, and \$250,000 was received in cash. The Art Museum has recorded the in-kind value as support and reflected a corresponding expense entitled "contributed building services." In addition, the Art Museum leases land from the City of Milwaukee. The expenses under the existing lease are not significant to the Art Museum's financial statements.

Purchases and Sales of Art

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

Income Taxes

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

The Art Museum's unrelated business income was less than the expenses related to this income in both 2010 and 2009, and therefore, no provision has been made for income taxes in the accompanying financial statements.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

Fair Value Measurements

The Art Museum measures the fair value of its financial instruments and beneficial interest in assets held in trusts using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The Art Museum determines fair value by:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical asset or liabilities in active markets that the Art Museum has the ability to access.
- Level 2 inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in active markets;
 - Inputs, other than quoted prices, that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

New Accounting Pronouncements

The Art Museum adopted ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, on September 1, 2009. ASC Topic 740-10 requires an organization to determine whether it is more likely than not that, a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Art Museum recorded no assets or liabilities related to uncertain tax positions. Tax returns for the years ended August 31, 2007, 2008, and 2009 remain subject to examination by the applicable taxing authorities.

Note 2 **Inventories**

Inventories at August 31 consisted of the following:

	2010	2009
Store inventory	\$ 286,921	\$ 288,690
Publications inventory	145,677	260,934
Café inventory	61,994	69,020
Miscellaneous inventory	8,963	9,672
Reserve for obsolescence	(96,300)	(84,200)
Inventories - Net	\$ 407,255	\$ 544,116

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 3 Investments

Investments include the following at August 31:

	2010	2009
Money market funds	\$ 7,954,892	\$ 5,688,136
U.S. government and agency obligations	4,063,149	3,588,867
Mortgage-backed securities	2,871,190	2,734,136
Short-term bonds - Institutional	8,933,586	6,578,114
Corporate debt securities	4,373,878	4,054,262
Real estate investment trust	37,463	-
Common and preferred stocks	14,014,932	12,617,334
Total investments	\$ 42,249,090	\$ 35,260,849

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

	2010	2009
Interest and dividend income, net of trustee fees	\$ 887,391	\$ 694,738
Net realized gain (loss)	841,947	(1,406,263)
Unrealized gain (loss)	664,724	(714,571)
Total investment gain (loss)	\$ 2,394,062	\$ (1,426,096)

Investment trustee and management fees of \$160,842 and \$115,317 were paid by the Art Museum for the years ended August 31, 2010 and 2009, respectively.

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 4 Pledges Receivable

Pledges receivable at August 31, are summarized as follows:

	2010	2009
Less than one year	\$ 1,272,967	\$ 1,532,211
One to five years	2,325,163	272,224
Gross pledges receivable	3,598,130	1,804,435
Less:		
Unamortized discount	43,178	30,187
Allowance for uncollectable amounts	90,000	90,000
Pledges receivable - Net	3,464,952	1,684,248
Less - Current portion	1,272,967	1,532,211
Pledges receivable, less current portion	\$ 2,191,985	\$ 152,037

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The Organization is using discount rates between 0.52% and 3.8%.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

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

The Art Museum is the income beneficiary of certain funds maintained by the Greater Milwaukee Foundation, a community support foundation. The Milwaukee Art Museum Endowment Fund (the "Endowment Fund") is a component fund of the Greater Milwaukee Foundation. The assets of the Endowment Fund were donated by third-party donors to the Art Museum and then transferred by the Art Museum to the Greater Milwaukee Foundation, with the Art Museum named as beneficiary. According to the original gift agreement, there is no provision for distribution of principal to the Art Museum; however, periodic distributions of income are made to the Art Museum. Under GAAP, the fair value of the Endowment Fund of \$248,080 and \$238,317 as of August 31, 2010 and 2009, respectively, is recorded as a beneficial interest in assets held in trust in the accompanying statements of financial position. The Art Museum received income distributions of \$5,274 and \$5,630 from this fund during 2010 and 2009, respectively.

