



Date: February 8, 2019

To: Chairperson Theodore Lipscomb, Sr., Milwaukee County Board of Supervisors
Chairperson James Schmitt, Committee on Finance and Audit
Chairperson Jason Haas, Committee on Parks, Energy, and Environment

CC: Janelle M. Jensen, Senior Committee Coordinator, Office of the County Clerk
Allyson R. Smith, Committee Coordinator, Office of the County Clerk

**Subject: Report from the Milwaukee Public Museum
Results for the four month period ended December 31, 2018**

The Mission of the Milwaukee Public Museum is to inspire curiosity, excite minds and increase desire to preserve and protect our world's natural and cultural diversity through exhibitions, educational programs, collections and research.

Final 2018 Financial Statements

Attached are the final audited financial statements as of and for the year ended August 31, 2018. These amounts were in line with what was expected and the audit had an unqualified opinion with no significant deficiencies or material weaknesses.

Program Summary

MPM's attendance continues to be strong. For FY 2019, we expect to have about 100,000 school children attend the museum or programs that the museum offers in the community. About 20% of them receive the programming for free.

The exhibit **Frogs! A Chorus of Colors**, which had a run from October 6, 2018 through January 6, 2019, exceeded attendance projections by about 10%. We had anticipated 40,000 in attendance and ended with 44,152. The percentage of members as a % of total attendees was higher than projected (budgeted at 45%; actual was 68%); hence revenues were below the budgeted amounts as members were able to see Frogs for free. Overall gains in membership revenue and renewals were higher than in prior year during this time. The exhibit overall had a net loss of approximately \$27,000 on a budgeted surplus of \$47,000.

Milwaukee Public Museum

The exhibit **The Power of Poison** opens on March 2, 2019 and runs through the beginning of July 2019. Poison tickets will be included in all general admission pricing which will be increased by \$3 during the run of the exhibit.

Fiscal Summary

MPM consolidated financial statements report an operating surplus of \$1.1 million for the four month period ended December 31, 2018 compared to an operating surplus of \$0.8 million from the prior year. Overall, the change in net assets for the four month period was an increase of \$0.8 million compared to an increase of \$0.5 million in the prior year.

Consolidated year to date operating revenues of \$4.6 million are about \$0.2 million less than prior year. Contributions, membership, facility rental, and assets released from restrictions are all slightly lower than prior year but special events revenue, admissions, and retail are higher. Compared to budget, operating revenues are even with expectations.

Expenditures for the first four months were greater than the prior year by \$0.4 million due to much higher maintenance costs for the building as well as wages and benefits. Expenditures are lower than budget by \$0.3 million due mainly to a wages and benefits and insurance being less than budgeted. .

In other non-operating activity, the Museum and Endowment investments reported total fiscal year to date market losses of \$(0.2) million. Within the fiscal year, distribution from the MPM Endowment Fund totaled \$42,165 which was provided from temporarily restricted funds within the Endowment. The Museum continues to have to a fiscally conservative course of significantly reduced reliance on MPM Endowment earnings than in the decade prior.

Capital Investment Summary

County Funded Capital Projects

County funded projects that are currently in process at the Museum include fire panel/fire safety system replacement as well as the repair of the dome theater roof.

MPM Federally Funded Projects

Collection's care and digitization continues to be supported by federal grants. In the past year, \$25,000 (year 2 of a 3 year grant – total \$141,000) was received from the National Science Foundation to organize and digitize some of the butterfly collection and \$46,000 (year 1 of a 3 year grant – total \$362,000) was received from the Institute of Museum and Library Services to organize and digitize our Ordovician fossil collection. Scientific staff has grant proposals in excess of \$3 million pending approval.

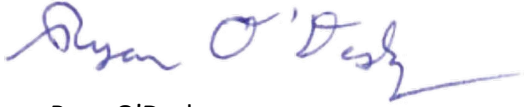
Collections Storage

As has been shared previously, MPM, Inc. is exploring options to address the inadequate conditions of the current building for the 4 million collections objects—many of them scientifically or historically important, and all irreplaceable—held by the County in the public trust. The museum building does not meet current environmental and conditions standards for museum collections storage set by the American Alliance of Museums. As we move closer to MPM's reaccreditation deadline in 2020, we have developed an estimate of the capital investment that would be required from the County to advance this important project. This estimate includes offsite/deep storage space for collections infrequently accessed as well as the storage equipment required to protect and preserve the collections over time. Moving a portion of the collections would prove an important step toward ensuring the public's collections are not further damaged.

Milwaukee Public Museum

Either, Ellen Censky, Interim President/CEO or I will be happy to take questions during our appearance before the Committees.

Sincerely,

A handwritten signature in blue ink that reads "Ryan O'Desky". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ryan O'Desky
Senior Vice President of Finance and Operations
Milwaukee Public Museum

Milwaukee Public Museum

| MPM Consolidated Statement of Activities for the Four Months Ended 12/31/18 | | | | | |
|--|----------------------|----------------------|--------------------|----------------------|----------------------|
| | YTD | YTD | | Prior Year | Prior Year |
| | <u>Actual</u> | <u>Budget</u> | <u>Dev</u> | <u>Actual</u> | <u>Change</u> |
| Revenue: | | | | | |
| Contributions | 932,033 | 1,147,255 | (215,222) | 1,156,075 | (224,042) |
| Membership | 406,519 | 440,045 | (33,526) | 458,511 | (51,991) |
| Special Event Revenue | 520,690 | 463,950 | 56,740 | 419,285 | 101,405 |
| Public Support | 1,166,667 | 1,166,667 | 0 | 1,166,667 | 0 |
| Admissions | 592,914 | 697,855 | (104,941) | 489,905 | 103,009 |
| Theatre/Planetarium | 75,445 | 90,904 | (15,459) | 74,866 | 579 |
| Programs | 43,180 | 48,564 | (5,384) | 29,129 | 14,051 |
| Contributed Services | 0 | 0 | 0 | 0 | 0 |
| Restaurant and Facility Rental | 93,228 | 110,709 | (17,481) | 150,806 | (57,577) |
| Retail | 224,207 | 198,551 | 25,656 | 183,757 | 40,450 |
| Other income | 81,785 | 30,683 | 51,102 | 31,782 | 50,003 |
| Net Assets released from restrictions | 473,680 | 232,325 | 241,355 | 632,000 | (158,320) |
| Total Unrestricted Revenue | 4,610,348 | 4,627,507 | (17,159) | 4,792,782 | (182,434) |
| Operating Expenses: | | | | | |
| Cost of Goods Sold | 95,787 | 83,880 | 11,908 | 78,428 | 17,359 |
| Supplies | 265,482 | 312,746 | (47,264) | 246,751 | 18,731 |
| Salaries and Wages | 1,929,566 | 2,037,807 | (108,241) | 1,851,281 | 78,285 |
| Benefits | 486,021 | 533,424 | (47,402) | 429,967 | 56,055 |
| Travel | 19,784 | 27,764 | (7,980) | 15,722 | 4,063 |
| Insurance | 25,882 | 25,903 | (22) | 25,441 | 441 |
| Marketing/Public Relations | 258,226 | 326,175 | (67,949) | 182,385 | 75,841 |
| Member/Donor Development | 19,204 | 31,857 | (12,653) | 19,464 | (260) |
| Subscriptions/Memberships | 12,061 | 11,363 | 698 | 13,161 | (1,101) |
| Maintenance | 368,255 | 398,285 | (30,030) | 177,283 | 190,972 |
| Utilities | 341,672 | 337,924 | 3,748 | 347,894 | (6,222) |
| Professional Fees | 144,104 | 157,510 | (13,406) | 189,971 | (45,867) |
| Interest Expense | 13,168 | 24,342 | (11,174) | 30,325 | (17,157) |
| Miscellaneous | 38,240 | 62,618 | (24,378) | 37,107 | 1,133 |
| Sales Tax Expense | 1,703 | 1,675 | 28 | 1,571 | 132 |
| Contributed Services | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | 4,019,155 | 4,373,272 | (354,117) | 3,646,751 | 372,404 |
| Inc/(dec) in Unrestricted Net Assets in Operating Items | 591,193 | 254,234 | 336,959 | 1,146,031 | (554,838) |
| Non-Operating Items: | | | | | |
| Investment Earnings | (223,359) | 0 | (223,359) | 127,134 | (350,493) |
| Loss on Swap Liability | 0 | 0 | 0 | 5,006 | (5,006) |
| Pension & Post Retirement Expenses | (60,000) | (60,000) | 0 | (36,000) | (24,000) |
| Depreciation | (406,575) | (439,320) | 32,745 | (466,992) | 60,417 |
| Non-Operating Expense | 0 | 0 | 0 | 0 | 0 |
| Vision Fund Revenue | 1,102,000 | 3,010,000 | (1,908,000) | 51,350 | 1,050,650 |
| Vision Fund Expenses | (31,653) | (52,414) | 20,762 | 0 | (31,653) |
| Total Non-Operating Items | 380,413 | 2,458,265 | (2,077,852) | (319,502) | 699,915 |
| Inc/(dec) in Unrestricted Net Assets | 971,606 | 2,712,500 | (1,740,894) | 826,529 | 145,077 |
| Changes in Temporarily Restricted Net Assets: | | | | | |
| Contributions | 65,500 | 52,400 | 13,100 | 144,500 | (79,000) |
| Investment Earnings | (282,390) | 0 | (282,390) | 174,769 | (457,159) |
| Net Assets released from restrictions for operations | (473,680) | (232,325) | (241,355) | (632,000) | 158,320 |
| Inc/(dec) in Temporarily Restricted Net Assets | (690,570) | (179,925) | (510,645) | (312,731) | (377,839) |
| Changes in Permanently Restricted Net Assets: | | | | | |
| Contributions | 100 | 0 | 100 | 100 | 0 |
| Investment Earnings | 0 | 0 | 0 | 5,697 | (5,697) |
| Net Assets released from restrictions for operations | 0 | 0 | 0 | 0 | 0 |
| Inc/(dec) in Permanently Restricted Net Assets | 100 | 0 | 100 | 5,797 | (5,697) |
| Inc/(dec) in Net Assets | 281,136 | 2,532,575 | (2,251,439) | 519,595 | (238,459) |
| Total Net Assets at Beginning of Period | 14,417,623 | 14,417,623 | 0 | 14,374,429 | 43,194 |

