



MILWAUKEE ART MUSEUM, INC.

Financial Statements and Schedule

August 31, 2005 and 2004

(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, 2005, 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 2004 financial statements, and in our report dated November 12, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Art Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audit provides 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, 2005, 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 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

KPMG LLP

December 2, 2005

MILWAUKEE ART MUSEUM, INC.

Statements of Financial Position

August 31, 2005 with comparative amounts for 2004

Assets	2005	2004
Assets:		
Cash and cash equivalents	\$ 3,103,577	2,326,705
Accrued investment income receivable	84,026	82,386
Investments, at fair value (note 3)	23,851,236	21,668,402
Prepaid expenses and other assets	622,197	795,430
Inventories	675,186	537,048
Accounts receivable, net of allowance of \$2,000 in 2005 and 2004	312,828	377,497
Contributions receivable, net (note 4)	12,759,298	6,038,747
Beneficial interest in assets held in trust (note 5)	737,109	1,691,050
Property and equipment, net (note 6)	100,588,568	103,839,854
Total assets	<u>\$ 142,734,025</u>	<u>137,357,119</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,350,210	849,511
Deferred revenue	200,900	200,863
Notes payable (note 7)	21,499,192	31,834,376
Total liabilities	<u>23,050,302</u>	<u>32,884,750</u>
Net assets (note 9):		
Unrestricted	5,473,529	4,929,819
Temporarily restricted	98,457,294	83,719,386
Permanently restricted	15,752,900	15,823,164
Total net assets	<u>119,683,723</u>	<u>104,472,369</u>
Total liabilities and net assets	<u>\$ 142,734,025</u>	<u>137,357,119</u>

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Statements of Activities

Year ended August 31, 2005 with
summarized comparative financial information
for the year ended August 31, 2004

	Operating funds	Other funds	Unrestricted total
Operating support and revenues:			
Contributions and membership	\$ 3,749,333	—	3,749,333
Grants and sponsorships	155,296	—	155,296
Milwaukee County War Memorial Center, Inc. (note 2(m))	742,256	—	742,256
Interest and dividends (note 3)	11,551	3,297	14,848
Admission, tour fees, and parking	1,689,216	—	1,689,216
Education income	191,343	—	191,343
Exhibition income	236,881	—	236,881
Sales of wholesale and retail operations	1,855,889	—	1,855,889
Museum café income	739,377	—	739,377
Facility rental income	580,381	—	580,381
Fundraising events and auxiliary activities	58,735	—	58,735
Other	123,798	—	123,798
Investment return appropriated for operations (note 3)	996,979	210,000	1,206,979
Net assets released from restrictions (note 9)	1,653,743	1,255,893	2,909,636
	12,784,778	1,469,190	14,253,968
Operating expenses:			
Program services:			
Education	866,598	14,728	881,326
Audience, communication, and member development	2,044,190	—	2,044,190
Presentation and curatorial	2,853,471	95,662	2,949,133
Cost of sales and expenses of wholesale and retail operations	1,599,291	—	1,599,291
Cost of sales and expenses of museum café	646,833	—	646,833
Total program services	8,010,383	110,390	8,120,773
Managerial and general:			
General and administrative	1,420,716	163,386	1,584,102
Financial development and volunteer service	810,184	1,072,759	1,882,943
Building services	2,494,478	—	2,494,478
Total supporting services	4,725,378	1,236,145	5,961,523
Total operating expenses	12,735,761	1,346,535	14,082,296
Change in net assets from operating activities (note 2(a))	49,017	122,655	171,672
Nonoperating revenue, support, gains and losses:			
Proceeds from sale of art	—	—	—
Contributions for art purchases	—	—	—
Net assets released to fund acquisitions of art	—	466,059	466,059
Acquisitions of art	—	(522,849)	(522,849)
Investment return reduced by net appreciation appropriated for operations (note 3)	—	621,826	621,826
Change in beneficial interest of assets held in trust	—	18,767	18,767
Contributions restricted for capital expenditures	—	—	—
Permanently restricted contributions	—	—	—
Change in present value of contributions receivable	—	—	—
Net assets released for depreciation and interest	—	4,470,146	4,470,146
Depreciation and amortization (note 2(j))	—	(3,313,665)	(3,313,665)
Interest expense	(47,736)	(1,320,510)	(1,368,246)
Total nonoperating revenue, support, gains, and losses	(47,736)	419,774	372,038
Change in net assets	1,281	542,429	543,710
Net assets, beginning of year	441,743	4,488,076	4,929,819
Net assets, end of year	\$ 443,024	5,030,505	5,473,529

See accompanying notes to financial statements.

