



MILWAUKEE ART MUSEUM, INC.

Financial Statements and Schedule

August 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

MILWAUKEE ART MUSEUM, INC.

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KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Trustees
Milwaukee Art Museum, Inc.:

We have audited the accompanying statement of financial position of Milwaukee Art Museum, Inc. (the Art Museum) as of August 31, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Art Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Art Museum's 2003 financial statements and, in our report dated October 17, 2003, we expressed an unqualified opinion on these financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Milwaukee Art Museum, Inc. as of August 31, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 whole.

KPMG LLP

November 12, 2004

MILWAUKEE ART MUSEUM, INC.

Statement of Financial Position

August 31, 2004 with comparative amounts for 2003

Assets	2004	2003
Assets:		
Cash and cash equivalents	\$ 2,326,705	2,531,944
Accrued investment income receivable	82,386	79,994
Investments, at fair value (note 4)	21,668,402	18,940,695
Prepaid expenses and other assets	795,430	558,613
Inventories	537,048	481,729
Accounts receivable, net of allowance of \$2,000 in 2004 and 2003	377,497	435,645
Contributions receivable, net (note 5)	6,038,747	8,510,458
Beneficial interest in assets held in trust (note 6)	1,691,050	2,194,015
Property and equipment, net (note 7)	103,839,854	106,950,155
Total assets	<u>\$ 137,357,119</u>	<u>140,683,248</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 849,511	794,395
Deferred revenue	200,863	334,201
Notes payable (note 8)	31,834,376	33,102,847
Total liabilities	<u>32,884,750</u>	<u>34,231,443</u>
Net assets (notes 3 and 10):		
Unrestricted	4,929,819	4,517,004
Temporarily restricted	83,719,386	86,153,827
Permanently restricted	15,823,164	15,780,974
Total net assets	<u>104,472,369</u>	<u>106,451,805</u>
Total liabilities and net assets	<u>\$ 137,357,119</u>	<u>140,683,248</u>

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Statement of Activities

Year ended August 31, 2004 with
summarized comparative financial information
for the year ended August 31, 2003

	Operating funds	Other funds
Operating support and revenues:		
Contributions and membership	\$ 3,655,872	—
Grants and sponsorships	152,046	—
Milwaukee County War Memorial Center, Inc. (note 2(k))	834,971	—
Interest and dividends (note 4)	18,891	3,217
Admission, tour fees, and parking	1,578,229	—
Education program	92,170	—
Exhibition income	257,228	—
Sales of wholesale and retail operations	1,807,060	—
Museum café income	531,854	—
Facility rental income	618,238	—
Fundraising events and auxiliary activities	49,905	—
Other	96,915	—
Investment return appropriated for operations (note 4)	900,000	—
Net assets released from restrictions (note 10)	1,337,736	943,338
Total operating support and revenues and net assets released from restrictions	11,931,115	946,555
Operating expenses:		
Program services:		
Education	920,632	10,979
Audience, communication, and member development	1,958,120	—
Presentation and curatorial	2,321,497	9,693
Cost of sales and expenses of wholesale and retail operations	1,522,857	—
Cost of sales and expenses of museum café	576,904	—
Total program services	7,300,010	20,672
Managerial and general:		
General and administrative	1,296,998	122,962
Financial development and volunteer services	765,559	714,761
Building services	2,681,548	—
Total supporting services	4,744,105	837,723
Total operating expenses	12,044,115	858,395
Change in net assets from operating activities (note 2(a))	(113,000)	88,160
Nonoperating revenue, support, gains and losses:		
Proceeds from sale of art	—	35,855
Contributions for art purchases	—	—
Net assets released to fund acquisitions of art	—	755,365
Acquisitions of art	(25,000)	(905,415)
Investment return reduced by net appreciation appropriated for operations (note 4)	—	350,866
Change in beneficial interest of assets held in trust	—	7,045
Contributions restricted for capital expenditures	—	—
Permanently restricted contributions	—	—
Net assets released for depreciation and interest	—	4,201,619
Depreciation and amortization (note 2(i))	—	(3,356,454)
Interest expense	(2,785)	(1,040,440)
Total nonoperating revenue, support, gains, and losses	(27,785)	48,441
Net assets redirected (note 10)	488,848	(71,849)
Change in net assets	348,063	64,752
Net assets, beginning of year	93,680	4,423,324
Net assets, end of year	\$ 441,743	4,488,076

See accompanying notes to financial statements.