Milwaukee Public Museum

| MPM Consolidated Statement of Financial Position as of 12/31/18 | | | |
|--|------------------------|------------------------|-----------------------|
| | Consolidated | Consolidated | Consolidated |
| | <u>12/31/18</u> | <u>12/31/17</u> | <u>8/31/18</u> |
| Assets: | | | |
| Cash and cash equivalents | 1,916,591 | 2,587,528 | 2,122,890 |
| Investments | 330,724 | 339,072 | 0 |
| Accounts Receivable | 75,925 | 88,902 | 47,965 |
| Contributions Receivable -Current | 1,479,877 | 477,534 | 1,113,418 |
| Due From Other Funds/Entities | 500,000 | 0 | 0 |
| Inventories, net | 52,598 | 42,415 | 43,370 |
| Prepaid Expenses | 176,746 | 39,594 | 180,223 |
| Total Current Assets | 4,532,460 | 3,575,045 | 3,507,866 |
| Other Assets: | | | |
| Cash and investments held for endowment | 5,587,764 | 6,140,766 | 6,133,835 |
| Contributions Receivable - Long Term | 836,980 | 583,551 | 836,980 |
| Total Other Assets | 6,424,744 | 6,724,317 | 6,970,815 |
| Property & Equipment: | | | |
| Construction in Progress | 19,987 | 19,567 | 19,987 |
| Building Additions | 20,848,369 | 20,676,223 | 20,848,369 |
| Furniture, equipment and other improvements | 13,273,708 | 13,484,439 | 13,265,625 |
| Gross Property & Equipment | 34,142,064 | 34,180,229 | 34,133,981 |
| Less- Accumulated depreciation | (22,262,302) | (20,272,299) | (21,855,726) |
| Net Property & Equipment | 11,879,763 | 13,907,929 | 12,278,255 |
| Total Assets | 22,836,967 | 24,207,292 | 22,756,936 |
| Liabilities and Net Assets: | | | |
| Accounts Payable | 544,541 | 506,909 | 532,601 |
| Accrued Payroll & Benefits | 557,579 | 511,529 | 704,144 |
| Deferred Revenue | 961,518 | 597,221 | 1,224,025 |
| Interest Payable | 0 | 7,547 | 4,537 |
| Interest Rate Swap Liability | 0 | 0 | 0 |
| Accrued Postretirement Benefits - Current | 165,471 | 167,002 | 165,471 |
| Notes Payable - Current | 822,295 | 1,697,295 | 1,172,295 |
| Total Current Liabilities | 3,051,405 | 3,487,503 | 3,803,073 |
| Accrued Postretirement Benefits | 4,586,803 | 5,505,764 | 4,536,240 |
| Due to Other Funds/Entities | 500,000 | 0 | 0 |
| Notes Payable | 0 | 320,000 | 0 |
| Total Liabilities | 8,138,208 | 9,313,267 | 8,339,313 |
| Net Assets: | | | |
| Unrestricted | 7,317,361 | 7,348,905 | 6,345,755 |
| Temporarily Restricted | 3,592,676 | 3,759,825 | 4,283,246 |
| Permanently Restricted | 3,788,722 | 3,785,294 | 3,788,622 |
| Total Net Assets | 14,698,759 | 14,894,024 | 14,417,623 |
| Total Liabilities and Net Assets | 22,836,967 | 24,207,292 | 22,756,936 |

Milwaukee Public Museum

Consolidated Statement of Cash Flows for the Four Month Ended 12/31/18

| | YTD | Prior YTD |
|--|----------------------|----------------------|
| | <u>Actual</u> | <u>Actual</u> |
| Operating Activities: | | |
| Increase in net assets | 281,136 | 519,595 |
| Adjustments to reconcile net cash flows from operations: | | |
| Depreciation and amortization | 406,575 | 466,992 |
| Loss on disposal of assets | 0 | 0 |
| Change in value of interest rate swap | 0 | (5,006) |
| Unrealized (gain)/loss on investments | 673,179 | 78,707 |
| Realized (gain)/loss on investments | (67,862) | (328,979) |
| Contributions restricted for capital and endowment | | 0 |
| Changes in operating assets and liabilities: | | |
| Accounts Receivable | (27,960) | (29,544) |
| Contribution Receivable | (389,459) | 345,155 |
| Inventories and Other Assets | (9,228) | (134) |
| Prepaid Expenses | 3,477 | 21,816 |
| Accounts Payable, Accrued Expenses and Accrued Benefits | (84,068) | 29,035 |
| Due to Affiliates | 0 | 0 |
| Interest Payable | (4,537) | (714) |
| Deferred Revenue | (262,507) | (493,814) |
| | | |
| Total Adjustments | 237,611 | 83,513 |
| | | |
| Net cash provided/(used) by operating activities | 518,747 | 603,109 |
| Investing Activities: | | |
| Purchases of Property & Equipment | (8,083) | (110,407) |
| Purchases of Property & Equipment - Restricted | 0 | (80,000) |
| Proceeds from Sale of Investments | 6,021,439 | 1,240,929 |
| Purchases of Investments | (6,411,402) | (1,282,916) |
| Net cash provided/(used) in investing activities | (398,046) | (232,394) |
| Financing Activities: | | |
| Net proceeds on Notes Payable | 0 | (230,000) |
| Proceeds from contributions restricted for capital and endowment | 23,000 | 68,000 |
| Net proceeds from Line of Credit | (350,000) | 165,000 |
| Payments on lease obligations | 0 | 0 |
| Net cash provided/(used) in financing activities | (327,000) | 3,000 |
| | | |
| Net Inc/(Dec) in Cash and Cash Equivalents | (206,299) | 373,714 |
| | | |
| Cash and Cash Equivalents, beginning of period | 2,122,890 | 2,213,814 |
| | | |
| Cash and Cash Equivalents, end of period | 1,916,591 | 2,587,528 |

MILWAUKEE PUBLIC MUSEUM, INC.
Milwaukee, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report
As of and for the Years Ended August 31, 2018 and 2017

MILWAUKEE PUBLIC MUSEUM, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Milwaukee Public Museum, Inc.
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Milwaukee Public Museum, Inc. (the "Organization"), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Consolidating and Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 31-32 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. The Milwaukee County Schedule, on page 33, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
November 28, 2018

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of August 31, 2018 and 2017

| ASSETS | | |
|--|----------------------|----------------------|
| | 2018 | 2017 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,122,890 | \$ 2,213,814 |
| Investments | - | 323,619 |
| Accounts receivable, net | 47,965 | 59,358 |
| Current portion of contributions receivable, net | 1,113,418 | 890,690 |
| Inventory, net | 43,370 | 42,281 |
| Prepaid expenses | 180,223 | 61,410 |
| Total Current Assets | 3,507,866 | 3,591,172 |
| OTHER ASSETS | | |
| Cash and investments held for endowment | 6,133,835 | 5,863,959 |
| Contributions receivable, net | 836,980 | 583,551 |
| Total Other Assets | 6,970,815 | 6,447,510 |
| PROPERTY AND EQUIPMENT | | |
| Construction in progress | 19,987 | 19,885 |
| Building additions and improvements | 20,848,369 | 20,676,223 |
| Furniture, equipment and exhibit improvements | 13,265,625 | 13,308,393 |
| Accumulated depreciation | (21,855,726) | (19,819,987) |
| Property and Equipment, net | 12,278,255 | 14,184,514 |
| TOTAL ASSETS | \$ 22,756,936 | \$ 24,223,196 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 532,601 | \$ 414,981 |
| Accrued expenses | 704,144 | 586,183 |
| Deferred revenue | 1,224,025 | 1,091,035 |
| Interest payable | 4,537 | 8,261 |
| Current portion of post-retirement benefits | 165,471 | 167,002 |
| Line of credit | 852,295 | 1,372,295 |
| Current portion of note payable | 320,000 | 390,000 |
| Interest rate swap liability | - | 5,007 |
| Total Current Liabilities | 3,803,073 | 4,034,764 |
| LONG-TERM LIABILITIES | | |
| Accrued pension and post-retirement benefits | 4,536,240 | 5,494,003 |
| Note payable | - | 320,000 |
| Total Long-Term Liabilities | 4,536,240 | 5,814,003 |
| Total Liabilities | 8,339,313 | 9,848,767 |
| NET ASSETS | | |
| Unrestricted | 6,345,755 | 6,522,376 |
| Temporarily restricted | 4,283,246 | 4,072,556 |
| Permanently restricted | 3,788,622 | 3,779,497 |
| Total Net Assets | 14,417,623 | 14,374,429 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 22,756,936 | \$ 24,223,196 |

