

Milwaukee Art Museum, Inc. and Subsidiary

Milwaukee, Wisconsin

Consolidating Financial Statements
and Supplementary Information

Years Ended August 31, 2018 and 2017

WIPFLi^{LLP}
CPAs and Consultants



Independent Auditor's Report

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

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Milwaukee Art Museum, Inc. and Subsidiary (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidating financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Art Museum, Inc. and Subsidiary as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.



Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The schedule of endowment funds appearing on pages 31 and 32 is presented for the purpose of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

Report on Comparative Information

We have previously audited the Milwaukee Art Museum's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 29, 2017. Museum Center Park was not in operation during the year ended August 31, 2017, therefore there is no consolidating information for 2017.

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

December 21, 2018

Milwaukee Art Museum, Inc. and Subsidiary

Consolidating Statements of Financial Position

August 31, 2018 and 2017

Assets	2018				2017
	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
Current assets:					
Cash and cash equivalents	\$ 1,851,625	\$ 834,184	\$ -	\$ 2,685,809	\$ 2,411,255
Accounts receivable - Net	328,156	216,196	-	544,352	115,912
Current portion of pledges receivable and other receivables	2,758,404	-	-	2,758,404	2,637,588
Current portion of other receivables	-	-	-	-	-
Investment income receivable	14,221	-	-	14,221	55,174
Inventories - Net	332,183	-	-	332,183	431,395
Prepaid expenses	556,437	30,370	-	586,807	173,236
Total current assets	5,841,026	1,080,750	-	6,921,776	5,824,560
Investments	53,064,453	-	-	53,064,453	50,486,034
Pledges receivable, less current portion	117,370	-	-	117,370	1,753,219
Other receivables, less current portion	1,353,434	-	-	1,353,434	-
Beneficial interest in assets held in trust	361,071	-	-	361,071	343,876
Property and equipment - Net	86,364,008	14,510,017	-	100,874,025	92,351,824
Prepaid expenses, less current portion	58,443	-	-	58,443	-
Due from related party	960,348	-	(960,348)	-	-
TOTAL ASSETS	\$ 148,120,153	\$ 15,590,767	\$ (960,348)	\$ 162,750,572	\$ 150,759,513
Liabilities and Net Assets	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
Current liabilities:					
Current maturities of construction lines of credit	\$ 700,000	\$ 131,503	\$ -	\$ 831,503	\$ 1,200,000
Accounts payable and accrued expenses	1,129,174	394,475	-	1,523,649	898,754
Deferred revenue	1,074,747	8,333	-	1,083,080	1,046,099
Total current liabilities	2,903,921	534,311	-	3,438,232	3,144,853
Long-term liabilities:					
Deferred lease expense	101,972	-	-	101,972	96,394
Due to related party	-	960,348	(960,348)	-	-
Construction lines of credit, less current maturities	-	942,077	-	942,077	1,300,000
Total long-term liabilities	101,972	1,902,425	(960,348)	1,044,049	1,396,394
Total liabilities	3,005,893	2,436,736	(960,348)	4,482,281	4,541,247
Net assets:					
Unrestricted:					
Board designated	4,637,627	-	-	4,637,627	3,853,293
Undesignated	88,939,568	13,154,031	-	102,093,599	93,220,362
Total unrestricted	93,577,195	13,154,031	-	106,731,226	97,073,655
Temporarily restricted	19,928,967	-	-	19,928,967	19,067,971
Permanently restricted	31,608,098	-	-	31,608,098	30,076,640
Total net assets	145,114,260	13,154,031	-	158,268,291	146,218,266
TOTAL LIABILITIES AND NET ASSETS	\$ 148,120,153	\$ 15,590,767	\$ (960,348)	\$ 162,750,572	\$ 150,759,513

See accompanying notes to consolidating financial statements

Milwaukee Art Museum, Inc. and Subsidiary

Consolidating Statements of Activities

Year Ended August 31, 2018 and 2017

	2018			2017	
	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
CHANGE IN UNRESTRICTED NET ASSETS:					
Operating Fund:					
Operating support and revenue:					
Contributions and membership	\$ 5,502,212	\$ -	\$ -	\$ 5,502,212	\$ 4,979,323
Grants and sponsorships	17,500	-	-	17,500	17,500
Milwaukee County	1,100,000	-	-	1,100,000	1,100,000
Admission, tour fees, and parking	2,336,404	1,228,387	-	3,564,791	1,995,803
Rental income	-	113,670	-	113,670	0
Education programs	65,300	-	-	65,300	72,411
Exhibition and curatorial income	241,889	-	-	241,889	62,028
Retail operations (net of cost of sales of \$600,993)	519,414	-	-	519,414	487,702
Food and beverage operations (net of cost of sales of \$711,172)	2,203,996	-	-	2,203,996	1,882,552
Facility rental income	544,004	-	-	544,004	527,603
Fundraising events and auxiliary activities	110,477	-	-	110,477	90,294
Other	38,217	-	-	38,217	48,615
Investment return appropriated for operations	1,610,644	-	-	1,610,644	1,460,500
Net assets released from restrictions and transfers	3,107,646	(1,553,094)	-	1,554,552	3,496,271
Total operating support and revenue	17,397,703	(211,037)	-	17,186,666	16,220,602
Operating expenses:					
Program services:					
Education	931,698	-	-	931,698	1,112,443
Audience, communication, and member development	2,913,354	-	-	2,913,354	2,496,071
Presentation and curatorial	3,448,223	-	-	3,448,223	3,078,405
Business operations	1,925,893	-	-	1,925,893	2,007,221
Total program services	9,219,168	-	-	9,219,168	8,694,140
Supporting services:					
General and administrative	2,656,760	5,400	-	2,662,160	2,603,809
Financial development and volunteer services	2,754,616	-	-	2,754,616	2,460,901
Building services	2,962,886	929,453	-	3,892,339	2,648,104
Total supporting services	8,374,262	934,853	-	9,309,115	7,712,814
Total operating expenses	17,593,430	934,853	-	18,528,283	16,406,954
Change in net assets from operating activities	(195,727)	(1,145,890)	-	(1,341,617)	(186,352)
Nonoperating revenue, support, gains, and losses:					
Investment income	34,950	-	-	34,950	42,813
Net assets transferred between funds	200,000	-	-	200,000	200,000
Property tax	-	(200,000)	-	(200,000)	-
Interest expense	(36,530)	(10,096)	-	(46,626)	(54,555)
Total nonoperating revenue, support, gains, and losses	198,420	(210,096)	-	(11,676)	188,258
Change in Operating Funds	2,693	(1,355,986)	-	(1,353,293)	1,906