Temporarily restricted	Permanently restricted	2005 Total	2004 Total
283,512	—	4,032,845	3,947,020
1,594,916	—	1,750,212	969,804
24,561	—	766,817	865,782
10,921	—	25,769	28,262
—	—	1,689,216	1,525,774
—	—	191,343	144,625
—	—	236,881	257,228
—	—	1,855,889	1,807,060
—	—	739,377	531,854
—	—	580,381	618,238
1,597,545	—	1,656,280	1,050,960
(2,758)	—	121,040	97,370
43,673	—	1,250,652	900,000
(3,025,199)	115,563	—	—
527,171	115,563	14,896,702	12,743,977
—	—	881,326	931,611
—	—	2,044,190	1,958,120
—	—	2,949,133	2,331,190
—	—	1,599,291	1,522,857
—	—	646,833	576,904
—	—	8,120,773	7,320,682
—	—	1,584,102	1,419,960
—	—	1,882,943	1,480,320
—	—	2,494,478	2,681,548
—	—	5,961,523	5,581,828
—	—	14,082,296	12,902,510
527,171	115,563	814,406	(158,533)
—	—	—	35,855
53,642	—	53,642	1,256,029
(466,059)	—	—	—
—	—	(522,849)	(930,415)
1,078,668	—	1,700,494	1,166,231
(808,726)	(153,982)	(943,941)	(502,965)
18,888,231	—	18,888,231	1,343,098
—	1,588	1,588	52,259
(64,873)	(33,433)	(98,306)	158,684
(4,470,146)	—	—	—
—	—	(3,313,665)	(3,356,454)
—	—	(1,368,246)	(1,043,225)
14,210,737	(185,827)	14,396,948	(1,820,903)
14,737,908	(70,264)	15,211,354	(1,979,436)
83,719,386	15,823,164	104,472,369	106,451,805
98,457,294	15,752,900	119,683,723	104,472,369

MILWAUKEE ART MUSEUM, INC.

Statements of Cash Flows

Year ended August 31, 2005 with comparative amounts for 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 15,211,354	(1,979,436)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,313,665	3,356,454
Contributions designated for long-term investment, capital expenditures and art purchases	(18,790,655)	(2,979,754)
Acquisitions and sales of art, net	522,849	894,560
Net realized gains on sale of investments	(743,296)	(839,028)
Net change in unrealized gains on investments	(1,741,723)	(844,057)
Beneficial interest in assets held in trust	943,941	502,965
Changes in assets and liabilities:		
Accrued investment income receivable	(1,640)	(2,392)
Prepaid expenses and other assets	173,233	(236,817)
Inventories	(138,138)	(55,319)
Accounts receivable	64,669	58,148
Contributions receivable, net	43,716	98,941
Accounts payable and accrued expenses	500,699	55,116
Deferred revenue	37	(133,338)
Net cash used in operating activities	(641,289)	(2,103,957)
Cash flows from investing activities:		
Proceeds from sale of art	—	35,855
Acquisitions of art	(522,849)	(930,415)
Purchases of investments	(18,232,139)	(18,818,751)
Proceeds from sale of investments	18,534,324	17,774,129
Capital expenditures	(62,379)	(246,153)
Net cash used in investing activities	(283,043)	(2,185,335)
Cash flows from financing activities:		
Net borrowings (payments) on revolving credit note	(2,360,184)	(1,268,471)
Redemption of tax exempt bonds	(7,975,000)	—
Contributions designated for long-term investment received	12,036,388	5,352,524
Net cash provided by financing activities	1,701,204	4,084,053
Net increase (decrease) in cash and cash equivalents	776,872	(205,239)
Cash and cash equivalents at beginning of year	2,326,705	2,531,944
Cash and cash equivalents at end of year	\$ 3,103,577	2,326,705
Supplemental data:		
Cash paid for interest	\$ 1,253,475	1,030,067

See accompanying notes to financial statements.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

(1) Organization

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

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with 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 in which unrestricted net assets are recorded. The operating fund is the fund used by the Art Museum to record the carrying on of the day-to-day activities performed in accomplishing the appreciation, understanding, and education of the visual arts. Other funds classified as unrestricted net assets include deaccessioning funds, board-designated reserves, certain endowment earnings, and equipment not related to the expansion project.

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

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

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, 2005 with comparative amounts for 2004

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, 2004, from which the summarized information was derived.