See accompanying notes to consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended August 31, 2018 and 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| REVENUES | | |
| Contributions and government grants | \$ 2,478,911 | \$ 2,320,779 |
| Vision fund | 82,586 | 57,000 |
| Membership | 1,080,048 | 1,168,394 |
| Special events | 638,498 | 518,746 |
| Public support | 3,500,000 | 3,500,000 |
| Admissions | 2,168,334 | 1,893,429 |
| Theater / Planetarium | 268,197 | 292,990 |
| Programs | 153,515 | 291,959 |
| Contributed services | 61,289 | 217,048 |
| Restaurant and facility rental | 295,916 | 272,208 |
| Retail | 709,297 | 656,923 |
| Other income | 55,863 | 80,971 |
| Net assets released from restrictions | 1,751,898 | 2,939,416 |
| Total Revenues | 13,244,352 | 14,209,863 |
| EXPENSES | | |
| Cost of goods sold | 302,457 | 273,450 |
| Supplies | 1,087,951 | 872,832 |
| Salaries and wages | 5,734,526 | 5,971,808 |
| Benefits | 1,452,448 | 1,488,788 |
| Travel | 99,350 | 117,740 |
| Insurance | 80,443 | 81,964 |
| Marketing / public relations | 625,783 | 617,148 |
| Member / donor development | 53,914 | 39,404 |
| Subscriptions / memberships | 26,924 | 26,613 |
| Maintenance | 742,559 | 613,470 |
| Utilities | 1,096,591 | 988,076 |
| Professional fees | 663,334 | 564,499 |
| Interest | 63,646 | 114,781 |
| Miscellaneous | 134,818 | 101,415 |
| Sales tax | 1,571 | 5,450 |
| Donated services used | 61,289 | 217,048 |
| Depreciation | 2,151,703 | 1,415,072 |
| Total Operating Expenses | 14,379,307 | 13,509,558 |
| Change in unrestricted net assets before non-operating items | (1,134,955) | 700,305 |
| NON-OPERATING ITEMS | | |
| Net change in interest rate swap liability | 5,007 | 26,531 |
| Net investment income | 175,404 | 278,200 |
| Pension and post-retirement benefits | 876,255 | 391,587 |
| Other non-operating expense | (98,332) | - |
| Total Non-Operating Items | 958,334 | 696,318 |
| CHANGE IN UNRESTRICTED NET ASSETS | (176,621) | 1,396,623 |

See accompanying notes to consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES (continued)
For the Years Ended August 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | \$ 1,718,357 | \$ 493,658 |
| Net investment income | 244,231 | 410,939 |
| Net assets released from restrictions | <u>(1,751,898)</u> | <u>(2,939,416)</u> |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | <u>210,690</u> | <u>(2,034,819)</u> |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS | | |
| Contributions | 1,100 | 2,250 |
| Net investment income | <u>8,025</u> | <u>14,012</u> |
| CHANGE IN PERMANENTLY RESTRICTED NET ASSETS | <u>9,125</u> | <u>16,262</u> |
| CHANGE IN NET ASSETS | 43,194 | (621,934) |
| NET ASSETS - Beginning of Year | <u>14,374,429</u> | <u>14,996,363</u> |
| NET ASSETS - END OF YEAR | <u>\$ 14,417,623</u> | <u>\$ 14,374,429</u> |

See accompanying notes to consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended August 31, 2018 and 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 43,194 | \$ (621,934) |
| Adjustments to reconcile to net cash flows from operating activities | | |
| Depreciation | 2,151,703 | 1,415,072 |
| Unrealized and realized gain on investments | (288,684) | (583,980) |
| Change in value of interest rate swap liability | (5,007) | (26,531) |
| Loss on disposal of property and equipment | 31,710 | - |
| Contributions restricted for capital and endowment | (1,100) | (30,362) |
| Changes in assets and liabilities | | |
| Accounts receivable | 11,393 | 2,246 |
| Contributions receivable | (889,157) | 488,942 |
| Inventory | (1,089) | 578 |
| Prepaid expenses | (118,813) | 22,328 |
| Accounts payable and accrued expenses | 235,581 | (68,934) |
| Accrued pension and post-retirement benefits | (959,294) | (537,922) |
| Interest payable | (3,724) | (153) |
| Deferred revenue | 132,990 | (101,185) |
| Net Cash Flows from Operating Activities | 339,703 | (41,835) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (277,154) | (864,022) |
| Proceeds from sale of investments | 7,543,297 | 330,385 |
| Purchase of investments | (7,200,870) | (312,160) |
| Net Cash Flows from Investing Activities | 65,273 | (845,797) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from note payable | - | 640,000 |
| Principal payments on note payable | (390,000) | (697,000) |
| Proceeds from contributions restricted for capital and endowment | 414,100 | 546,362 |
| Payments on capital lease obligation | - | (8,813) |
| Net payments on line of credit | (520,000) | (40,000) |
| Net Cash Flows from Financing Activities | (495,900) | 440,549 |
| Net Change in Cash and Cash Equivalents | (90,924) | (447,083) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 2,213,814 | 2,660,897 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 2,122,890 | \$ 2,213,814 |
| Supplemental cash flow disclosures | | |
| Cash paid for interest | \$ 67,370 | \$ 114,934 |

See accompanying notes to consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - Organization

The consolidated financial statements include the accounts of Milwaukee Public Museum, Inc. ("MPM, Inc.") and the Milwaukee Public Museum Endowment Fund ("Endowment Fund"), collectively the ("Organization"). All significant inter-organization amounts have been eliminated in the consolidation process.

MPM, Inc. was organized on January 10, 1992 as a non-stock, not-for-profit organization under Wisconsin statutes. Prior to March 31, 1992, Milwaukee Public Museum was operated by Milwaukee County (the "County"). On March 31, 1992, MPM, Inc. commenced operations as a corporation, separate and distinct from the County. MPM, Inc. was organized exclusively for charitable, educational and scientific purposes designed to foster and operate the museum.

MPM, Inc. operates a natural history museum which focuses on exhibits, public programming, and research in the natural sciences, anthropology, and history. MPM, Inc. uniquely and directly addresses the themes of biological and cultural diversity and their interrelationships. MPM, Inc. preserves and cares for its collections in the public trust. MPM, Inc. inspires curiosity, excites minds and increases desire to preserve and protect our world's natural and cultural diversity through exhibitions, educational programs, collections and research. Through its renowned exhibits, its programs and its publications, MPM, Inc. interprets these themes to diverse audiences.

The Endowment Fund was organized as a perpetual charitable trust for the benefit of MPM, Inc. The Endowment Fund is operated by its own trustees. All of the trustees of the Endowment Fund are appointed by MPM, Inc. It is operated exclusively for charitable, educational and scientific purposes to foster and benefit MPM, Inc.

NOTE 2 - Significant Accounting Policies

Presentation - These consolidated financial statements, which are presented on the accrual basis of accounting, present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes - unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as "net assets released from restrictions."

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Presentation (continued)

The Organization's temporarily restricted net assets are available for the following purposes:

| | 2018 | 2017 |
|---|--------------|--------------|
| MPM, Inc. | | |
| Exhibits and museum renovations | \$ 56,090 | \$ 44,167 |
| Educational programs | 1,401,419 | 706,711 |
| Purchase and maintenance of collections | 529,244 | 552,992 |
| Restricted for time | 703,870 | 255,885 |
| Capital campaign | 1,021,941 | 2,063,231 |
| Total MPM, Inc. | 3,712,564 | 3,622,986 |
| Endowment Fund | | |
| Purchase and maintenance of collections | 479,514 | 366,909 |
| Internship programs | 91,168 | 82,661 |
| Total Endowment Fund | 570,682 | 449,570 |
| TOTAL | \$ 4,283,246 | \$ 4,072,556 |

Permanently Restricted Net Assets - Net assets included in permanently restricted net assets include amounts that were transferred from the County when MPM, Inc. commenced operations. Permanently restricted net assets of the Endowment Fund are to be invested in perpetuity, the income which is expendable to support the following activities:

| | 2018 | 2017 |
|--------------------------------|--------------|--------------|
| Endowment Fund | | |
| Operations | \$ 2,571,804 | \$ 2,562,679 |
| Special exhibits | 1,137,442 | 1,137,442 |
| Starr adventure and internship | 79,376 | 79,376 |
| TOTAL | \$ 3,788,622 | \$ 3,779,497 |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Presentation (continued)

Net Assets Released from Restrictions - Net assets released from donor-imposed stipulations by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors are as follows:

| | 2018 | 2017 |
|---|--------------|--------------|
| MPM, Inc. | | |
| Time | \$ - | \$ 36,009 |
| Exhibits and museum renovations | 66,077 | 121,562 |
| Educational programs | 483,564 | 303,819 |
| Purchase and maintenance of collections | 52,103 | 63,891 |
| Capital campaign | 1,054,446 | 2,298,777 |
| Total MPM, Inc. | 1,656,190 | 2,824,058 |
| Endowment Fund | | |
| Purchase and maintenance of collections | 93,063 | 114,548 |
| Internship programs | 2,645 | 810 |
| Total Endowment Fund | 95,708 | 115,358 |
| TOTAL | \$ 1,751,898 | \$ 2,939,416 |

Certain donors redirected their temporarily restricted donations to the Organization for operations. The release by donors of temporarily restricted donations was \$472,326 and \$849,430 during the years ended August 31, 2018 and 2017, respectively. The release is included in net assets released from restrictions on the consolidated statements of activities.