Milwaukee Art Museum, Inc. and Subsidiary

Consolidating Statements of Activities (Continued)

Year Ended August 31, 2018 and 2017

	2018				2017
	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
Other Funds:					
Operating support and revenue:					
Investment return appropriated for operations	\$ (69,935)	\$ -	\$ -	\$ (69,935)	\$ (40,771)
Milwaukee County	1,729,000	-	-	1,729,000	-
Net assets released from restrictions and transfers	813,330	1,553,094	-	2,366,424	145,993
Total operating support and revenue	2,472,395	1,553,094	-	4,025,489	105,222
Operating expenses:					
Supporting services:					
General and administrative	-	-	-	-	(139)
Building services	258,048	-	-	258,048	-
Total operating expenses:	258,048	-	-	258,048	(139)
Change in net assets from operating activities	2,214,347	1,553,094	-	3,767,441	105,361
Nonoperating revenue, support, gains, and losses:					
Income from sale of art	-	-	-	-	81,225
Net assets released to fund acquisitions of art	72,542	-	-	72,542	50,600
Acquisitions of art	(209,258)	-	-	(209,258)	(50,600)
Investment income	129,245	-	-	129,245	130,907
Contributions designated for endowment or building fund	-	-	-	-	46,691
Depreciation and amortization	(3,554,557)	(443,077)	-	(3,997,634)	(3,566,222)
Non-monetary exchange (See Note 18)	(2,159,967)	13,400,000	-	11,240,033	-
Other	8,495	-	-	8,495	17,653
Total nonoperating revenue, support, gains, and losses	(5,713,500)	12,956,923	-	7,243,423	(3,289,746)
Change in Other Funds	(3,499,153)	14,510,017	-	11,010,864	(3,184,385)
CHANGE IN UNRESTRICTED NET ASSETS	(3,496,460)	13,154,031	-	9,657,571	(3,182,479)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:					
Operating support and revenue:					
Contributions and membership	654,246	-	-	654,246	633,739
Grants and sponsorships	2,134,555	-	-	2,134,555	2,941,743
Fundraising events and auxiliary activities	1,353,349	-	-	1,353,349	498,530
Other	7,846	-	-	7,846	19,815
Investment return appropriated for operations	(1,540,709)	-	-	(1,540,709)	(1,419,729)
Net assets released from restrictions	(4,179,024)	-	-	(4,179,024)	(3,642,264)
Total operating support and revenue	(1,569,737)	-	-	(1,569,737)	(968,166)

Milwaukee Art Museum, Inc. and Subsidiary

Consolidating Statements of Activities (Continued)

Year Ended August 31, 2018 and 2017

	2018				2017
	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
Nonoperating revenue, support, gains, and losses:					
Contributions designated for acquisition of art	\$ 500,917	\$ -	\$ -	\$ 500,917	\$ 226,121
Net assets released to fund acquisitions of art	(72,542)	-	-	(72,542)	(50,600)
Acquisitions of art	(840,190)	-	-	(840,190)	(381,775)
Investment income	3,262,594	-	-	3,262,594	3,491,504
Net assets transferred between funds	(200,000)	-	-	(200,000)	(200,000)
Contributions designated for endowment or building fund	1,244	-	-	1,244	1,240
Other	18,300	-	-	18,300	(32,300)
Net assets released from restrictions	(239,590)	-	-	(239,590)	(80,555)
Total nonoperating revenue, support, gains, and losses	2,430,733	-	-	2,430,733	2,973,635
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	860,996	-	-	860,996	2,005,469
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:					
Nonoperating revenue, support, gains, and losses:					
Contributions designated for endowment or building fund	1,032,500	-	-	1,032,500	467,811
Other	1,320	-	-	1,320	-
Net assets released from restrictions	497,638	-	-	497,638	80,555
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	1,531,458	-	-	1,531,458	548,366
CHANGE IN NET ASSETS	(1,104,006)	13,154,031	-	12,050,025	(628,644)
NET ASSETS AT BEGINNING OF YEAR	146,218,266	-	-	146,218,266	146,846,910
NET ASSETS AT END OF YEAR	\$ 145,114,260	\$ 13,154,031	\$ -	\$ 158,268,291	\$ 146,218,266

See accompanying notes to consolidating financial statements.