Unrestricted total	Temporarily restricted	Permanently restricted	2004 Total	2003 Total
3,655,872	503,177	—	4,159,049	3,932,772
152,046	817,758	—	969,804	1,238,043
834,971	30,811	—	865,782	992,276
22,108	6,154	—	28,262	51,604
1,578,229	—	—	1,578,229	2,531,659
92,170	—	—	92,170	129,178
257,228	—	—	257,228	1,181,723
1,807,060	—	—	1,807,060	2,177,885
531,854	—	—	531,854	—
618,238	—	—	618,238	351,619
49,905	1,001,055	—	1,050,960	1,901,949
96,915	455	—	97,370	87,992
900,000	—	—	900,000	900,000
2,281,074	(2,281,074)	—	—	—
12,877,670	78,336	—	12,956,006	15,476,700
931,611	—	—	931,611	1,026,461
1,958,120	—	—	1,958,120	2,220,718
2,331,190	—	—	2,331,190	4,057,293
1,522,857	—	—	1,522,857	1,641,861
576,904	—	—	576,904	—
7,320,682	—	—	7,320,682	8,946,333
1,419,960	—	—	1,419,960	1,813,962
1,480,320	—	—	1,480,320	1,884,248
2,681,548	—	—	2,681,548	2,652,298
5,581,828	—	—	5,581,828	6,350,508
12,902,510	—	—	12,902,510	15,296,841
(24,840)	78,336	—	53,496	179,859
35,855	—	—	35,855	261,446
—	1,044,000	—	1,044,000	259,324
755,365	(755,365)	—	—	—
(930,415)	—	—	(930,415)	(1,068,011)
350,866	815,365	—	1,166,231	390,931
7,045	(407,805)	(102,205)	(502,965)	557,926
—	1,501,782	—	1,501,782	948,085
—	—	52,259	52,259	1,037
4,201,619	(4,201,619)	—	—	—
(3,356,454)	—	—	(3,356,454)	(3,394,939)
(1,043,225)	—	—	(1,043,225)	(1,471,684)
20,656	(2,003,642)	(49,946)	(2,032,932)	(3,515,885)
416,999	(509,135)	92,136	—	—
412,815	(2,434,441)	42,190	(1,979,436)	(3,336,026)
4,517,004	86,153,827	15,780,974	106,451,805	109,787,831
4,929,819	83,719,386	15,823,164	104,472,369	106,451,805

MILWAUKEE ART MUSEUM, INC.

Statement of Cash Flows

Year ended August 31, 2004 with comparative amounts for 2003

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ (1,979,436)	(3,336,026)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,356,454	3,394,939
Restricted contributions, net of discount	(1,723,725)	(1,273,223)
Acquisitions and sales of art, net	894,560	806,565
Net realized (gains) losses on sale of investments	(839,028)	338,325
Net change in unrealized gains on investments	(844,057)	(1,214,271)
Beneficial interest in assets held in trust	502,965	(557,926)
Changes in assets and liabilities:		
Accrued investment income receivable	(2,392)	8,721
Prepaid expenses and other assets	(236,817)	637,523
Inventories	(55,319)	(238,150)
Accounts receivable	58,148	187,999
Contributions receivable, net	98,941	9,663
Accounts payable and accrued expenses	55,116	(594,767)
Deferred revenue	(133,338)	(318,300)
Net cash used in operating activities	(847,928)	(2,148,928)
Cash flows from investing activities:		
Proceeds from sale of art	35,855	261,446
Acquisitions of art	(930,415)	(1,068,011)
Purchases of investments	(18,818,751)	(13,669,472)
Proceeds from sale of investments	17,774,129	14,400,698
Capital expenditures, including facility expansion expenditures	(246,153)	(1,196,086)
Net cash used in investing activities	(2,185,335)	(1,271,425)
Cash flows from financing activities:		
Net borrowings (payments) on revolving credit note	(1,268,471)	(12,164,763)
Restricted contributions and pledge payments received	4,096,495	15,796,471
Net cash provided by financing activities	2,828,024	3,631,708
Net increase (decrease) in cash and cash equivalents	(205,239)	211,355
Cash and cash equivalents at beginning of year	2,531,944	2,320,589
Cash and cash equivalents at end of year	\$ 2,326,705	2,531,944
Supplemental data:		
Cash paid for interest	\$ 1,030,067	1,610,362