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts, the principal of which will be turned over to the Art Museum at a future date. The estimated future value of these charitable remainder trusts as of August 31, 2010 and 2009, is approximately \$642,326 and \$651,536, respectively. The charitable remainder trusts are recorded at their present value of \$531,246 and \$492,030 as of August 31, 2010 and 2009, respectively, and are recorded as a beneficial interest in assets held in trust in the accompanying statements of financial position.

The Art Museum is also the income beneficiary of nine other designated funds of the Greater Milwaukee Foundation. Because these funds have been established at the Greater Milwaukee Foundation by third-party donors (not established by the Art Museum) and due to the Greater Milwaukee Foundation's explicit variance power over these funds, the Art Museum has not recorded any beneficial interest in these assets, nor does the Art Museum record an asset for any potential future distributions from these funds. The designated funds had a fair value of \$3,899,364 and \$3,825,864 at August 31, 2010 and 2009, respectively. The Art Museum received income distributions of \$182,541 and \$174,540 during 2010 and 2009, respectively, from these designated funds.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 6 Property and Equipment

Property and equipment consisted of the following at August 31:

	2010	2009
Building	\$ 95,352,427	\$ 95,352,426
Building improvements	215,747	206,787
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,730,789	4,584,323
Leasehold improvements	5,115,439	5,115,439
Total property and equipment	116,905,300	116,749,873
Less - Accumulated depreciation	30,762,776	27,772,446
Property and equipment - Net	\$ 86,142,524	\$ 88,977,427

Note 7 Line of Credit

The Art Museum has a bank revolving credit note with an available credit balance of \$1,500,000 and \$2,000,000 as of August 31, 2010 and 2009, respectively. The revolving credit note bears interest at the higher of the London Interbank Offered Rate (LIBOR) plus 225 basis points or 4% and is collateralized by certain contributions receivable and investments. The debt agreement contains covenants that restrict the Art Museum with regard to additional debt, disposition of assets, and use of endowment funds and requires the maintenance of certain financial and reporting covenants. Management believes the Art Museum is in compliance with all financial covenants as of August 31, 2010 and 2009. The bank revolving credit note expires April 30, 2011. There were no borrowings under the line of credit at August 31, 2010 and 2009.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 8 Employee Benefit Plans

The Art Museum maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all Art Museum employees on the first day of the month following their date of hire. The Art Museum matches employee contributions of 1% to 7% of gross salaries for qualified employees who have completed a minimum of one year of continuous employment of 1,000 hours or more. From September 1, 2009, through August 31, 2010, the maximum match was 2%. Employees may make contributions to the plan up to the maximum amount allowed by the Code. The Art Museum's expenses related to this plan were \$44,585 and \$111,010 for the years ended August 31, 2010 and 2009, respectively.

The Art Museum also contributes to a pension plan for eligible security staff as specified by an agreement between the Art Museum and District #10 International Association of Machinists and Aerospace Workers, the labor union representing the security staff. The security staff represents approximately 16% of Art Museum employees. The current agreement is in effect until August 31, 2012. Expenses related to this plan for contributions on behalf of eligible union employees were \$34,056 and \$34,702 for the years ended August 31, 2010 and 2009, respectively.

Note 9 Board-Designated Net Assets

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

	2010	2009
Board-designated endowment	\$ 490,957	\$ 827,939
Deaccessioning fund	467,375	459,021
Board-designated reserve	905,339	467,861
Unemployment compensation reserve	56,040	55,871
Total board designated net assets	\$ 1,919,711	\$ 1,810,692

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 10 Temporarily Restricted Net Assets

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

	2010	2009
Facility expansion project	\$ 1,281,231	\$ 1,285,267
Acquisition of art	14,155,493	11,630,971
Exhibitions	1,518,909	1,672,734
Education	3,454,426	793,330
Collection - Care and maintenance	759,763	523,436
Auxiliary activities	460,677	452,667
Time-restricted	57,236	85,185
Program services	50,500	7,500
Operations	893,358	406,838
Total temporarily restricted net assets	\$ 22,631,593	\$ 16,857,928