Milwaukee Art Museum, Inc. and Subsidiary

Consolidating Statements of Cash Flows

Year Ended August 31, 2018 and 2017

	2018			2017	
	Milwaukee Art Museum	Museum Center Park	Eliminations	Total	Total
Increase (decrease) in cash and cash equivalents:					
Cash flows from operating activities:					
Change in net assets	\$ (1,104,006)	\$ 13,154,031	\$ -	\$ 12,050,025	\$ (628,644)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:					
Provision for inventory obsolescence	74,453	-	-	74,453	22,950
Net recovery of uncollectable pledges receivable	12,500	-	-	12,500	(8,500)
Depreciation and amortization	3,554,557	443,077	-	3,997,634	3,566,222
Property acquired from non-monetary exchange	2,159,967	(13,400,000)	-	(11,240,033)	-
Contributions designated for long-term investments, capital expenditures, and art purchases	(1,534,661)	-	-	(1,534,661)	(741,863)
Acquisitions of art	1,049,448	-	-	1,049,448	432,375
Net realized gains on sale of investments	(2,081,495)	-	-	(2,081,495)	(1,121,905)
Net change in unrealized gains and losses on investments	(1,263,605)	-	-	(1,263,605)	(2,470,313)
Change in beneficial interest in assets held in trust	(17,195)	-	-	(17,195)	(27,553)
Changes in assets and liabilities:					
Accounts receivable	(225,244)	(216,196)	-	(441,440)	27,323
Pledges receivable	1,646,771	-	-	1,646,771	85,913
Other receivables	(1,353,434)	-	-	(1,353,434)	-
Investment income receivable	40,953	-	-	40,953	24,939
Inventories	24,759	-	-	24,759	(40,571)
Prepaid expenses	(441,644)	(30,370)	-	(472,014)	284,366
Due from/to related party	(506,519)	506,519	-	-	-
Accounts payable and accrued expenses	230,420	394,475	-	624,895	(289,449)
Deferred lease expense	5,578	-	-	5,578	17,274
Deferred revenue	28,648	8,333	-	36,981	(12,880)
Net cash provided by (used in) operating activities	300,251	859,869	-	1,160,120	(880,316)
Cash flows from investing activities:					
Acquisitions of art	(1,049,448)	-	-	(1,049,448)	(432,375)
Purchases of investments	53,935,769	-	-	53,935,769	(62,310,430)
Proceeds from sale of investments	(53,169,088)	-	-	(53,169,088)	63,840,967
Purchases of property and equipment	(180,537)	(1,099,265)	-	(1,279,802)	(564,550)
Net cash provided by (used in) investing activities	(463,304)	(1,099,265)	-	(1,562,569)	533,612
Cash flows from financing activities:					
(Payments on) receipts from construction line of credit	(1,800,000)	1,073,580	-	(726,420)	(1,500,000)
Contributions designated for long-term investments	1,403,423	-	-	1,403,423	1,999,096
Net cash (used in) provided by financing activities	(396,577)	1,073,580	-	677,003	499,096
(Decrease) increase in cash and cash equivalents	(559,630)	834,184	-	274,554	152,392
Cash and cash equivalents at beginning of year	2,411,255	-	-	2,411,255	2,258,863
Cash and cash equivalents at end of year	\$ 1,851,625	\$ 834,184	\$ -	\$ 2,685,809	\$ 2,411,255
Non-cash investing activities - Non-monetary exchange					
(See Note 18)	\$ (2,159,967)	\$ 13,400,000			

See accompanying notes to consolidating financial statements.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

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.

Museum Center Park, Inc. ("MCP") was formed in 2017 and is a not-for-profit corporation organized to accept, acquire, operate, and manage property in furtherance of the purposes of the Art Museum. The Art Museum is the sole corporate member of MCP. MCP had no assets, liabilities, or operations in 2017.

Consolidating Financial Statements

The consolidating financial statements include the accounts of the Art Museum and MCP (collectively the "Organization"). The entities are consolidated since the Art Museum is the sole corporate member of MCP and appoints its directors. All significant inter-organizational transactions have been eliminated.

Financial Statement Presentation

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

The Organization 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.

Net Assets

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution. The statements of activities categorize 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 Organization to record the day-to-day activities performed in accomplishing the appreciation, understanding, and education of the visual arts. At the end of each fiscal year, an amount equal to the surplus (deficit) in the operating fund is transferred to (from) the board-designated reserves from (to) the operating fund.

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

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met either by actions of the Organization and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidating statements 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 Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates

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

Art Collection

The Art Museum's collection comprises more than 31,000 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 accompanying consolidating 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. The Art Museum's funds designated for acquisitions may be classified as permanently restricted, for which only the income earned on the principal balance 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 class.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents, excluding amounts classified as investments.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating 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 have been reduced by allowances of \$34,000 and \$21,000 that reflect management's estimates of uncollectable accounts at August 31, 2018 and 2017, respectively.

Pledges Receivable

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by 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 consolidating statements of financial position net of unamortized discounts and an allowance for uncollectable 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 (between 2.46% and 2.81%). Amortization of the discount is recorded as a change to contributions and membership revenue in the accompanying consolidating statements of activities. An allowance for uncollectable 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.