Non-Operating Items - The Organization excludes from its measure of operations revenue and expenses that are not integral to its operations, including net investment earnings, pension for former county employees and post-retirement health and life insurance benefit activity, reserves for anticipated one-time expenses related to retirement costs associated with strategic organizational initiatives, interest rate hedge activity, and other non-operating expense. Non-operating expenses are considered management and general for functional classification.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Cash and Investments Held for Endowment - The Organization accounts for cash and investments held for endowment as other assets as they are not permitted to be used for operations.

Contributions and Government Grants - The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use through purpose or time restrictions. Temporarily restricted contributions relating to special projects received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted contributions at the time of receipt and as net assets released from restrictions when these have been met.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Contributions and Government Grants (continued)

Contributions that the donor requires to be used for long-lived assets (i.e., for capital projects) are reported as temporarily restricted until the long-lived assets have been acquired or placed in service, at which time the Organization reflects the expiration of the donor-imposed restriction as a reclassification to unrestricted net assets, as net assets released from restrictions in the consolidated statements of activities.

All other temporarily restricted contributions received in the same year in which the restrictions are met are recorded as unrestricted contributions.

Revenue from grant contracts is accounted for as exchange transactions and is recognized as unrestricted revenue in the consolidated statements of activities in the period the related grant expenses are incurred.

Memberships - Proceeds from annual membership sales are recorded as deferred revenue and the related revenue is recognized over the term of the membership.

Public Support - Public support includes funds received from the County. Support received from the County (see Note 6) is reflected as revenue in the period to which the support is designated.

Inventory - MPM, Inc. retail inventory, consisting primarily of purchased products, total \$43,370 and \$42,281 net of obsolescence allowance of \$10,815 and \$10,157 at August 31, 2018 and 2017, respectively. Inventory is recorded at the lower of average cost or market.

Accounts Receivable - The Organization uses the allowance method to account for uncollectible accounts receivable. The allowance for uncollectible accounts is determined based on historic experience. Accounts deemed uncollectible are charged against the allowance. The Organization determined that an allowance of \$0 and \$550 was necessary at August 31, 2018 and 2017, respectively.

Property and Equipment - The County has legal title to the MPM, Inc. building, exhibits and artifacts, including any building additions and improvements funded by the County. All such assets are leased to MPM, Inc. under a long-term lease (see Note 6). MPM, Inc. has not recorded the building and exhibits under the long-term lease in its consolidated financial statements as the value cannot be determined. MPM, Inc. capitalizes building additions, improvements and exhibit costs when MPM, Inc. is obligated to pay for those capital items including the theater, the Butterfly Wing, the Concourse, the garden gallery, gift shops and restaurants. MPM, Inc. amortizes these costs over their anticipated useful lives. These assets will revert to the County if MPM, Inc. were to vacate the facility, and therefore, management did not record a liability for any potential loss relating to asset retirement obligations.

Building additions, improvements, furniture, equipment and exhibit improvements funded by the Organization's resources are stated at cost. Depreciation of furniture, equipment, exhibit improvements, building additions and improvements is provided on a straight-line basis over the following estimated useful lives:

| | |
|-------------------------------------|------------|
| Furniture | 5-7 years |
| Equipment | 3-10 years |
| Exhibit improvements | 20 years |
| Building additions and improvements | 35 years |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Property and Equipment (continued)

Interest is capitalized on certain long-term construction projects. No interest was capitalized in 2018 and 2017.

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Asset Impairments - Management reviews impairment of the Organization's assets as a whole rather than any individual asset or group of assets. An asset was impaired during 2018. The impairment loss is included in depreciation on the consolidated statements of activities. There were no asset impairments during 2017.

Investments - Investments are stated at fair value. All investments not held by the Endowment Fund are classified as current. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Investment income earned on endowment funds with a deficit is recorded as unrestricted income until the deficit is replenished.

Contributions Receivable - Contributions receivable are reported in the consolidated statements of financial position net of unamortized discounts. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed at the date of contribution using a risk-free interest rate applicable to the periods in which the promise is expected to be received, based on the life of the pledge. The discount rates applied to the pledges are as follows:

| <u>Pledge Duration</u> | <u>2018</u> | <u>2017</u> |
|------------------------|-------------|-------------|
| 1-2 years | 2.46% | 1.23% |
| 3 years | 2.70% | 1.44% |
| 5 years | 2.74% | 1.70% |
| 10 years | 2.86% | 2.12% |

Contribution revenue is recorded net of any discount. The allowance for uncollectible accounts is determined based on historic experience. The Organization determined that no allowance was necessary at August 31, 2018 and 2017.

Derivatives - The Organization follows current authoritative guidance to account for the derivative instrument, an interest rate swap contract. The authoritative guidance requires an organization to recognize all of its derivative instruments as either assets or liabilities in the consolidated statements of financial position at fair value. The swap ended on December 31, 2017. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, whether the hedge is a cash flow or a fair value hedge.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Derivatives (continued)

The Organization used a derivative to manage risks related to interest rate movements. The interest rate swap contract was designated and qualified as a cash flow hedge which was reported at fair value. The change in fair value of the derivative is recognized as a change in net assets in the period of change. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. It is the policy of the Organization to execute such contracts with creditworthy counterparties. The Organization's interest rate risk management strategy was to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable rate debt to a fixed rate. The Organization does not use derivatives for trading or speculative purposes.

Income Taxes - MPM, Inc. and the Endowment Fund are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes have been provided for in the consolidated financial statements. MPM, Inc.'s and the Endowment Fund's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2015 and thereafter are open to examination by federal authorities and tax returns for fiscal years 2014 and thereafter are open to examination by state authorities.

The tax effects from an uncertain tax position can be recognized in the consolidated financial statements, only if there is substantial authority that the position will be upheld based on the technical merits of the position. The Organization does not believe that it has any uncertain tax positions at August 31, 2018 and 2017.

Advertising and Promotion - Advertising and promotion costs are charged to operations when incurred. Advertising and promotion expenses are included in public relations expenses on the consolidated statements of activities.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses. Actual results could be different from those estimates.

Special Exhibits - MPM, Inc. records all refundable deposits as prepaid expenses. Any costs incurred, other than the refundable deposit, for the special exhibit are expensed in the period they are incurred. There were no prepaid expenses relating to special exhibits at August 31, 2018 and 2017. Revenue generated by contracted special exhibits is included as admissions on the consolidated statements of activities. In the case where MPM, Inc. has produced the exhibit, gross revenues and expenses are reflected in the corresponding accounts in the consolidated statements of activities.

Accounting Pronouncements - During 2018, the Organization adopted Accounting Standards Update ("ASU") 2016-01, "Financial Instruments - Overall (Subtopic 825-10)." As a result, the fair value disclosures previously required are not included within the footnotes because the Organization does not meet the definition of a public business entity.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Accounting Pronouncements (continued)

The Financial Accounting Standards Board ("FASB") has issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). Management is currently evaluating the impact of ASU 2016-14 on the Organization's consolidated financial statements.

FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018 (fiscal year 2020) and contributions made during fiscal years beginning after December 15, 2019 (fiscal year 2021). The Organization is currently assessing the impact that ASU 2018-08 will have on its results of operations, financial position and cash flows.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019 (fiscal year 2021). Early adoption is permitted. Management is currently evaluating the impact of ASU 2016-02 on the Organization's consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - Significant Accounting Policies (continued)

Accounting Pronouncements (continued)

FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently evaluating the impact of the ASU 2016-18 on the Organization's consolidated financial statements.

FASB issued Accounting Standards Update 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. It must be clear where the other components are reported. The Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early adoption is permitted and the standard should be applied retrospectively. Management is currently evaluating the impact of ASU 2017-07 on the Organization's consolidated financial statements.

Reclassifications - Certain reclassifications were made to the 2017 consolidated financial statements to conform with the current year presentation. The reclassifications have no effect on reported amounts of net assets or change in net assets.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 3 - Fair Value of Financial Instruments

Current authoritative guidance defines fair value as 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. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The following table sets forth by level within the fair value hierarchy the Organization's financial instruments that were accounted for at fair value on a recurring basis as of August 31, 2018:

| | Total | Level 1 | Level 2 | Level 3 |
|---|--------------|--------------|--------------|---------|
| Financial Assets | | | | |
| Cash | \$ 3,771,392 | \$ 3,771,392 | \$ - | \$ - |
| Money market | 2,362,443 | - | 2,362,443 | - |
| Cash and investments held for endowment | \$ 6,133,835 | \$ 3,771,392 | \$ 2,362,443 | \$ - |

The following table sets forth by level within the fair value hierarchy the Organization's financial instruments that were accounted for at fair value on a recurring basis as of August 31, 2017:

| | Total | Level 1 | Level 2 | Level 3 |
|---|--------------|--------------|------------|---------|
| Financial Assets | | | | |
| Equity mutual funds | \$ 247,213 | \$ 247,213 | \$ - | \$ - |
| Fixed income mutual funds | 76,406 | 76,406 | - | - |
| Investments | 323,619 | 323,619 | - | - |
| Money market | 215,899 | - | 215,899 | - |
| Equity mutual funds | 4,529,525 | 4,529,525 | - | - |
| Fixed income mutual funds | 1,118,535 | 1,118,535 | - | - |
| Cash and investments held for endowment | 5,863,959 | 5,648,060 | 215,899 | - |
| Total Financial Assets | \$ 6,187,578 | \$ 5,971,679 | \$ 215,899 | \$ - |
| Financial Liabilities | | | | |
| Interest rate swap liability | \$ 5,007 | \$ - | \$ 5,007 | \$ - |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 3 - Fair Value of Financial Instruments (continued)

The Organization holds investments consisting of fixed income and equity mutual funds that are publicly traded on stock exchanges and considered Level 1 items. The Organization considers cash as a Level 1 item. At August 31, 2017 mutual funds consisted of 60% domestic and 40% international securities. The Organization has a money market account that is considered a Level 2 item.