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

(1) Organization

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

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. The Art Museum maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

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

Unrestricted Net Assets include all resources that are not subject to donor-imposed restrictions. The statement of activities categorizes unrestricted net assets between the operating fund and all other funds that unrestricted net assets are recorded in. 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. Other funds classified as unrestricted net assets include deaccessioning funds, certain endowment earnings, and equipment not related to the expansion project.

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

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

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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

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

(b) *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Art Museum's financial statements for the year ended August 31, 2003, from which the summarized information was derived.

(c) *Art Collections*

The Art Museum's collection comprises more than 20,000 works of art that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collection.

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

(d) *Cash Equivalents*

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

(e) *Prepaid Expenses*

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

(f) *Inventories*

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

(g) *Investments*

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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investments received as gifts are stated at the fair value at the date of donation. Investment management and custodian fees are recorded as a reduction of investment income for financial reporting purposes.

Investment income and realized and unrealized gains or losses are reported as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; or as increases in unrestricted net assets in all other cases.

(h) Contributions Receivable

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

(i) Property and Equipment

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

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

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

(j) Contributions

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

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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

(k) 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. (War Memorial). Under that agreement, the Art Museum is allowed to permanently and perpetually occupy, without cost, those premises as a memorial decorative arts gallery. The War Memorial also donates building services, including building maintenance and repairs, utilities, and insurance. The War Memorial determines the fair value of the donated facility and building services annually. The fair value of the facility and building services amounted to \$865,782 and \$992,276 for the years ended August 31, 2004 and 2003, of which \$447,333 and \$412,000 was provided in kind and \$418,449 and \$580,276 was contributed directly by the Milwaukee County War Memorial Center, Inc. The Art Museum has recorded the in-kind value as support and reflected a corresponding expense entitled "contributed building services."

(l) Purchase 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 revenue and expenses.

(m) Income Taxes

The Art Museum has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code, and is exempt from Federal and state income taxes except for taxes pertaining to unrelated business income. The Art Museum's unrelated business income was less than the expenses related to this income in both 2004 and 2003 and therefore no provision has been made for income taxes in the accompanying financial statements.

(n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(o) Reclassifications

Certain amounts as previously reported in the 2003 financial statements have been reclassified to conform to the 2004 presentation. Such reclassifications have no effect on the change in net assets.

(3) Deficits in Operating Cash Flows

In the event that the Art Museum has a deficit in operating cash flows in 2005, the deficit would be funded from existing unrestricted and temporarily restricted cash and investments as well as the existing availability on its revolving credit note (note 8). The Art Museum expects to meet its mandatory reductions in the revolving credit note from contributions receivable due in 2005 (note 5).

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

The Art Museum's board of trustees and management have implemented a plan to address the continuing cash flow deficit by reducing operating expenses relative to operating revenue, increasing annual and capital campaign donations, and aggressively collecting existing contributions receivable. The Art Museum's board of trustees and management believe that their plan to generate cash flows sufficient to meet all of the Art Museum's obligations as they come due is achievable. If cash flows are not sufficient to meet obligations as they come due, particularly those related to the revolving bank line of credit, the Art Museum could be deemed to be in default of the revolving credit agreement, the consequences of which are not presently determinable.