Other Receivables

Other receivables relate to a settlement with Milwaukee County (the "County") related to building improvements that were previously paid by the Art Museum. This settlement is to be received in annual installments of \$190,000 through 2027 from the County. Other receivables are reported in the consolidating statements of financial position net of unamortized discounts and an allowance for uncollectable accounts. Other receivables 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 (between 2.46% and 2.81%). Amortization of the discount is recorded as a change to operating support and revenue in the accompanying consolidating statements of activities. No allowance for uncollectable accounts is deemed necessary as management believes the amount is fully collectible.

Inventories

Inventories consist of retail items, publications, and food and beverage items and are valued at the lower of cost, determined using the average cost method, or net realizable value.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 accompanying consolidating statements 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.

Interest and dividend 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.

Due to Related Party

Due to related party represents costs paid on behalf of MCP by the Art Museum. Costs related to the property acquisition (see Note 18) of approximately \$640,000 was transferred to MCP upon completion of the transaction. The remaining balance of approximately \$320,000 relates to payroll and operating expense paid by the Art Museum on behalf of MCP.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment

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

	Useful Lives
Building	30 to 50 years
Building improvements	10 to 50 years
Land improvements	10 to 25 years
Leasehold improvements	10 to 15 years
Furniture and equipment	3 to 10 years

The Organization 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 Organization determined that no evaluations of recoverability were necessary during the years ended August 31, 2018 and 2017.

Deferred Revenue

Deferred revenue consists of funds received in advance for facility rentals, memberships, and other services that are to be performed at a future date. Revenues are recognized in the period in which the services are performed.

Deferred Lease Expense

The Organization recognizes rent expense on a straight-line basis over the non-cancelable lease term for a lease agreement that provides free-rent occupancy periods or has known escalation clauses that increase rent annually.

Contributed Revenue

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 consolidating statements of activities as net assets released from restrictions.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contributed Revenue (Continued)

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift, except contributions of works of art, historical treasures, and similar assets held as part of collections that are not 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 consolidating 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 during the years ended August 31, 2018 and 2017, were \$755,079 and \$932,489, respectively.

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 and MCP are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Art Museum and MCP are 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 2018 and 2017, and therefore, no provision has been made for income taxes in the accompanying consolidating financial statements.

Subsequent Events

Subsequent events have been evaluated through December 21, 2018, which is the date the consolidating financial statements were available to be issued.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 2: Pledges Receivable

Pledges receivable are summarized as follows:

<i>As of August 31,</i>	2018	2017
Less than one year	\$ 2,636,182	\$ 2,637,588
One to five years	207,025	1,908,436
Gross pledges receivable	2,843,207	4,546,024
Less:		
Unamortized discount	(94,371)	(96,217)
Allowance for uncollectable accounts	(58,500)	(59,000)
Pledges receivable - Net	2,690,336	4,390,807
Less - Current portion	(2,572,966)	(2,637,588)
Pledges receivable, less current portion	\$ 117,370	\$ 1,753,219

Note 3: Other Receivables

Other receivables are summarized as follows as of August 31, 2018:

	2018
Less than one year	\$ 190,000
One to five years	760,000
Six to nine years	760,000
Gross pledges receivable	1,710,000
Less:	
Unamortized discount	(171,128)
Other receivables - Net	1,538,872
Less - Current portion	(185,438)
Other receivables, less current portion	\$ 1,353,434

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 4: Inventories

Inventories consisted of the following:

<i>As of August 31,</i>	2018	2017
Store inventory	\$ 260,611	\$ 291,295
Publications inventory	134,939	132,952
Cafe inventory	77,036	73,098
Reserve for obsolescence	(140,403)	(65,950)
Inventories - Net	\$ 332,183	\$ 431,395

Note 5: Investments

Investments consisted of the following:

<i>As of August 31,</i>	2018	2017
Money market funds	\$ 6,653,449	\$ 7,132,853
U.S. government obligations	-	811,451
Other fixed income securities	-	8,049,054
Equities	8,981,997	10,370,173
Fixed income mutual funds	8,586,878	4,041,349
Equity mutual funds	16,171,410	12,143,921
Alternative investments	12,670,719	7,937,233
Total investments	\$ 53,064,453	\$ 50,486,034

Investments were held for the following purposes:

<i>As of August 31,</i>	2018	2017
Endowment:		
Operations	\$ 20,965,797	\$ 20,229,368
Education	4,001,661	3,827,643
Curatorial	12,503,131	10,981,279
Acquisitions	7,315,161	6,915,290
Other	1,618,831	1,682,394
Total endowment	46,404,581	43,635,974
Other	6,659,872	6,850,060
Total investments	\$ 53,064,453	\$ 50,486,034

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 5: Investments (Continued)

Investment income is as follows:

<i>Years Ended August 31,</i>	2018	2017
Interest and dividend income, net of trustee and management fees	\$ 81,689	\$ 73,006
Net realized gains on sale of investments	2,081,495	1,121,905
Net change in unrealized gains and losses on investments	1,263,605	2,470,313
Total investment income	\$ 3,426,789	\$ 3,665,224

Investment trustee and management fees of \$167,929 and \$226,111 were paid by the Art Museum for the years ended August 31, 2018 and 2017, respectively.

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

Note 6: 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 unrestricted donations 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. Periodic distributions of income are made to the Art Museum. Under GAAP, the fair value of the Endowment Fund of \$361,071 and \$343,876 as of August 31, 2018 and 2017, respectively, is recorded as a beneficial interest in assets held in trust in the accompanying consolidating statements of financial position. The Art Museum received income distributions of \$15,008 and \$11,248 from this fund during 2018 and 2017, respectively.