Investment securities are exposed to the risk of market volatility. Due to this risk, it is possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

The interest rate swap valuation was based on the expected cash flow, maturity date, notional amount, interest rates and risk of non-performance through the duration of the agreement and was considered a level 2 item. The interest rate swap ended on December 31, 2017. See Note 8 for additional interest rate swap agreement disclosures.

For the year ended August 31, 2018, there have been no changes in the application of valuation methods applied to similar assets and liabilities.

NOTE 4 - Investment Income

Investment income is summarized as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-------------------|-------------------|
| Interest and dividends | \$ 169,085 | \$ 146,561 |
| Net realized and unrealized gains | 288,684 | 583,980 |
| Less: fees | <u>(30,109)</u> | <u>(27,390)</u> |
| Total | <u>\$ 427,660</u> | <u>\$ 703,151</u> |

NOTE 5 - Contributions Receivable

Maturities of contributions receivable at August 31 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|-------------------|
| Less than one year | \$ 1,113,418 | \$ 890,690 |
| One to five years | <u>880,126</u> | <u>604,000</u> |
| Contributions receivable | 1,993,544 | 1,494,690 |
| Less: unamortized discount | <u>(43,146)</u> | <u>(20,449)</u> |
| Net contributions receivable | 1,950,398 | 1,474,241 |
| Less: current portion of contribution receivable | <u>(1,113,418)</u> | <u>(890,690)</u> |
| Long-term portion of contributions receivable | <u>\$ 836,980</u> | <u>\$ 583,551</u> |

Approximately 85% and 71% of contributions receivable were from five and four donors at August 31, 2018 and 2017, respectively.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 6 - Lease and Management Agreement With Milwaukee County

On August 15, 2013, MPM Inc. and the County entered into a new Lease and Management Agreement ("New Agreement") to replace and supersede the original agreement and all subsequent amendments. The New Agreement provided for a \$3,000,000 County contribution to the MPM, Inc. Pension Plan for former County employees that was paid by August 31, 2013, extended annual MPM, Inc. funding support to 2022, and provided additional capital spending up to \$4,000,000 on the facility through December 2017. In September 2018, the County and MPM Inc. amended some of the terms. Based on the most current terms, MPM, Inc. is required to raise additional funds to eliminate its outstanding term debt which was extinguished on December 13, 2017 and raise \$5,000,000 by December 2020 to support additional capital spending related to site, building, exhibits or donor commitments for its relocation strategy. At August 31, 2018, the Organization has raised \$2,795,755 towards the \$5,000,000 capital spending requirement. The New Agreement is renewable every five years through December 31, 2042.

Annual funding for the years ended August 31, 2018 and 2017 was \$3,500,000 from the County related to these agreements. At August 31, 2018 and 2017, MPM, Inc. has received \$291,667 that has been recorded as deferred revenue.

The fair value of this lease cannot be determined and, therefore, is not reflected in the consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 7 - Note Payable

At August 31 the Organization had the following obligations to outside parties:

| | 2018 | 2017 |
|---|------------|------------|
| Promissory note agreement, variable rate of prime (5.00% at August 31, 2018), principal payable in annual installments of \$160,000 with the balance due July 31, 2020. Secured by all of the assets of the Organization. However, the Organization has secured a pledge receivable to pay this note over four years. The promissory note was refinanced subsequent to August 31, 2018 and is presented as a current liability on the consolidated statements of financial position at August 31, 2018. | \$ 320,000 | \$ 480,000 |
| Promissory note agreement, variable rate of LIBOR plus LIBOR Margin (4.25% and 3.38% at August 31, 2018 and 2017, respectively), principal payable in annual installments of \$430,000 with the balance due December 2017. Interest is due monthly. Secured by all of the assets of the Organization. This note was paid in full in 2018. | - | 230,000 |
| Totals | 320,000 | 710,000 |
| Less: Current portion | (320,000) | (390,000) |
| Long-Term Portion | \$ - | \$ 320,000 |

The Organization is subject to certain restrictions and covenants related to the debt. As of August 31, 2018, the Organization was in compliance with all of the established covenants.

The Organization has a line of credit for \$1,500,000 available for operations. On July 28, 2017, the Organization required more capital for operations and on a temporary extension raised the line of credit to \$1,750,000 through January 18, 2018. Similarly during fiscal 2016, the Organization had a temporary extension and additional increase to raise the line of credit to \$1,900,000 through January 10, 2017. The remaining \$1,500,000 line of credit expires on May 31, 2019. A balance of \$852,295 and \$1,372,295 was outstanding related to the line of credit as of August 31, 2018 and 2017, respectively. Interest is payable monthly based upon a variable rate. As of August 31, 2018 and 2017, the rate was 5.00% and 4.25%, respectively. The line of credit is secured by all of the assets of the Organization. Availability of this line of credit is reduced by a letter of credit MPM, Inc. has for unemployment compensation for \$87,704 as of August 31, 2018 and 2017.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 7 - Note Payable (continued)

On September 13, 2018, the Organization switched financial institutions and combined the balance of the promissory note and the line of credit. The new line of credit has \$2,500,000 available for operations which is due September 13, 2020. The debt bears interest payable monthly based upon one of two variable rates set by the financial institution that the Organization may choose. At September 13, 2018, the Organization selected the variable rate of LIBOR plus LIBOR margin of 2.00% (3.92%). The Endowment Fund is a guarantor on the new line of credit. The debt is secured by all the assets of the Organization. The Organization is subject to certain restrictions and covenants related to the debt. In addition, the letter of credit for unemployment compensation for \$87,704 was transferred to the new financial institution.

NOTE 8 - Derivative Financial Instruments and Hedging Activities

The Organization entered into an interest rate swap contract as part of a variable interest loan agreement with a bank on the Organization's term note. The swap ended on December 31, 2017. The fixed rate on the swap was 4.75% at August 31, 2017. The differential between the fixed and variable rates is accrued and paid as interest rates change and is recorded as a component of interest expense for the loan. The notional amount of the swap agreement declines according to the scheduled principal payments. The fair value of the interest rate swap is reflected as a liability on the consolidated statements of financial position. See Note 2 and Note 3 for additional swap agreement disclosures. The following represents the notional amount hedged, fair value of the interest rate swap outstanding at year end and the amount of exposure recorded in unrestricted net assets as a non-operating item in the consolidated statements of activities.

| | Notional Amount | As of August 31 Liability | Year Ended August 31 Benefit |
|-------------------------|--------------------|------------------------------|------------------------------------|
| 2018 Interest rate swap | \$ - | \$ - | \$ 5,007 |
| 2017 Interest rate swap | \$ 230,000 | \$ 5,007 | \$ 26,531 |

NOTE 9 - Post-Retirement Benefits

Defined Benefit Pension

MPM, Inc. sponsors a defined benefit pension plan that covers qualifying employees who were employed by the County prior to March 31, 1992. The plan provides benefits to those employees upon attainment of minimum age and service requirements. The plan provides for benefits to be paid to eligible employees at retirement based upon years of service with MPM, Inc. Qualified employees will receive a separate pension from the County based upon years of service prior to March 1, 1992. MPM, Inc.'s funding policy is to contribute the amount necessary to satisfy the funding requirements of the Employee Retirement Income Security Act of 1974. MPM, Inc. uses an August 31 measurement date for this plan.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

The table below presents details about the MPM, Inc. plan including changes in benefit obligations, plan assets and funded status. In addition, the components of net periodic pension cost and actuarial assumptions used are presented.

| | 2018 | 2017 | | | |
|--|----------------|----------------|--|------|------|
| Change in benefit obligation | | | | | |
| Projected benefit obligation at beginning of year | \$ 12,248,664 | \$ 12,377,197 | | | |
| Service cost | 39,650 | 93,759 | | | |
| Interest cost | 444,247 | 432,450 | | | |
| Net gains | (387,442) | (91,022) | | | |
| Benefits paid | (639,291) | (563,720) | | | |
| Projected benefit obligation at end of the year | \$ 11,705,828 | \$ 12,248,664 | | | |
| | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">2018</th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">2017</th> </tr> </thead> </table> | | | | 2018 | 2017 |
| | 2018 | 2017 | | | |
| Change in plan assets | | | | | |
| Fair value of plan assets at beginning of year | \$ 9,722,435 | \$ 9,315,097 | | | |
| Actual gains on assets | 870,476 | 971,058 | | | |
| Employer contribution | - | - | | | |
| Benefits paid | (639,291) | (563,720) | | | |
| Fair value of plan assets at end of year | \$ 9,953,620 | \$ 9,722,435 | | | |
| Funded status of the plan | \$ (1,752,208) | \$ (2,526,229) | | | |
| | | | | | |
| Components of net periodic benefit cost | | | | | |
| Service cost | \$ 39,650 | \$ 93,759 | | | |
| Interest cost | 444,247 | 432,450 | | | |
| Expected return on assets | (656,331) | (630,682) | | | |
| Amortization of unrecognized net loss | 279,091 | 503,669 | | | |
| Total net periodic pension cost - recorded in non-operating items | \$ 106,657 | \$ 399,196 | | | |
| | | | | | |
| Other changes in plan assets and projected benefit obligations recognized in non-operating items | | | | | |
| Net gain experienced during the year | \$ (601,587) | \$ (431,398) | | | |
| Amortization of net gain | (279,091) | (503,669) | | | |
| Benefit recognized in non-operating items | \$ (880,678) | \$ (935,067) | | | |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