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

	2010	2009
Temporarily restricted net assets released for operations:		
Education	\$ 490,182	\$ 525,024
Audience, communication, and member development	447,693	392,613
Presentation and curatorial	1,324,008	1,761,925
General, administrative, and development	1,143,985	1,047,319
Transfer to (from) permanently restricted net assets to meet donor designation requirements	(16,784)	260,361
Building services	195,724	195,724
Total temporarily restricted net assets released for operations	3,584,808	4,182,966
Accession of art for collection	593,933	457,721
Total temporarily restricted net assets released from restrictions	\$ 4,178,741	\$ 4,640,687

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 11 **Endowments**

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

Donor-Restricted Endowments

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

The Board of Directors of the Art Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Wisconsin state legislature, as requiring the Art Museum to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Art Museum classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Art Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 11 **Endowments** (Continued)

Board-Designated Endowment

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

Investment Return Objectives, Risk Parameters, and Strategies

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

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

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 11 Endowments (Continued)

Endowment net assets consisted of the following at August 31:

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-designated endowment funds	\$ (262,516)	\$ 6,333,397	\$ 21,179,291	\$ 27,250,172
Board-designated endowment funds	490,957	-	-	490,957
Total	\$ 228,441	\$ 6,333,397	\$ 21,179,291	\$ 27,741,129

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

Funds With Short falls

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the historical dollar value of the fund. In accordance with GAAP, these short falls of \$262,516 and \$812,883 was reported in unrestricted net assets as of August 31, 2010 and 2009. This short fall is the result of unfavorable market fluctuations, which has reduced the assets of the donor-restricted endowment funds below the level required by the donor.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 11 Endowments (Continued)

Changes in the endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments net assets at September 1, 2008	\$ 3,831,631	\$ 6,940,117	\$ 16,299,935	\$ 27,071,683
Contributions	70,378	47,902	-	118,280
Investment return (loss):				
Interest and dividends	299,705	325,653	-	625,358
Net depreciation	(1,153,356)	(978,488)	(10,946)	(2,142,790)
Total investment loss	(853,651)	(652,835)	(10,946)	(1,517,432)
Recharacterization	(2,257,824)	(552,077)	2,809,901	-
Appropriation for expenditures	(572,444)	(452,863)	-	(1,025,307)
Designated transfers	(203,034)	(269,832)	260,362	(212,504)
Endowments net assets at August 31, 2009	15,056	5,060,412	19,359,252	24,434,720
Contributions	113,524	-	2,000,000	2,113,524
Investment return:				
Interest and dividends	162,385	436,621	-	599,006
Net appreciation	378,033	916,580	36,267	1,330,880
Total investment return	540,418	1,353,201	36,267	1,929,886
Appropriation for expenditures	(500,000)	-	(140,000)	(640,000)
Designated transfers	59,443	(80,216)	(76,228)	(97,001)
Endowments net assets at August 31, 2010	\$ 228,441	\$ 6,333,397	\$ 21,179,291	\$ 27,741,129

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 12 Fair Value Measurements

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

	2010			Total Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Money market funds	\$ -	\$ 7,954,892	\$ -	\$ 7,954,892
U.S. government and agency obligations	-	4,063,149	-	4,063,149
Mortgage-backed securities	-	2,871,190	-	2,871,190
Real estate investment trust	-	37,463	-	37,463
Short-term bonds - Institutional	-	8,933,586	-	8,933,586
Corporate debt securities	-	4,373,878	-	4,373,878
Common and preferred stocks	14,014,932	-	-	14,014,932
Beneficial interest in assets held in trust	-	779,326	-	779,326
Total	\$ 14,014,932	\$ 29,013,484	\$ -	\$ 43,028,416

	2009			Total Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Money market funds	\$ -	\$ 5,688,136	\$ -	\$ 5,688,136
U.S. government and agency obligations	-	3,588,867	-	3,588,867
Mortgage-backed securities	-	2,734,136	-	2,734,136
Short-term bonds - Institutional	-	6,578,114	-	6,578,114
Corporate debt securities	-	4,054,262	-	4,054,262
Common and preferred stocks	12,617,334	-	-	12,617,334
Beneficial interest in assets held in trust	-	730,347	-	730,347
Total	\$ 12,617,334	\$ 23,373,862	\$ -	\$ 35,991,196