The Art Museum is also the income beneficiary of 12 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 the use of 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 \$7,491,916 and \$7,137,832 at August 31, 2018 and 2017, respectively. The Art Museum received income distributions of \$250,554 and \$234,798 during 2018 and 2017, respectively, from these designated funds.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 7: Property and Equipment

Property and equipment consisted of the following:

<i>As of August 31,</i>	2018	2017
Building	\$ 134,923,052	\$ 95,352,427
Building improvements	911,354	248,169
Land improvements	11,490,898	11,490,898
Leasehold improvements	642,203	30,737,657
Furniture and fixtures	6,051,733	5,614,740
Construction in progress	400,611	503,198
Total property and equipment	154,419,851	143,947,089
Less - Accumulated depreciation	(53,545,826)	(51,595,265)
Property and equipment - Net	\$ 100,874,025	\$ 92,351,824

Construction in progress at August 31, 2018 and 2017, primarily consists of renovations and property acquisition costs.

Note 8: Lines of Credit

Operating Line of Credit

The Art Museum has a bank line of credit agreement with an available credit balance of \$1,500,000 as of August 31, 2018 and 2017. The line of credit bears interest at the London Interbank Offered Rate (LIBOR) plus 100 basis points and is collateralized by certain contributions receivable and investments. The 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 line of credit agreement expires April 30, 2019. There were no borrowings under the line of credit at August 31, 2018 and 2017.

Construction Lines of Credit

In April 2015, the Art Museum entered into a \$10,000,000 construction line of credit agreement in order to fund renovations and construction of additional space. The agreement is secured by pledges and deposit accounts associated with the Capital Campaign. The agreement requires minimum annual principal payments of \$1,200,000. The interest rate is 1-month LIBOR plus 100 basis points (3.11% as of August 31, 2018). The amount owed under the construction line of credit was \$700,000 and \$2,500,000 as of August 31, 2018 and 2017, respectively. Under the terms of the agreement, the Art Museum is required to maintain a specific financial covenant.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 8: Lines of Credit (Continued)

In January 2018, MCP entered into a \$2,260,000 construction line of credit agreement in order to fund structural repairs and related improvements to MCP property. The amount drawn during the year ended August 31, 2018 and outstanding at year end was \$1,073,580. The construction line of credit has an interest-only period until the conversion date of October 31, 2018, followed by full amortization of the principal over 75 months. The interest rate is 1-month LIBOR, as of the first of the month, plus 100 basis points (3.08% as of August 31, 2018). Under the terms of the agreement, MCP is required to maintain a specific financial covenant.

Future Minimum Payments

Future minimum payments of principal on construction lines of credit as of August 31, 2018 are as follows:

	Milwaukee Art Museum	Museum Center Park
2019	\$ 700,000	\$ 131,503
2020	-	162,318
2021	-	167,389
2022	-	172,618
2023	-	178,010
Thereafter	-	261,742
Total construction lines of credit	700,000	1,073,580
Less - Current maturities	(700,000)	(131,503)
Long-term portion of construction lines of credit	\$ -	\$ 942,077

Interest

Interest paid, excluding amounts capitalized, during the years ended August 31, 2018 and 2017, totaled \$55,069 and \$55,596, respectively.

Note 9: Concentrations

The Organization maintains depository relationships with area financial institutions, including banks, which are Federal Deposit Insurance Corporation (FDIC) insured institutions. At times, deposits may exceed FDIC insurance limits. The Organization has not experienced any losses with these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

At August 31, 2018 and 2017, pledges from one donor totaled 11% and 18%, respectively, of total pledges receivable.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 10: Board-Designated Net Assets

Certain unrestricted net assets are designated for specific purposes by the Board of Trustees as endowments or restricted by various internal operating and administrative arrangements of the Art Museum. A summary of board designated net assets is as follows:

<i>As of August 31,</i>	2018	2017
Board-designated endowment	\$ 1,687,134	\$ 1,636,910
Deaccessioning fund	29,286	81,225
Board-designated reserve	2,921,207	2,135,158
Total board designated net assets	\$ 4,637,627	\$ 3,853,293

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

Note 11: Temporarily Restricted Net Assets

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

<i>As of August 31,</i>	2018	2017
Facility expansion project	\$ 36,635	\$ 251,955
Acquisition of art	7,827,717	7,635,447
Exhibitions	2,128,720	1,603,630
Education	2,133,984	2,465,438
Collection - Care and maintenance	526,399	553,290
Auxiliary activities	1,629,123	1,228,896
Program services	60,000	55,000
Operations	5,586,389	5,274,315
Total temporarily restricted net assets	\$ 19,928,967	\$ 19,067,971

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 11: Temporarily Restricted Net Assets (Continued)

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

<i>Years Ended August 31,</i>	2018	2017
Temporarily restricted net assets released for operations:		
Education	\$ 798,203	\$ 814,373
Audience, communication, and member development	232,251	478,826
Presentation and curatorial	1,351,888	917,401
General, administrative, and development	258,542	246,490
Renovations	374,863	414,173
Financial development and volunteer services	1,163,277	771,001
<hr/>		
Total temporarily restricted net assets released for operations	4,179,024	3,642,264
Transfer to permanently restricted net assets to meet donor designation requirements	497,638	80,555
<hr/>		
Total temporarily restricted net assets released from restrictions	\$ 4,676,662	\$ 3,722,819

Note 12: 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 of Trustees 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 Trustees 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.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 12: Endowments (Continued)

Donor-Restricted Endowments (Continued)

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.