(c) *Art Collections*

The Art Museum's collection comprises more than 24,000 works of art that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collection.

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

(d) *Cash Equivalents*

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

(e) *Prepaid Expenses*

Prepaid expenses primarily include expenditures made in connection with the development of future exhibitions. These expenditures typically relate to research, organizational travel, and transport costs 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.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

(g) Investments

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

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

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

(h) Contributions Receivable

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

(i) Beneficial Interest in Charitable Trusts

The Art Museum is the remainder beneficiary of certain charitable remainder trusts in which it is not the trustee and does not exercise control over the assets contributed to the trusts. These agreements are recognized for financial reporting purposes if the Art Museum receives documentation of the terms of its beneficial interest and the designation of the Art Museum as beneficiary is irrevocable. The existence of agreements known to the Art Museum that do not meet both conditions are not recorded in the financial statements. The beneficial interest and related change in valuation for these agreements are classified as temporarily restricted.

(j) Property and Equipment

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

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

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

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

amount equal to the depreciation expense is reclassified from temporarily restricted net assets to unrestricted net assets.

(k) Contributions

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

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

(l) Admissions and Memberships

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

(m) Donated Building Services

The Art Museum occupies a portion of its current facility under the terms of an agreement between the Art Museum and the Milwaukee County War Memorial Center, Inc. (the War Memorial). Under that agreement, the Art Museum is allowed to occupy permanently and perpetually, without cost, those premises as a memorial decorative arts gallery. 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 \$766,817 and \$865,782 for the years ended August 31, 2005 and 2004, of which \$453,333 and \$447,333 was provided in kind and \$313,484 and \$418,449 was contributed directly by the War Memorial. The Art Museum has recorded the in-kind value as support and reflected a corresponding expense entitled "contributed building services."

(n) Purchases and Sales of Art

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

(o) Income Taxes

The Art Museum has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes except for taxes pertaining to unrelated business income. The Art Museum's unrelated business income was less than the expenses related to this income in both 2005 and 2004, and therefore, no provision has been made for income taxes in the accompanying financial statements.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

(p) 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.

(q) Reclassifications

Certain amounts as previously reported in the 2004 financial statements have been reclassified to conform to the 2005 presentation. Such reclassifications have no effect on the change in net assets.

(3) Investments

Investments comprise the following at August 31, 2005 and 2004:

	2005		2004	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash and cash equivalents	\$ 631,098	631,098	2,066,656	2,066,656
Certificates of deposit	—	—	216,560	216,560
U.S. Government obligations	1,530,231	1,564,810	1,255,290	1,253,706
U.S. Government agency obligations	3,429,848	3,428,718	2,571,106	2,605,438
Corporate debt securities	2,771,551	2,784,782	3,079,758	3,151,766
Common and preferred stocks	11,857,634	15,441,828	10,589,881	12,374,276
Total	<u>\$ 20,220,362</u>	<u>23,851,236</u>	<u>19,779,251</u>	<u>21,668,402</u>

The Art Museum's return on investments as reported in the statements of activities for the years ended August 31, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Interest and dividend income, net of trustee fees:		
Operating activities	\$ 25,769	28,262
Nonoperating activities	466,127	383,146
Net realized gains	743,296	839,028
Unrealized gains	1,741,723	844,057
Total investment return	2,976,915	2,094,493
Less amount recognized in operating revenues	(1,276,421)	(928,262)
Nonoperating investment returns	<u>\$ 1,700,494</u>	<u>1,166,231</u>

Investment trustee and management fees of \$122,723 and \$111,232 were paid by the Art Museum for the years ended August 31, 2005 and 2004, respectively.

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

(4) 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:

	2005	2004
Total contributions receivable	\$ 13,263,945	6,400,588
Less allowance for doubtful contributions receivable	(84,500)	(40,000)
Net contributions receivable	13,179,445	6,360,588
Less adjustment to record future cash flows for contributions receivable at present value	(420,147)	(321,841)
Present value of net contributions receivable	\$ 12,759,298	6,038,747

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, 2005 are expected to be received as follows:

Years ending August 31:	
2006	\$ 7,095,964
2007	4,246,456
2008	1,410,000
2009	202,525
2010	84,000
Thereafter	225,000
Total contributions receivable	\$ 13,263,945