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 12 Fair Value Measurements (Continued)

Following is a description of the valuation methodology used for each asset measured at fair value on a recurring basis:

- Money market funds are measured at cost, which approximates fair value.
- U.S government obligations, mortgage-backed securities, real estate investment trusts, short-term bonds, and corporate debt securities are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- Common and preferred stocks are valued at quoted market prices.
- Beneficial interest in assets held in trusts is valued based on the market value of the underlying assets, consisting mainly of equity securities and fixed income securities, which are valued based on quoted market prices based on recent trading activity and other observable market data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Art Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 13 Concentrations

The Art Museum maintains depository relationships with area financial institutions, including banks, which are insured by the FDIC up to \$250,000. The Art Museum has not experienced any losses with these accounts. Management believes the Art Museum is not exposed to any significant risk on cash.

At August 31, 2010, pledges from one donor totaled 61% of total pledges receivable. Contributions and promises to give from this donor totaled 28% of contributions (including membership, grants, and sponsorships), for the year-ended August 31, 2010.

Milwaukee Art Museum, Inc.

Notes to Financial Statements

Note 14 Commitment

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

Note 15 Recharacterization of Net Assets

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

Additional Information

Milwaukee Art Museum, Inc.

Schedule of Endowment Funds

August 31, 2010 and 2009

	2010	2009
Donor-restricted endowments:		
Abert Tooman Acquisition Fund	\$ 403,711	\$ 375,448
Boyd Fund	87,928	81,773
Bradley Conservation/Maintenance Fund	1,222,325	1,267,870
Bradley Foundation Fund	3,794,861	3,529,194
Catherine Jean Quirk Fund	77,226	71,820
Constance P. Godfrey Acquisition Fund	1,153,218	1,072,485
Croasdaile Acquisition Fund	1,511,880	1,406,039
Doerfler Fund	71,910	153,683
Endowment for Conservation	32,518	30,242
Endowment for Education	494,767	460,208
Erich C. Stern Fund	85,348	79,373
Esther S. Weber Memorial Education Fund	35,841	33,332
Expansion Operating Endowment	698,321	647,764
Florence Eiseman Foundation Fund	38,361	35,675
Frederick Layton Lecture Series Fund	187,154	174,052
Friends of Art Exhibition Fund	1,168,143	1,086,365
General Operating Endowment	5,732,951	3,426,596
Grootemaat Fund	44,622	41,498
James H. Brachman Fund	61,196	56,912
Jill and Jack Pelisek Fund	54,276	50,476
Joan Marcus Memorial Fund	56,265	52,326
John Porter Retzer and Florence Horn Retzer Competition Fund	236,610	220,045
Katherine Smith Gift Annuity	4,973	4,970
LaBahn Fund	1,240,389	1,153,553
Laskin Fund	899,704	836,719
NEA Challenge Endowment-Match	1,231,101	1,144,915
Patti Baker Education Endowment Fund	1,089,980	1,013,674
Pellegrin Family Endowment for Education	273,138	254,016
Pieper Challenge Grant Matching Fund	2,057,301	1,913,276
Rene von Schleinitz Memorial Fund	180,380	167,753
Richard & Ethel Herzfeld Photography Exhibition Fund	421,930	392,392
Schuchardt Fund	25,288	23,518
Suzanne and Richard Pieper Family Fund	1,028,650	956,639
Virginia Booth Vogel Acquisition Fund	1,547,906	1,392,180
Total donor-restricted endowments	27,250,172	23,606,781

Milwaukee Art Museum, Inc.

Schedule of Endowment Funds

August 31, 2010 and 2009

	2010	2009
Board-designated endowments:		
Ruth K. Abrams Fund	69,454	64,592
Board Designated Fund	161,187	262,650
Karen Johnson Boyd Fund	160,050	148,846
NEA Challenge Endowment- Grant funded	-	251,639
Gift Annuity Reserve	100,266	100,212
<hr/>		
Total board-designated endowments	490,957	827,939
<hr/>		
Total endowment funds	\$ 27,741,129	\$ 24,434,720