Board-Designated Endowment

The Board of Trustees 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 of Trustees may designate additional amounts from time to time to be added to the endowment fund.

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 Trustees, the endowment assets are invested in a manner to produce a rate of return which will permit maximum support for the general operating fund 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. The endowment funds are reviewed quarterly by the Art Museum Investment committee, which reports to the Art Museum Finance committee. Changes to the Art Museum investment policy are recommended by the Investment Committee, approved by the Finance Committee and by the Board of Trustees.

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, alternative investments, and cash equivalents.

Distributions

The annual distribution policy the Board of Trustees has set will allow distributions to be made available to operations of 5% of a trailing 12 quarter average market value of the donor-restricted and board designated endowment investments available in quarterly installments. The Board of Trustees' approved investment policy states that the original principal balance of donor designated contributions to the endowment fund shall not be invaded or borrowed from for any reason.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 12: Endowments (Continued)

Changes in Endowment Net Assets

Changes in the endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at August 31, 2016	\$ 1,504,043	\$ 10,061,811	\$ 29,528,274	\$ 41,094,128
Contributions	46,691	-	467,811	514,502
Investment return:				
Interest and dividends	25,636	716,737	-	742,373
Net appreciation	101,311	2,750,699	-	2,852,010
Total investment return	126,947	3,467,436	-	3,594,383
Appropriations - Acquisition of art	-	(50,600)	-	(50,600)
Investment return appropriated for expenditures	(40,771)	(1,419,729)	-	(1,460,500)
Designated transfers - Other	-	(80,555)	80,555	-
Endowment net assets at August 31, 2017	1,636,910	11,978,363	30,076,640	43,691,913
Contributions	-	-	1,033,820	1,033,820
Investment return:				
Interest and dividends	27,280	734,817	-	762,097
Net appreciation	92,879	2,507,598	-	2,600,477
Total investment return	120,159	3,242,415	-	3,362,574
Appropriations - Acquisition of art	-	(72,542)	-	(72,542)
Investment return appropriated for expenditures	(69,935)	(1,540,709)	-	(1,610,644)
Designated transfers - Other	-	(497,638)	497,638	-
Endowment net assets at August 31, 2018	\$ 1,687,134	\$ 13,109,889	\$ 31,608,098	\$ 46,405,121

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 12: Endowments (Continued)

Endowment Net Assets

Endowment net assets consisted of the following:

<i>As of August 31, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ -	\$ 13,109,889	\$ 31,608,098	\$ 44,717,987
Board-designated and other endowment funds	1,687,134	-	-	1,687,134
Totals	\$ 1,687,134	\$ 13,109,889	\$ 31,608,098	\$ 46,405,121

<i>As of August 31, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ -	\$ 11,978,363	\$ 30,076,640	\$ 42,055,003
Board-designated and other endowment funds	1,636,910	-	-	1,636,910
Totals	\$ 1,636,910	\$ 11,978,363	\$ 30,076,640	\$ 43,691,913

Note 13: Unemployment Compensation

The Organization has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. Unemployment compensation claims are paid to the state of Wisconsin as incurred. The Organization has obtained a letter of credit of \$139,606 to meet state funding requirements. There were no borrowings against this letter of credit at August 31, 2018 and 2017. The letter of credit expires in December 2020.

Note 14: Leases

The Organization leases office equipment and office space under operating leases which expire through September 2026. Rent expense for the years ended August 31, 2018 and 2017 totaled \$375,149 and \$354,707, respectively. The Organization also initiated a lease for storage space during the year ended August 31, 2018, which expires in September 2027. Storage expense related to this lease for the year ended August 31, 2018, totaled \$145,448.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 14: Leases (Continued)

Future minimum payments under noncancelable operating leases with initial or remaining terms in excess of one year consisted of the following:

<i>Years Ended August 31,</i>	
2019	\$ 481,140
2020	448,393
2021	442,957
2022	451,230
2023	295,049
Thereafter	849,823
<hr/>	
Total	\$ 2,968,592

Note 15: Milwaukee County Support

Under an agreement with the County, the Art Museum is to receive from the County \$1,100,000 per year in support through 2023 and \$500,000 per year for 2024 through 2033. The agreement is considered contingent upon future events and, therefore, is not recorded as a receivable or contributions in the accompanying consolidating financial statements. The payments will be recorded as contributions when received.

Note 16: Employee Benefit Plans

The Art Museum maintains an employee retirement plan qualified under Section 403(b) of the Code. The plan covers all Art Museum employees on 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. The match for the years ending August 31, 2018 and 2017 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 \$79,568 and \$71,708 for the years ended August 31, 2018 and 2017, 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 6% of Art Museum employees. The current agreement is in effect until August 31, 2020. Expenses related to this plan for contributions on behalf of eligible union employees were \$47,708 and \$27,661 for the years ended August 31, 2018 and 2017, respectively.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 17: Fair Value Measurements