Estimated net periodic pension cost for fiscal 2019 is as follows:

| | |
|--|--------------------|
| Components of net periodic benefit cost | |
| Service cost | \$ 39,645 |
| Interest cost | 455,022 |
| Expected return on assets | (673,633) |
| Amortization of unrecognized net loss | <u>115,687</u> |
| Estimated 2019 net periodic pension income | <u>\$ (63,279)</u> |

Amounts recognized in the consolidated statements of financial position consist of:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|---------------------|
| Long-term accrued pension liability | <u>\$ 1,752,208</u> | <u>\$ 2,526,229</u> |

The accumulated benefit obligation for this defined benefit pension plan was \$11,705,828 and \$12,248,664 at August 31, 2018 and 2017, respectively.

The assumptions used in the determination of the projected benefit obligation as of August 31 are as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 4.00% | 3.75% |
| Rate of compensation increase | 2.00% | 2.00% |

The assumptions used in the determination of the net periodic pension cost as of August 31 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 3.75% | 3.50% |
| Expected return on plan assets | 7.00% | 7.00% |
| Rate of compensation increase | 2.00% | 2.00% |

MPM, Inc. considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered include the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from actuaries and investment consultants, and long-term inflation assumptions. The expected allocation of plan assets is based on a diversified portfolio consisting of domestic equity securities.

The Society of Actuaries ("SOA") provided an update to their mortality tables, adjusting the life expectancy assumptions for eligible participants in 2015. This change is recorded as a non-operating expense. At August 31, 2018, the fiscal year end results reflect the SOA RP-2014 Total Dataset Mortality Table with Scale MP-2017. The August 31, 2017 fiscal year end results reflect the SOA RP-2014 Total Dataset Mortality Table with Scale MP-2016.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

MPM, Inc.'s investment policy for its pension plan is to balance risk and return using a diversified portfolio consisting primarily of high quality equity securities. To accomplish this goal, the plan's assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The Board of Directors provides oversight of the plan investments and the performance of the investment managers. The plan's assets are invested in pooled mutual funds that are traded on public markets and considered level 1 and one fund that is not traded in an active market and its fair value is based on net asset value and is considered a level 2 asset in the fair value hierarchy.

At August 31, 2018 the assets were:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------|--------------|----------------|----------------|----------------|
| Mutual funds | \$ 9,953,620 | \$ 9,717,475 | \$ 236,145 | \$ - |

At August 31, 2017 the assets were:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------|--------------|----------------|----------------|----------------|
| Mutual funds | \$ 9,722,435 | \$ 9,531,512 | \$ 190,923 | \$ - |

MPM, Inc. funds the pension plan and no contributions are made by employees. The plan is funded annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the plan's actuary. However, MPM, Inc. may also fund the plan in excess of the minimum required amount. Cash contributions in subsequent years will depend on a number of factors including performance of plan assets. MPM, Inc. is not required to make any contributions in fiscal 2019, but may choose to do so.

The following represents expected future benefits to be paid for the periods shown:

| | |
|-----------|--------------|
| 2019 | \$ 660,574 |
| 2020 | \$ 669,699 |
| 2021 | \$ 681,536 |
| 2022 | \$ 706,695 |
| 2023 | \$ 713,780 |
| 2023-2027 | \$ 3,656,909 |

Post-Retirement Benefits Other Than Pensions

MPM, Inc. sponsors a defined benefit post-retirement plan that provides post-retirement medical and life insurance benefits to qualified employees who were employed by the County prior to March 31, 1992. The plan contains features such as deductibles and co-insurance. Upon retirement, the qualified employees have the option to elect benefits under MPM, Inc.'s plan or the County's plan. The MPM, Inc. sponsored plan covers former County employees who became MPM, Inc. employees on March 31, 1992, who retire at age 55 or older with a combination of 15 years or more of service with the County and MPM, Inc., and who choose to participate in the MPM, Inc. plan. MPM, Inc. uses an August 31 measurement date for this plan. At August 31, 2018 and 2017, MPM, Inc. expected to make contributions in the subsequent fiscal year of \$165,471 and \$167,002, respectively.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

The table below presents details about the MPM, Inc. plan including changes in benefit obligations, plan assets and funded status for 2018 and 2017. The components of net periodic post-retirement benefits cost and actuarial assumptions used are presented.

| | 2018 | 2017 |
|---|----------------|----------------|
| Retirees | \$ 2,505,526 | \$ 2,178,904 |
| Active employees currently eligible to retire | 230,088 | 752,427 |
| Other active employees | 159,691 | 166,661 |
| Accumulated postretirement benefit obligation | 2,895,305 | 3,097,992 |
| Fair value of plan assets | - | - |
| Unfunded status | 2,895,305 | 3,097,992 |
| Current and unamortized actuarial losses | - | - |
| Accrued postretirement benefit obligation recognized in the consolidated statements of financial position | \$ (2,895,305) | \$ (3,097,992) |
| | 2018 | 2017 |
| Change in benefit obligation | | |
| Projected benefit obligation at beginning of year | \$ 3,097,992 | \$ 3,035,971 |
| Service cost | - | 4,803 |
| Interest cost | 113,044 | 103,921 |
| Actuarial (gain) loss | (214,936) | 34,652 |
| Benefits paid/employer contributions | (100,795) | (81,355) |
| Accumulated benefit obligation at end of the year | \$ 2,895,305 | \$ 3,097,992 |

At August 31, 2018 and 2017, the post-retirement medical and life insurance plan does not have any assets.

| | 2018 | 2017 |
|---|----------------|----------------|
| Funded status of the plan | | |
| Current accumulated post-retirement benefit obligation | \$ (165,471) | \$ (167,002) |
| Long-term accumulated post-retirement benefit obligation | (2,729,834) | (2,930,990) |
| Net amount recognized as of fiscal year end | \$ (2,895,305) | \$ (3,097,992) |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

| | 2018 | 2017 |
|--|--------------|--------------|
| Amounts recognized in non-operating items | | |
| Net loss (gain) | \$ (214,936) | \$ 34,652 |
| Components of net periodic benefit cost | | |
| Service cost | \$ - | \$ 4,803 |
| Interest cost | 113,044 | 103,921 |
| Unrecognized net gain | (16,640) | (40,377) |
| Amortization of unrecognized prior service asset | (372,215) | (372,215) |
| Total net periodic (benefit) cost | \$ (275,811) | \$ (303,868) |

Estimated net periodic benefit cost (income) for fiscal 2019 is as follows:

| | |
|--|--------------|
| Components of net periodic benefit cost (income) fiscal 2019 | |
| Interest cost | 112,503 |
| Amortization of unrecognized net gain | (82,089) |
| Amortization of unrecognized prior service asset | (197,273) |
| Estimated 2019 net periodic benefit income | \$ (166,859) |

The assumptions used in the determination of the projected benefit obligation as of August 31 are as follows:

| | 2018 | 2017 |
|---|--------------|--------------|
| Discount rate | 4.00% | 3.75% |
| Expected return on plan assets | N/A | N/A |
| Health care cost trend rate | | |
| Present rate before age 65 | 6.50% | 7.00% |
| Present rate age 65 and older | 6.50% | 7.00% |
| Ultimate rate before age 65 (year reached) | 5.00% (2021) | 5.00% (2021) |
| Ultimate rate age 65 and older (year reached) | 5.00% (2021) | 5.00% (2021) |

The assumptions used in the determination of the net periodic post-retirement medical and life insurance benefit cost as of August 31 are as follows:

| | 2018 | 2017 |
|---|--------------|--------------|
| Discount rate | 3.75% | 3.50% |
| Expected return on plan assets | N/A | N/A |
| Health care cost trend rate | | |
| Present rate before age 65 | 7.00% | 7.50% |
| Present rate age 65 and older | 7.00% | 7.50% |
| Ultimate rate before age 65 (year reached) | 5.00% (2021) | 5.00% (2021) |
| Ultimate rate age 65 and older (year reached) | 5.00% (2021) | 5.00% (2021) |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - Post-Retirement Benefits (continued)

The following represents expected future benefits to be paid for the periods shown:

| | | |
|-----------|----|---------|
| 2019 | \$ | 165,471 |
| 2020 | \$ | 173,991 |
| 2021 | \$ | 176,322 |
| 2022 | \$ | 178,030 |
| 2023 | \$ | 174,428 |
| 2024-2028 | \$ | 886,259 |

Defined Contribution Plans

MPM, Inc. sponsors a defined contribution plan that covers all qualified employees. Expense for the defined contribution plan amounted to \$170,083 and \$132,257 in 2018 and 2017, respectively. MPM, Inc. contributes 1.5% of the qualified employees' salary to a 401(k) plan and matches 100% of each dollar contributed by the employee to the plan, up to 4%. For January 1 through December 31, 2017, MPM had suspended its employee match.