(5) Beneficial Interest in Assets Held in Trust

The Art Museum is the income beneficiary of certain funds maintained by the Greater Milwaukee Foundation, a community support foundation. The Milwaukee Art Museum Endowment Fund (the Endowment Fund) is a component fund of Greater Milwaukee Foundation. The assets of the Endowment Fund were donated by third-party donors to the Art Museum and then transferred by the Art Museum to the Greater Milwaukee Foundation, with the Art Museum named as beneficiary. According to the original gift agreement, there is no provision for distribution of principal to the Art Museum; however, periodic distributions of income are made to the Art Museum. Under accounting principles generally accepted in the United States of America, the fair value of the Endowment Fund of \$256,629 and \$237,862 as of August 31, 2005 and 2004, respectively, is recorded by the Art Museum as a beneficial interest in assets held in trust in the accompanying statements of financial position. The Art Museum received income distributions of \$10,980 and \$18,550 from this fund during 2005 and 2004, respectively.

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Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

The Art Museum is also the income beneficiary of eight (six in 2004) other designated funds of the Greater Milwaukee Foundation. As these funds have been established at the Greater Milwaukee Foundation by third-party donors (not established by the Art Museum), and due to the Greater Milwaukee Foundation's explicit variance power over these funds, the Art Museum has not recorded any beneficial interest in these assets, nor does the Art Museum record any potential future distributions from the assets. The designated funds had a fair value of \$2,356,170 and \$2,068,904 at August 31, 2005 and 2004, respectively. The Art Museum received income distributions of \$105,160 and \$112,350 during 2005 and 2004, 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 value of these charitable remainder trusts as of August 31, 2005 is approximately \$896,000. The charitable remainder trusts are recorded at their present value of \$480,480 at August 31, 2005.

During fiscal year 2005, the Art Museum determined that its status as beneficiary of three charitable remainder trusts with recorded present values of \$978,447 was revocable and subsequently removed the three trusts from the financial statements. The adjustment has been recorded as a change in beneficial interests in assets held in trust in the accompanying statement of activities for fiscal year 2005, with a net impact of \$978,447. As of August 31, 2004, the recorded present value of all charitable remainder trusts was \$1,453,188.

(6) Property and Equipment

Property and equipment comprises the following at August 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Building	\$ 95,352,427	95,352,427
Land improvements	11,490,898	11,490,898
Furniture and equipment	4,160,273	4,097,894
Leasehold improvements	5,061,977	5,061,977
	<u>116,065,575</u>	<u>116,003,196</u>
Less accumulated depreciation	15,477,007	12,163,342
Net property and equipment	<u>\$ 100,588,568</u>	<u>103,839,854</u>

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

(7) Notes Payable

Notes payable consists of the following at August 31, 2005 and 2004:

	2005	2004
Revolving credit note	\$ 99,192	2,459,376
Note payable	375,000	375,000
Tax-exempt bonds	21,025,000	29,000,000
Total notes payable	\$ 21,499,192	31,834,376

The bank revolving credit note had an available credit balance of \$3,000,000 and \$6,000,000 as of August 31, 2005 and 2004, respectively, with outstanding balances as of August 31, 2005 and 2004 of \$99,192 and \$2,459,376, respectively. The revolving credit note bears interest at LIBOR plus 250 basis points (6.033% at August 31, 2005) 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, 2005 and 2004.

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:

	Credit available
Through March 2006	\$ 3,000,000
April 2006 through March 2007	2,000,000
April 2007 through March 2008	1,000,000

At August 31, 2005, there was \$11,949,285 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 the prime rate plus 50 basis points (7.0% at August 31, 2005).

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 90-day LIBOR plus 250 basis points (5.478% at August 31, 2005). The bonds require monthly interest payments only until the revolving credit note is paid in full, at which time the bonds require the remaining

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

expansion project contributions receivable payments received by the Art Museum to be paid directly to the bank to service the related debt.

(8) Employee Benefit Plans

The Art Museum maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all Art Museum employees after 90 days of employment. The Art Museum matches employee contributions of 5% 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 per year. 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 \$133,996 and \$116,914 for the years ended August 31, 2005 and 2004, 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 \$26,669 and \$27,047 for the years ended August 31, 2005 and 2004, respectively.

(9) Net Assets

Unrestricted net assets are those net assets that are not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses by the board of trustees (quasi-endowment) or by various internal operating and administrative arrangements of the Art Museum. The board of trustees can release this quasi-endowment at its discretion. The deaccessioning fund consists of amounts resulting from the sale of art from the collection, which are to be spent on acquisitions of artwork. A summary of unrestricted net assets is as follows at August 31, 2005 and 2004:

	2005	2004
Unrestricted:		
Designated by board:		
Quasi-endowment	\$ 3,148,024	2,670,928
Deaccessioning fund	531,779	654,200
Board-designated reserve	210,000	—
Unemployment compensation reserve	50,220	44,195
Total board designated	3,940,023	3,369,323
Nondesignated:		
Property and equipment, net	647,193	748,843
Other nondesignated	886,313	811,653
	\$ 5,473,529	4,929,819

MILWAUKEE ART MUSEUM, INC.