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

<i>As of August 31, 2018</i>	<u>Fair Value Measurements Using</u>			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Investments:				
Cash and cash equivalents:				
Money market funds	\$ -	\$ 6,653,449	\$ -	\$ 6,653,449
Equities:				
Domestic	6,832,093	-	-	6,832,093
Foreign	1,815,626	-	-	1,815,626
Privately held stock	-	-	334,278	334,278
Fixed income mutual funds	8,586,878	-	-	8,586,878
Equity mutual funds	16,171,410	-	-	16,171,410
Alternative investments measured using NAV practical expedient: *				
Defensive equity fund				3,573,463
Private real estate investment trust				3,485,234
Collective trust fund				2,685,256
Emerging markets debt				1,437,414
High yield bond fund				1,489,352
Total investments	33,406,007	6,653,449	334,278	53,064,453
Pledges and other receivables	-	4,229,208	-	4,229,208
Beneficial interest in assets held in trust	-	361,071	-	361,071
Totals	\$ 33,406,007	\$ 11,243,728	\$ 334,278	\$ 57,654,732

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 17: Fair Value Measurements (Continued)

<i>As of August 31, 2017</i>	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Investments:				
Cash and cash equivalents:				
Money market funds	\$ -	\$ 7,132,853	\$ -	\$ 7,132,853
Fixed income securities:				
U.S. government obligations	811,451	-	-	811,451
Mortgage-backed securities	4,649,453	-	-	4,649,453
Municipal obligations	-	130,046	-	130,046
Corporate obligations	-	2,813,803	-	2,813,803
Foreign obligations	-	455,752	-	455,752
Equities:				
Domestic	8,251,458	-	-	8,251,458
Foreign	1,784,437	-	-	1,784,437
Privately held stock	-	-	334,278	334,278
Fixed income mutual funds	4,041,349	-	-	4,041,349
Equity mutual funds	12,143,921	-	-	12,143,921
Alternative investments measured using NAV practical expedient: *				
Defensive equity fund				3,312,145
Private real estate investment trust				3,200,088
Collective trust fund				1,425,000
<hr/>				
Total investments	31,682,069	10,532,454	334,278	50,486,034
Pledges and other receivables	-	4,390,807	-	4,390,807
Beneficial interest in assets held in trust	-	343,876	-	343,876
<hr/>				
Totals	\$ 31,682,069	\$ 15,267,137	\$ 334,278	\$ 55,220,717

*In accordance with FASB ASC 820-10, certain investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidating statements of financial position.

The table below sets forth a summary of changes in the fair value of privately held stock:

Balance at September 1, 2016	\$ 434,403
Distributions	(100,125)
<hr/>	
Balance at August 31, 2017	334,278
<hr/>	
Balance at August 31, 2018	\$ 334,278

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 17: 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 using \$1 as the NAV.
- Municipal obligations, corporate obligations, and foreign obligations are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- U.S. government obligations, mortgage-backed securities, and equities, except for privately held stock, are valued at quoted market prices.
- Privately held stock is valued using a discounted cash flow method.
- Fixed income and equity mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held are open-ended mutual funds that are registered with the U.S. Security and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.
- Alternative investments are valued based on the NAV of the underlying investments of the funds.
- Pledges and other receivables are valued at the present value of estimated future cash flows.
- Beneficial interest in assets held in charitable trusts are recorded net of a discount based upon the applicable Internal Revenue Code Section 7520 rate over the anticipated life expectancies of the donors. Beneficial interest in funds maintained by the Greater Milwaukee Foundation are valued based on the market value of the underlying assets, consisting mainly of equity and fixed income securities which are valued based on quoted market prices.

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 Organization 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.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 17: Fair Value Measurements (Continued)

The following table presents additional information about the Organization's investments whose fair value is estimated using the reported NAV:

<i>As of August 31,</i>	2018	2017	Redemption Frequency	Redemption Notice Period	Unfunded Commitments
Defensive equity fund:					
Parametric Defensive Equity ^(A)	\$ 3,573,463	\$3,312,145	Monthly	5 days	\$ -
Private real estate investment trust:					
Barings Core Property Fund ^(B)	\$ 3,485,234	\$ 3,200,088	Quarterly	30 days	\$ -
Collective trust fund:					
Wellington Trust Company N.A. ^(C)	\$ 2,685,256	\$ 1,425,000	Monthly	Notice on 22nd calendar day of prior month	\$ -
Emerging markets debt:					
Logan Circle Partners ^(D)	\$ 1,437,414	\$ -	Monthly	10 days	\$ -
High yield bond fund:					
Primus High Yield Bond Fund ^(E)	\$ 1,489,352	\$ -	Monthly	10 days	\$ -

- (A) The fund attempts to generate similar returns to the S&P 500 over a full market cycle with lower risk. The fund consists of S&P 500 securities and treasury bills. Additionally, the fund sells fully collateralized call and put options on the S&P 500 to generate outgoing income. The fund seeks to structurally reduce equity market risk while adding a relatively uncorrelated risk premium to enhance returns. The fund seeks to reduce the magnitude of drawdowns and recover faster from stress events.
- (B) The fund is a U.S. open-end diversified core fund that focuses on the four traditional property types and hotels. The fund is managed with an emphasis on research, targeting “barrier” markets, which are perceived to reduce the risk of oversupply and offer potential for outsized rent growth and appreciation.
- (C) The collective trust seeks to outperform the MSCI Emerging Markets Index (the “Index”) over three to five years. The fund uses a highly diversified, research-driven strategy targeting an excess return over the Index.