NOTE 10 - Endowment

The Endowment Fund adopted current authoritative guidance that provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the guidance is a requirement for expanded disclosures about all endowment funds.

The Endowment Fund consists of approximately 30 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by current authoritative guidance, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Endowment Fund's trustees have interpreted UPMIFA enacted in the State of Wisconsin as requiring the creation of an endowment of permanent duration with the original value of a donor's gift when a donor's gift instrument evidences such intent by use of terminology consistent with UPMIFA, unless other language in the gift instrument limits the duration or purpose of the fund. As a result of this interpretation, the Endowment Fund classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent 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.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

NOTE 10 - Endowment (continued)

Unless other language in a gift instrument specifically states differently, the remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, unless the donor's gift instrument otherwise specifically limits the authority to appropriate for expenditure or accumulate, the Endowment Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Endowment Fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Endowment Fund
7. The investment policies of the Endowment Fund

Endowment Fund net asset composition by type of fund consists of the following at August 31, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Donor-restricted endowment funds | \$ - | \$ 570,682 | \$ 3,788,622 | \$ 4,359,304 |
| Board designated endowment funds | <u>2,541,386</u> | <u>-</u> | <u>-</u> | <u>2,541,386</u> |
| Total endowment net assets | <u>\$ 2,541,386</u> | <u>\$ 570,682</u> | <u>\$ 3,788,622</u> | <u>\$ 6,900,690</u> |

Endowment Fund net asset composition by type of fund consists of the following at August 31, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Donor-restricted endowment funds | \$ - | \$ 449,570 | \$ 3,779,497 | \$ 4,229,067 |
| Board designated endowment funds | <u>2,293,682</u> | <u>-</u> | <u>-</u> | <u>2,293,682</u> |
| Total endowment net assets | <u>\$ 2,293,682</u> | <u>\$ 449,570</u> | <u>\$ 3,779,497</u> | <u>\$ 6,522,749</u> |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 10 - Endowment (continued)

Changes in endowment fund net assets for the year ended August 31, 2018 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|--------------|
| Endowment fund net assets, August 31, 2017 | \$ 2,293,682 | \$ 449,570 | \$ 3,779,497 | \$ 6,522,749 |
| Net investment gain | 175,404 | 216,820 | 8,025 | 400,249 |
| Contributions | 75,000 | - | 1,100 | 76,100 |
| Appropriation of endowment fund assets for expenditure | (2,700) | (95,708) | - | (98,408) |
| Endowment fund net assets, August 31, 2018 | \$ 2,541,386 | \$ 570,682 | \$ 3,788,622 | \$ 6,900,690 |

Changes in endowment fund net assets for the year ended August 31, 2017 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|--------------|
| Endowment fund net assets, August 31, 2016 | \$ 2,065,248 | \$ 190,986 | \$ 3,763,235 | \$ 6,019,469 |
| Net investment gain | 278,200 | 373,941 | 14,012 | 666,153 |
| Contributions | 2,885 | - | 2,250 | 5,135 |
| Appropriation of endowment fund assets for expenditure | (52,651) | (115,357) | - | (168,008) |
| Endowment fund net assets, August 31, 2017 | \$ 2,293,682 | \$ 449,570 | \$ 3,779,497 | \$ 6,522,749 |

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Endowment Fund to retain as a fund of perpetual duration. In accordance with current authoritative guidance, deficiencies of this nature that are reported in unrestricted net assets are \$0 as of August 31, 2018 and 2017. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Endowment Fund has a policy of appropriating for distribution each year a variable percentage of unrestricted Endowment Fund assets using a three year rolling average, prior to the year of distribution for operating support to MPM, Inc. The Board has the ability to approve appropriations that vary from this policy.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 10 - Endowment (continued)

The amount of board designated endowment funds that were used in operations and not yet repaid at August 31, 2018 and 2017 was \$766,855 and \$658,790, respectively.

NOTE 11 - Related Parties

MPM, Inc. has an agreement with the County to provide for the lease and management of the museum (see Note 6). Under the agreement, the County appoints nine of MPM, Inc.'s forty-five Board members.

The Organization has a policy for its Board of Directors and staff members that requires disclosure of any and all conflicts of interest that may exist.

Board members typically make contributions to the various campaigns of the Organization. Board members may be employees of firms with which the Organization has business relationships. Board members may also be with firms or foundations that contribute funds or provide contributed services to MPM, Inc. Annually, Board members are required to disclose those interests.

Staff members also participate in contributing to the various campaigns of MPM, Inc. Conflicts with MPM, Inc. such as having business relations with direct family members of employees are disclosed through the conflict of interest policy. Staff members are required to review the conflict of interest policy included in the employee handbook and provide a signed statement that they have read the policy and disclosures, if any, are made. Annually, employees are required to provide a signed statement that they are in compliance with MPM, Inc.'s Ethics Policy, which includes disclosure of conflicts of interest.

NOTE 12 - Global Kitchen

In February 2015, MPM, Inc. entered into an exhibition contract with American Museum of Natural History to exhibit "Our Global Kitchen: Food, Nature, Culture" from March 3, 2017 to July 9, 2017. A summary of gross revenue and direct expenses resulting from the exhibit over multiple years is as follows:

| | |
|---------------------------------------|---------------------|
| Total revenue | \$ 502,867 |
| Total direct expenses | <u>738,032</u> |
| Direct expenses in excess of revenues | <u>\$ (235,165)</u> |

NOTE 13 - Maya: Hidden Worlds Revealed

In February 2016, MPM, Inc. entered into an exhibition contract with Science Museum of Minnesota to exhibit "Maya: Hidden Worlds Revealed" from February 9, 2018 to May 28, 2018. A summary of gross revenue and direct expenses resulting from the exhibit over multiple years is as follows:

| | |
|---------------------------------------|---------------------|
| Total revenue | \$ 523,561 |
| Total direct expenses | <u>728,773</u> |
| Direct expenses in excess of revenues | <u>\$ (205,212)</u> |

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 14 - Frogs! A Chorus of Colors

In August 2017, MPM, Inc. entered into an exhibition contract with Peeling Productions, LLC to exhibit "Frogs! A Chorus of Colors" from October 6, 2018 to January 6, 2019. As of August 31, 2018, MPM, Inc. has paid \$30,000 nonrefundable exhibit rental fee related to this exhibit.

NOTE 15 - Power of Poison

In February 2015, MPM, Inc. entered into an exhibition contract with the American Museum of Natural History to exhibit "Power of Poison" from March 2, 2019 to July 7, 2019. As of August 31, 2018, MPM, Inc. has paid \$175,000 nonrefundable exhibit rental fee related to this exhibit.

NOTE 16 - Future Exhibits

In addition, MPM, Inc. has entered into two exhibition contracts for future years beyond 2019. As of August 31, 2018, MPM, Inc. has paid \$80,000 nonrefundable exhibit rental fees related to these future exhibits.

NOTE 17 - Contributed Services

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills. Some of the donated services are provided by Board members.

A substantial number of volunteers have donated significant amounts of time in various capacities. However, these services have not been recognized in the consolidated financial statements since they do not meet the criteria for recognition. As of August 31, 2018 and 2017, there were 13,644 and 16,244 hours, respectively, estimated at a fair value of \$226,501 and \$260,377, respectively.

NOTE 18 - Commitments and Contingencies

MPM, Inc. is subject to various federal, state and local laws and regulations relating to employment matters and the use of donor-provided funds. As is the case with all organizations engaged in similar industries, MPM, Inc. faces significant exposure from actual or potential claims and lawsuits brought by either governmental authorities or private parties, alleging non-compliance with laws and regulations. Management does not believe that any of these matters will have a material impact on the consolidated financial statements.

MILWAUKEE PUBLIC MUSEUM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

NOTE 19 - Functional Expenses

The table below summarizes the operating expenses of the Organization for the years ended August 31:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|----------------------|----------------------|
| Program | \$ 10,952,288 | \$ 10,267,261 |
| Management and general | 1,575,916 | 1,513,371 |
| Fundraising | 812,547 | 781,651 |
| Retail, rental and special events | 1,038,556 | 947,275 |
| Total expenses | <u>\$ 14,379,307</u> | <u>\$ 13,509,558</u> |

NOTE 20 - Concentrations

The Organization maintains cash balances in an institution which exceed the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 21 - Subsequent Events

The Organization has evaluated subsequent events through November 28, 2018 which is the date that the consolidated financial statements were approved and available to be issued.