Notes to Financial Statements

August 31, 2005 with comparative amounts for 2004

Donor restrictions of temporarily restricted net assets at August 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Facility expansion project	\$ 91,014,703	77,594,926
Acquisition of art	3,471,297	3,220,305
Exhibitions	1,929,877	1,496,986
Education	582,904	440,117
Collection—care and maintenance	549,166	482,991
Auxiliary activities	405,959	164,129
Time restricted	363,083	245,010
Program services	140,305	74,922
Total temporarily restricted net assets	<u>\$ 98,457,294</u>	<u>83,719,386</u>

Reclassifications from temporarily restricted net assets to unrestricted net assets occur when the Art Museum fulfills the purpose for which the net assets were restricted by the donor, the donor-imposed restrictions expire with the passage of time, or a restriction is withdrawn. During 2005 and 2004, net assets released from restriction as reported on the statement of activities were \$7,845,841 and \$7,238,058, respectively, and were for the following program and supporting services:

	<u>2005</u>	<u>2004</u>
Education	\$ 183,033	471,987
Audience, communication, and member development	34,035	150,697
Presentation and curatorial	1,143,000	550,492
General and administrative	79,073	115,239
Development and volunteer service	1,446,373	955,825
Building services	24,122	36,834
Net assets released from restrictions for operations	2,909,636	2,281,074
Accession of art for collection	466,059	755,365
Depreciation of facility expansion project	3,149,636	3,161,179
Interest expense on debt related to facility expansion project	1,320,510	1,040,440
Total net assets released from restrictions	<u>\$ 7,845,841</u>	<u>7,238,058</u>

MILWAUKEE ART MUSEUM, INC.

Schedule of Endowment Funds

August 31, 2005

	<u>Permanently restricted</u>	<u>Temporarily restricted (1)</u>	<u>Unrestricted (1)</u>	<u>Total</u>
General Operating Endowment	\$ 3,511,200	—	1,112,608	4,623,808
Bradley Foundation Fund	3,427,815	—	493,976	3,921,791
Virginia Booth Vogel Acquisition Fund	1,000,000	253,532	—	1,253,532
NEA Challenge Endowment	1,000,000	—	699,764	1,699,764
LaBahn Fund	1,000,000	234,864	—	1,234,864
Patti Baker Education Endowment Fund	1,000,000	100,615	—	1,100,615
Suzanne and Richard Pieper Family Fund	989,340	(31,464)	22,713	980,589
Bradley Conservation/Maintenance Fund	967,865	529,143	—	1,497,008
Expansion Operating Endowment	645,438	—	28,951	674,389
Constance P. Godfrey Acquisition Fund	433,300	535,076	—	968,376
Endowment for Education	430,611	80,412	—	511,023
Richard & Ethel Herzfeld Photography Exhibition Fund	264,747	171,796	—	436,543
Pellegrin Family Endowment for Education	250,000	32,265	—	282,265
John Porter Retzer and Florence Horn Retzer Competition Fund	155,000	89,820	—	244,820
Rene von Schleinitz Memorial Fund	125,000	53,452	—	178,452
Frederick Layton Lecture Series Fund	100,000	93,894	—	193,894
Erich C. Stern Fund	58,250	22,182	—	80,432
Joan Marcus Memorial Fund	51,360	4,701	—	56,061
Doerfler Fund	50,000	136,169	—	186,169
James H. Brachman Fund	50,000	13,717	—	63,717
Catherine Jean Quirk Fund	50,000	29,825	—	79,825
Boyd Fund	50,000	41,072	—	91,072
Jill and Jack Pelisek Fund	34,799	21,781	—	56,580
Endowment for Conservation	28,175	5,374	—	33,549
Florence Eiseman Foundation Fund	25,000	14,668	—	39,668
Schuchardt Fund	20,000	6,896	—	26,896
Grootemaat Fund	20,000	26,161	—	46,161
Esther S. Weber Memorial Education Fund	15,000	22,409	—	37,409
Total	<u>\$ 15,752,900</u>	<u>2,488,360</u>	<u>2,358,012</u>	<u>20,599,272</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.