Milwaukee Art Museum, Inc. and Subsidiary

Notes to Consolidating Financial Statements

Note 17: Fair Value Measurements (Continued)

- (D) The collective trust invests primarily in debt securities of issuers located in emerging market countries. The collective trust normally will hold fixed-income securities of government and government-related issuers and corporate issuers in emerging market countries. The investment advisor may invest in capital securities, which are hybrid securities that combine the characteristics of bonds and preferred stocks, in order to take advantage of the mispricing of subordinated risk within the marketplace. Amounts invested in Logan Circle may only be redeemed as of the last business day of a calendar month and with at least 10 business days' prior written notice, unless otherwise consented to by the general partner in its sole discretion.
- (E) The fund provides a conservative and prudent approach to investing in high yield that seeks to maximize risk-adjusted performance over a full market cycle. The strategy is based upon rigorous, proprietary credit analysis that seeks to invest in the bonds of companies with strong and/or improving financial characteristics, while avoiding those most likely to default. The primary objective is to preserve capital during all market environments by mitigating credit risk in the portfolio. Performance is generated through the compounding of interest income and capital appreciation.

Note 18: Non-monetary Exchange

In December 2017, the Art Museum created a wholly-owned, tax exempt subsidiary, MCP, for the transaction related to the transfer of ownership of the adjacent parking garage, pavilion, and park from the County to the Art Museum. An appraised value of \$13.4 million was established for the acquired property. This property was recorded as an asset and a corresponding non-monetary exchange in MCP in the accompanying consolidating financial statements.

In conjunction with the acquisition, the County also transferred ownership of portions of two additional buildings which were previously leased from Milwaukee County to the Art Museum. An appraised value of \$20.8 million was established for the acquired property. The net book value of leasehold improvements related to these properties exceeded the appraised value, therefore a write-down of the property was recorded for \$2,159,967. In connection with the transfer, the Art Museum has assumed full responsibility for capital maintenance and repair for its portion of the two properties and terminated the lease with the County. As part of this exchange, the County will continue to own all the land beneath the structures. Costs for future capital maintenance will be recognized by the Art Museum as incurred.

Supplementary Information

Milwaukee Art Museum, Inc.

Schedule of Endowment Funds

August 31, 2018 and 2017

	2018	2017
Donor-restricted endowments:		
Abert Family Curator of American Art Fund	\$ 4,148,833	\$ 3,972,297
Albert Tooman Acquisition Fund	705,757	653,550
Boyd Fund	114,043	110,838
Bradley Conservation/Maintenance Fund	1,421,795	1,381,716
Bradley Foundation Fund	4,967,655	4,827,333
Catherine Jean Quirk Fund	100,163	97,348
CAS/Dimoff Fund	279,080	258,436
Constance P. Godfrey Acquisition Fund	1,678,922	1,554,727
Croasdaile Acquisition Fund	1,618,410	1,506,039
Doerfler Fund	129,604	120,017
Dunham Fund for Education	484,394	468,130
Endowment for Conservation	42,175	40,990
Endowment for Education	641,900	622,780
Eric C. Stern Fund	107,695	99,729
Esther S. Weber Memorial Education Fund	46,485	45,179
Expansion Operating Endowment	959,427	932,176
Florence Eiseman Foundation Fund	49,740	48,342
Frederick Layton Lecture Series Fund	242,801	235,977
Friends of Art Exhibition Fund	1,852,770	1,795,048
General Operating Endowment	7,717,064	7,499,532
Grootemaat Fund	57,875	56,248
Hambling Endowment	959,726	932,695
Hay Gift Annuity	2,395	2,399
Herzfeld Curator of Photography Fund	547,243	1,082,662
James H. Brachman Fund	79,368	77,138
Jill and Jack Pelisek Fund	81,756	113,999
Joan Marcus Memorial Fund	72,977	70,926
John Porter Retzer and Florence Horn Retzer Competition Fund	306,883	298,258
Katherine Smith Gift Annuity	10,882	10,899
LaBahn Fund	1,608,803	1,563,586
Laskin Fund	1,447,938	1,340,829
Lee, Barbara Brown, Director of Education Endowment	495,310	455,134
Miller Lewensohn Gift Annuity	8,853	8,867
NEA Challenge Endowment-Match	1,582,881	1,538,393
Orth Fund	174,062	169,169
Patti Baker Education Endowment Fund	1,413,719	1,373,986
Pellegrin Family Endowment for Education	354,108	344,155
Pieper Challenge Grant Matching Fund	3,198,295	3,036,930
Rene von Schleinitz Memorial Fund	141,909	140,154
Richard and Ethel Herzfeld Photography Exhibition Fund	2,150,199	531,862
Schuchardt Fund	25,159	34,118
Suzanne and Richard Pieper Family Fund	1,580,752	1,499,455
Vilski Gift Annuity	9,251	9,265
Virginia Booth Vogel Acquisition Fund	1,098,930	1,093,692
Total donor-restricted endowments	44,717,987	42,055,003

Milwaukee Art Museum, Inc.

Schedule of Endowment Funds (Continued)

August 31, 2018 and 2017

	2018	2017
Board-designated endowments:		
Ruth K. Abrams Fund	\$ 68,508	\$ 66,582
Board Designated Fund	1,312,018	1,269,503
Karen Johnson Boyd Fund	206,924	200,975
Gift Annuity Reserve	99,684	99,850
Total board-designated endowments	1,687,134	1,636,910
Total endowment funds	\$ 46,405,121	\$ 43,691,913

Endowment assets (liabilities) consisted of the following:

<i>As of August 31,</i>	2018	2017
Investments	\$ 46,404,581	\$ 43,635,974
Other	540	55,939
Total endowment funds	\$ 46,405,121	\$ 43,691,913

See independent auditor's report on supplementary information.