(4) Investments

Investments comprise the following at August 31, 2004 and 2003:

	2004		2003	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 2,066,656	2,066,656	562,731	562,731
Certificates of deposit	216,560	216,560	215,030	215,030
U.S. Government obligations	1,255,290	1,253,706	1,974,215	1,935,020
U.S. Government agency obligations	2,571,106	2,605,438	2,333,441	2,343,040
Corporate debt securities	3,079,758	3,151,766	2,434,356	2,546,748
Common and preferred stocks	10,589,871	12,374,276	10,375,818	11,338,126
Total	\$ 19,779,241	21,668,402	17,895,591	18,940,695

The Art Museum's return on investments as reported in the statements of activities for the years ended August 31, 2004 and 2003 is summarized as follows:

	2004	2003
Interest and dividend income, net of trustee fees:		
Operating activities	\$ 28,262	51,604
Nonoperating activities	383,146	414,985
Net realized gains (losses)	839,028	(338,325)
Unrealized gains	844,057	1,214,271
Total investment return	2,094,493	1,342,535
Less amount recognized in operating revenues	(928,262)	(951,604)
Nonoperating investment returns	\$ 1,166,231	390,931

Investment trustee and management fees of \$111,232 and \$107,522 were paid by the Art Museum for the years ended August 31, 2004 and 2003, respectively.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

(5) Contributions Receivable

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

	2004	2003
Total contributions receivable	\$ 6,400,588	9,041,983
Less allowance for doubtful contributions receivable	(40,000)	(51,000)
Net contributions receivable	6,360,588	8,990,983
Less adjustment to record future cash flows for contributions receivable at present value	(321,841)	(480,525)
Present value of net contributions receivable	\$ 6,038,747	8,510,458

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

Payments on pledges receivable at August 31, 2004 are expected to be received as follows:

Years ending August 31:	
2005	\$ 2,740,332
2006	1,543,756
2007	1,822,500
2008	265,000
2009 and thereafter	29,000
Total contributions receivable	\$ 6,400,588

(6) Beneficial Interest in Assets Held in Trust

The Art Museum is the income beneficiary of certain funds maintained by Greater Milwaukee Foundation, a community support foundation. The Milwaukee Art Museum Endowment Fund (Endowment Fund) is a component fund of Greater Milwaukee Foundation. The assets of the Endowment Fund were donated by third-party donors to the Art Museum and then transferred by the Art Museum to 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 generally accepted accounting principles the fair value of the Endowment Fund of \$237,862 and \$230,817 as of August 31, 2004 and 2003, respectively, is recorded by the Art Museum as a beneficial interest in assets held in trust in the accompanying statement of financial position. The Art Museum received income distributions of \$18,550 and \$12,190 from this fund during 2004 and 2003, respectively.

The Art Museum is also the income beneficiary of six (five in 2003) other designated funds of Greater Milwaukee Foundation. As these funds have been established at Greater Milwaukee Foundation by third-party donors (not established by the Art Museum), and due to Greater Milwaukee Foundation's explicit variance power over these funds, the Art Museum has not recorded any beneficial interest in these

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

assets nor does the Art Museum record any potential future distributions from the assets. The designated funds had a fair value of \$2,068,904 and \$1,987,074 at August 31, 2004 and 2003, respectively. The Art Museum received income distributions of \$112,350 and \$115,850 during 2004 and 2003, respectively, from these designated funds.

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts, the principal of which will be turned over to the Art Museum at some future date. The estimated future values of these charitable remainder trusts as of August 31, 2004 is approximately \$3,616,543. The charitable remainder trusts are recorded at their present value of \$1,453,188 and \$1,963,198 at August 31, 2004 and 2003, respectively.