SUPPLEMENTAL INFORMATION

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2018

| | MPM, Inc. | Endowment Fund | Elimination Entries | Total |
|--|----------------------|---------------------|------------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 2,122,890 | \$ - | \$ - | \$ 2,122,890 |
| Accounts receivable, net | 47,965 | - | - | 47,965 |
| Current portion of contributions receivable, net | 1,113,418 | - | - | 1,113,418 |
| Due from MPM, Inc. | - | 766,855 | (766,855) | - |
| Inventory, net | 43,370 | - | - | 43,370 |
| Prepaid expenses | 180,223 | - | - | 180,223 |
| Total Current Assets | <u>3,507,866</u> | <u>766,855</u> | <u>(766,855)</u> | <u>3,507,866</u> |
| OTHER ASSETS | | | | |
| Cash and investments held for endowment | - | 6,133,835 | - | 6,133,835 |
| Contributions receivable, net | 836,980 | - | - | 836,980 |
| Total Other Assets | <u>836,980</u> | <u>6,133,835</u> | <u>-</u> | <u>6,970,815</u> |
| PROPERTY AND EQUIPMENT | | | | |
| Construction in progress | 19,987 | - | - | 19,987 |
| Building additions and improvements | 20,848,369 | - | - | 20,848,369 |
| Furniture, equipment and exhibit improvements | 13,265,625 | - | - | 13,265,625 |
| Accumulated depreciation | (21,855,726) | - | - | (21,855,726) |
| Property and equipment, net | <u>12,278,255</u> | <u>-</u> | <u>-</u> | <u>12,278,255</u> |
| TOTAL ASSETS | <u>\$ 16,623,101</u> | <u>\$ 6,900,690</u> | <u>\$ (766,855)</u> | <u>\$ 22,756,936</u> |
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 532,601 | \$ - | \$ - | \$ 532,601 |
| Accrued expenses | 704,144 | - | - | 704,144 |
| Deferred revenue | 1,224,025 | - | - | 1,224,025 |
| Interest payable | 4,537 | - | - | 4,537 |
| Due to Endowment Fund | 766,855 | - | (766,855) | - |
| Current portion of post-retirement benefits | 165,471 | - | - | 165,471 |
| Line of credit | 852,295 | - | - | 852,295 |
| Current portion of note payable | 320,000 | - | - | 320,000 |
| Total Current Liabilities | <u>4,569,928</u> | <u>-</u> | <u>(766,855)</u> | <u>3,803,073</u> |
| LONG-TERM LIABILITIES | | | | |
| Accrued pension and post-retirement benefits | 4,536,240 | - | - | 4,536,240 |
| Total Liabilities | <u>9,106,168</u> | <u>-</u> | <u>(766,855)</u> | <u>8,339,313</u> |
| NET ASSETS | | | | |
| Unrestricted | 3,804,369 | 2,541,386 | - | 6,345,755 |
| Temporarily restricted | 3,712,564 | 570,682 | - | 4,283,246 |
| Permanently restricted | - | 3,788,622 | - | 3,788,622 |
| Total Net Assets | <u>7,516,933</u> | <u>6,900,690</u> | <u>-</u> | <u>14,417,623</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 16,623,101</u> | <u>\$ 6,900,690</u> | <u>\$ (766,855)</u> | <u>\$ 22,756,936</u> |

MILWAUKEE PUBLIC MUSEUM, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended August 31, 2018

| | MPM, Inc. | Endowment Fund | Elimination Entries | Total |
|--|---------------------|---------------------|---------------------|----------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | | | |
| REVENUES | | | | |
| Contributions and government grants | \$ 2,490,274 | \$ 75,000 | \$ (86,363) | \$ 2,478,911 |
| Vision fund | 82,586 | - | - | 82,586 |
| Membership | 1,080,048 | - | - | 1,080,048 |
| Special events | 638,498 | - | - | 638,498 |
| Public support | 3,500,000 | - | - | 3,500,000 |
| Admissions | 2,168,334 | - | - | 2,168,334 |
| Theater / Planetarium | 268,197 | - | - | 268,197 |
| Programs | 153,515 | - | - | 153,515 |
| Contributed services | 61,289 | - | - | 61,289 |
| Restaurant and facility rental | 295,916 | - | - | 295,916 |
| Retail | 709,297 | - | - | 709,297 |
| Other income | 55,863 | - | - | 55,863 |
| Net assets released from restrictions | 1,656,190 | 95,708 | - | 1,751,898 |
| Total Revenues | <u>13,160,007</u> | <u>170,708</u> | <u>(86,363)</u> | <u>13,244,352</u> |
| EXPENSES | | | | |
| Cost of goods sold | 302,457 | - | - | 302,457 |
| Supplies | 1,087,951 | - | - | 1,087,951 |
| Salaries and wages | 5,734,526 | - | - | 5,734,526 |
| Benefits | 1,452,448 | - | - | 1,452,448 |
| Travel | 99,350 | - | - | 99,350 |
| Insurance | 80,443 | - | - | 80,443 |
| Marketing / public relations | 625,783 | - | - | 625,783 |
| Member / donor development | 53,914 | - | - | 53,914 |
| Subscriptions / memberships | 26,924 | - | - | 26,924 |
| Maintenance | 742,559 | - | - | 742,559 |
| Utilities | 1,096,591 | - | - | 1,096,591 |
| Professional fees | 651,289 | 98,408 | (86,363) | 663,334 |
| Interest | 63,646 | - | - | 63,646 |
| Miscellaneous | 134,818 | - | - | 134,818 |
| Sales tax | 1,571 | - | - | 1,571 |
| Donated services used | 61,289 | - | - | 61,289 |
| Depreciation | 2,151,703 | - | - | 2,151,703 |
| Total Operating Expenses | <u>14,367,262</u> | <u>98,408</u> | <u>(86,363)</u> | <u>14,379,307</u> |
| Change in unrestricted net assets before non-operating items | <u>(1,207,255)</u> | <u>72,300</u> | <u>-</u> | <u>(1,134,955)</u> |
| NON-OPERATING ITEMS | | | | |
| Net change in interest swap liability | 5,007 | - | - | 5,007 |
| Net investment income | - | 175,404 | - | 175,404 |
| Pension and post-retirement benefits | 876,255 | - | - | 876,255 |
| Other non-operating expense | (98,332) | - | - | (98,332) |
| Total Non-Operating Items | <u>782,930</u> | <u>175,404</u> | <u>-</u> | <u>958,334</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | <u>(424,325)</u> | <u>247,704</u> | <u>-</u> | <u>(176,621)</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Contributions | 1,718,357 | - | - | 1,718,357 |
| Net investment income | 27,411 | 216,820 | - | 244,231 |
| Net assets released from restrictions | (1,656,190) | (95,708) | - | (1,751,898) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | <u>89,578</u> | <u>121,112</u> | <u>-</u> | <u>210,690</u> |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS | | | | |
| Contributions | - | 1,100 | - | 1,100 |
| Net investment income | - | 8,025 | - | 8,025 |
| CHANGE IN PERMANENTLY RESTRICTED NET ASSETS | <u>-</u> | <u>9,125</u> | <u>-</u> | <u>9,125</u> |
| CHANGE IN NET ASSETS | (334,747) | 377,941 | - | 43,194 |
| NET ASSETS - Beginning of year | 7,851,680 | 6,522,749 | - | 14,374,429 |
| NET ASSETS - END OF THE YEAR | <u>\$ 7,516,933</u> | <u>\$ 6,900,690</u> | <u>\$ -</u> | <u>\$ 14,417,623</u> |

MILWAUKEE PUBLIC MUSEUM, INC.

SCHEDULE FOR MILWAUKEE COUNTY As of and for the Year Ended August 31, 2018

Section 5.3 as amended of the Lease and Management Agreement ("LMA") includes terms that the County's annual Base Level Funding of \$3,500,000 is predicated on the Milwaukee Public Museum, Inc. meeting or exceeding certain contingencies and operating goals. The Milwaukee Public Museum, Inc.'s annual financial reports are based on a year end of August 31st which shall also be the date of determining compliance with the conditions. In the event the Milwaukee Public Museum, Inc. fails to meet or exceed any one of the following conditions, the County may reduce the Base Level Funding set forth above by \$250,000 for any subsequent year:

a) Milwaukee Public Museum, Inc. will obtain donor commitments for any remaining Milwaukee Public Museum Inc. bank debt, estimated to be approximately \$1,500,000, by December 15, 2015.

The bank debt refers to the original term note and does not include the seasonal working capital line of credit. For the term note, donor commitments have been received for the eventual elimination of the total debt and the term debt was extinguished on December 13, 2017.

b) Annual attendance of the Museum, its theater/planetarium, and special exhibits, events, and programs exceeds 400,000 during the preceding fiscal year.

Total attendance exceeded 513,000 in fiscal year 2018.

c) Milwaukee Public Museum, Inc. generates positive unrestricted operating earnings as defined by unrestricted operating net income plus depreciation is greater than zero.

For fiscal year 2018, the Museum's positive unrestricted operating earnings were greater than zero.

d) Total Milwaukee Public Museum Endowment Fund net assets are a minimum of \$1,550,000 in unrestricted net assets as amended in September 2018.

For fiscal year 2018, Endowment unrestricted net assets were \$2,541,386.

e) Milwaukee Public Museum, Inc.'s total net assets continue to exceed the value as of fiscal 2013 year end audited results excluding gains associated with pension contribution and gift commitments for debt elimination.

Fiscal year 2013 net assets of \$17,886,491 need to be adjusted for pension contribution and debt elimination gifts which totaled \$7,500,000 leaving a balance of \$10,386,491. Fiscal year 2018 total net assets equal \$14,417,623.

f) Any new debt, except for working capital, collateralized debt by donor pledges or personal assets, is approved by the County Executive or designee.

A theater note of \$640,000 was authorized during fiscal year 2016 for the Theater Revitalization Project. The note is secured by all the assets of the Organization. However, the Organization has secured a pledge to pay this note over four years. The balance of the theater note is \$320,000 as of August 31, 2018. No additional debt has been requested or obtained during fiscal year 2018. In September 2018, the Organization switched financial institutions and combined the balance of the note and a working capital line of credit. The new line of credit has \$2,500,000 available for operations.