(7) Property and Equipment

Property and equipment comprise the following at August 31, 2004 and 2003:

	2004	2003
Building	\$ 95,352,427	95,216,342
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,097,894	5,061,977
Leasehold improvements	5,061,977	3,987,826
	116,003,196	115,757,043
Less accumulated depreciation	12,163,342	8,806,888
Net property and equipment	\$ 103,839,854	106,950,155

(8) Notes Payable

Notes payable consist of the following at August 31, 2004 and 2003:

	2004	2003
Revolving credit note	\$ 2,459,376	3,727,847
Note payable	375,000	375,000
Tax-exempt bonds	29,000,000	29,000,000
Total notes payable	\$ 31,834,376	33,102,847

The bank revolving credit note had an available credit balance of \$6,000,000 and \$7,000,000, as of August 31, 2004 and 2003, respectively, with outstanding balances as of August 31, 2004 and 2003 of \$2,459,376 and \$3,727,847, respectively. The revolving credit note bears interest at LIBOR plus 250 basis points (4.003% at August 31, 2004) and is collateralized by certain contributions receivable and investments. The debt agreement contains covenants that restrict the Art Museum with regard to additional debt, disposition of assets, and use of endowment funds, and requires the maintenance of certain financial and reporting covenants. The Art Museum was in compliance with all financial covenants as of August 31, 2004 and 2003.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

The bank revolving credit note expires on April 1, 2008 and requires periodic permanent reductions of the maximum credit available. The amount of the credit available shall equal the following maximum amounts during the following applicable time periods:

	<u>Credit Available</u>
Through March 2005	\$ 6,000,000
April 2005 through March 2006	5,000,000
April 2006 through March 2007	4,500,000
April 2007 through March 2008	4,000,000

At August 31, 2004 there was \$4,852,212 in gross contributions receivable related to the expansion project. The revolving credit note requires these contributions receivable payments received by the Art Museum to be paid directly to the bank to service the related debt.

The note payable of \$375,000 is due September 30, 2007, and bears interest at prime rate plus 50 basis points (5.00% at August 31, 2004).

The tax-exempt bonds are revenue bonds issued by the Redevelopment Authority of the City of Milwaukee and have a final maturity date of April 2023. A group consisting of seven commercial banks and one insurance company purchased the bonds at the time of financing and has the absolute right to tender the bonds for payment in full in April 2008. The bonds bear interest at the tax-equivalent yield of five year LIBOR plus 250 basis points (3.55% at August 31, 2004). The bonds require monthly interest payments only until the revolving credit note is paid in full, at which time the bonds require the remaining expansion project contributions receivable payments received by the Art Museum to be paid directly to the bank to service the related debt.

(9) Employee Benefit Plans

The Art Museum maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all Art Museum employees after 90 days of employment. The Art Museum contributes 5% of gross salaries for qualified employees who have completed a minimum of 2 years of continuous employment of 1,000 hours or more per year. Additionally, the Art Museum will match employee contributions in excess of 5% of their gross salary up to 7% of their gross salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Art Museum's contributions to the plan amounted to \$116,914 and \$112,112 for the years ended August 31, 2004 and 2003, respectively.

The Art Museum also contributes to a pension plan for eligible security staff as specified by an agreement between the Art Museum and District #10 International Association of Machinists and Aerospace Workers, the labor union representing the security staff. Contributions to this plan on behalf of eligible union employees amounted to \$27,047 and \$21,840 for the years ended August 31, 2004 and 2003, respectively.

(10) Net Assets

Unrestricted net assets are those that are not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses by the board of trustees (quasi-

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2004 with comparative amounts for 2003

endowment) or by various internal operating and administrative arrangements of the Art Museum. The board of trustees can release this quasi-endowment at its discretion. The deaccessioning fund consists of amounts resulting from the sale of art from the collection, which are to be spent on acquisitions of artwork. A summary of unrestricted net assets is as follows at August 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Unrestricted:		
Designated by board:		
Quasi-endowment	\$ 2,670,928	2,408,409
Deaccessioning fund	654,200	766,167
Unemployment compensation reserve	44,195	51,918
Total board designated	<u>3,369,323</u>	<u>3,226,494</u>
Nondesignated:		
Property and equipment, net	748,843	850,462
Other nondesignated	811,653	440,048
	<u>\$ 4,929,819</u>	<u>4,517,004</u>

Donor restrictions of temporarily restricted net assets at August 31, 2004 and 2003 are summarized as follows:

	<u>2004</u>	<u>2003</u>
Facility expansion project	\$ 77,594,926	81,110,226
Acquisition of art	3,220,305	2,050,436
Exhibitions	1,496,986	1,140,641
Education	440,117	541,275
Collection – care and maintenance	482,991	494,596
Time restricted	245,010	389,662
Auxiliary activities	164,129	337,869
Program services	74,922	89,122
Total temporarily restricted net assets	<u>\$ 83,719,386</u>	<u>86,153,827</u>

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August 31, 2004 with comparative amounts for 2003

Reclassifications from temporarily restricted net assets to unrestricted net assets occur when the Art Museum fulfills the purpose for which the net assets were restricted by the donor, the donor imposed restrictions expire with the passage of time or a restriction is withdrawn. During 2004 and 2003, net assets released from restriction as reported on the statement of activities were \$7,238,058 and \$7,557,726, respectively, and were for the following program and supporting services:

	<u>2004</u>	<u>2003</u>
Education	\$ 471,987	189,696
Audience, communication and member development	150,697	92,591
Presentation and curatorial	550,492	456,565
General and administrative	115,239	601,275
Development and volunteer service	955,825	1,278,825
Building services	36,834	59,427
Net assets released from restrictions for operations	<u>2,281,074</u>	<u>2,678,379</u>
Accession of art for collection	755,365	782,592
Depreciation of facility expansion project	3,161,179	3,159,415
Interest expense on debt related to facility expansion project	<u>1,040,440</u>	<u>937,340</u>
Total net assets released from restrictions	<u>\$ 7,238,058</u>	<u>7,557,726</u>

Net assets redirected between unrestricted, temporarily restricted, and permanently restricted net asset categories occur when donors change the restrictions of their contributions.

MILWAUKEE ART MUSEUM, INC.

Schedule of Endowment Funds

August 31, 2004

	<u>Permanently restricted</u>	<u>Temporarily restricted (1)</u>	<u>Unrestricted (1)</u>	<u>Total</u>
General Operating Endowment	\$ 3,511,200	—	906,104	4,417,304
Bradley Foundation Fund	3,337,698	—	335,560	3,673,258
Suzanne and Richard Pieper Family Fund	1,022,713	(110,774)	22,713	934,652
Virginia Booth Vogel Acquisition Fund	1,000,000	212,646	—	1,212,646
NEA Challenge Endowment	1,000,000	—	597,634	1,597,634
LaBahn Fund	1,000,000	145,920	—	1,145,920
Patti Baker Education Endowment Fund	1,000,000	43,175	—	1,043,175
Bradley Conservation/Maintenance Fund	942,420	423,161	—	1,365,581
Expansion Operating Endowment	799,420	—	18,906	818,326
Constance P. Godfrey Acquisition Fund	433,300	415,038	—	848,338
Endowment for Education	429,108	47,841	—	476,949
Richard & Ethel Herzfeld Photography Exhibition Fund	264,747	145,107	—	409,854
Pellegrin Family Endowment for Education	250,000	14,345	—	264,345
John Porter Retzer and Florence Horn Retzer Competition Fund	155,000	74,900	—	229,900
Rene von Schleinitz Memorial Fund	125,000	32,067	—	157,067
Frederick Layton Lecture Series Fund	100,000	82,451	—	182,451
Erich C. Stern Fund	58,250	15,882	—	74,132
Joan Marcus Memorial Fund	51,334	—	—	51,334
Doerfler Fund	50,000	122,196	—	172,196
James H. Brachman Fund	50,000	10,646	—	60,646
Catherine Jean Quirk Fund	50,000	24,802	—	74,802
Boyd Fund	50,000	35,704	—	85,704
Jill and Jack Pelisek Fund	34,799	15,792	—	50,591
Endowment for Conservation	28,175	3,153	—	31,328
Florence Eiseman Foundation Fund	25,000	12,233	—	37,233
Schuchardt Fund	20,000	4,151	—	24,151
Grootemaat Fund	20,000	23,281	—	43,281
Esther S. Weber Memorial Education Fund	15,000	20,163	—	35,163
Total	<u>\$ 15,823,164</u>	<u>1,813,880</u>	<u>1,880,917</u>	<u>19,517,961</u>

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

See accompanying independent auditors' report.