



Date: November 23, 2015

To: Chairman T. Lipscomb, Sr.
Supervisor W. Johnson, Jr.
Supervisor J. Schmitt
Supervisor G. Broderick

CC: Dennis Kois

**Subject: Report from the Milwaukee Public Museum
Executive Summary for Fiscal 2015 Ending Aug 31st, 2015
Yearend Audited Financial Results**

Executive Summary

The 2015 financial results for MPM should be understood within the context of two key goals:

1. Leadership has identified growing long-term philanthropic support as the top strategic priority in this and future years. An array of initiatives have been undertaken to advance this goal, including organizational changes, exhibit renovations, program initiatives, Board development, the engagement of exceptionally high-quality special exhibitions, and community messaging.
2. The continued improvement of the fiscal operating performance of the museum remains an important ongoing goal.

By nearly every measure, both of these areas improved significantly in the fiscal year that just ended (Aug 31st, 2015). On an operating basis the museum finished the year in the black; generating a net operating profit of \$11,744 versus the prior year's loss of (\$398,195). This was particularly notable given that MPM chose not to host a major spring traveling exhibition in FY2015 (these exhibits are typically significant revenue drivers) because of the opening of the new permanent exhibit *Crossroads of Civilization*—the first such new exhibit at MPM in over a decade.

MPM raised \$4,450,344 for unrestricted fundraising, a 19% increase over the prior year, making FY2015 the most successful year for fundraising at MPM in a decade. This increase does not include the \$2.4 million of additional funds raised for restricted projects, including the *Crossroads of Civilization* exhibition and the *Streets of Old Milwaukee* renovation.

These improvements in the Museum's operating and fundraising results were impacted by the effect of non-cash items which are generally outside the Museum's immediate control. The most significant of these items include changes included actuarial lifespan adjustments for long-term pension and retiree medical liabilities and losses incurred by MPM's pension trust and

Milwaukee Public Museum

endowment in a weak investment market. While 2014 had favorable impacts from these same items, 2015 required entries going in the other direction.

MPM operations saw revenues of \$13.45 million, nearly matching the prior year's performance (\$13.5M) despite not hosting a major traveling exhibit. Admissions revenues for the museum and the theater were down from budget by approximately (\$500,000) despite increased attendance. The Admission shortfall to budget was due to three specific decisions taken by leadership focused on shifting public perceptions and improving the value proposition of MPM in the long-term. First, MPM decided to use the fall *Alien Worlds* exhibit as a member perk, rather than charge members additional admission as had originally been budgeted. Second, MPM chose not to up-charge visitors to go into the new *Crossroads of Civilization* exhibit, as had been budgeted. Finally, MPM changed its pricing policy to include a planetarium show in a basic admission to the museum for all visitors, rather than having a separate up-charge. While this decision had a short-term negative impact on revenue vs. budget, over the long haul it will (integrated with a new pricing structure for all visitors) have positive revenue impacts along with ensuring a better museum experience for every visitor.

Total Museum attendance increased by nearly 5% over the prior year, exceeding 450,000 visitors.

Overall, operating expenses excluding depreciation were down 1% from prior year at \$12.7M. The non-operating adjustments that impacted net assets outside of operations included substantial increases to Pension and Retiree Medical liabilities, primarily due to the adoption of new life expectancy tables by the Society of Actuaries; an issue that has negatively impacted every U.S.-based organization with pension obligations. In addition, market losses by the invested pension assets and MPM's endowment added additional liability. After the actuarial changes, MPM's legacy pension is more than 80% funded, which places it in a strong position compared to national averages. All MPM investments are overseen by an independent Board of Directors, and are invested in a manner reflective of best practices in the non-profit field. The results obtained by the museum in FY15 were generally in line with market averages for benchmark investments over the same period.

Milwaukee Public Museum

The following analysis lays out the non-cash accounting adjustments falling below the line of operating results, which drive a resulting negative Change in Net Assets.

	<u>Yearend FY 2015</u>	<u>Yearend FY 2014</u>
Net Operating Result	11,744	(398,195)
 Non-Operating Impacts:		
Pension Adjustment*	(2,194,88)	1,153,438
Retiree Medical Adjustment	(437,606)	2,116,568
Investment (Losses)/Gains	(370,346)	880,869
Other**	(315,696)	43,100
Depreciation	(1,132,32)	(1,180,17)
 Change in MPM Net Assets	 (4,439,14)	 2,615,583

* 2015 Actuarial Pension Adjustment was driven by the following:
Change in Actuarial Life Expectancy Tables (\$1.0M); pension fund investment losses vs. assumed gains (\$0.9M); impact of wage increases for active employees (\$0.3M).

** Other includes down payments on future exhibitions, a restructuring reserve, and gains on interest rate swaps.

MPM continues to make significant progress toward reducing the operating shortfalls that occurred in prior years and build a long-term strategy for sustainability and success. The fiscal advances made by prior leadership, including commitments that will make MPM debt-free and support of legacy pension obligations by our partners at Milwaukee County, will continue to pay dividends and set the stage for the current and future success.

Looking ahead to 2016, we are encouraged by several factors. First, the success of the new pricing model and the increasing attendance trends will bear financial fruit. Second, MPM appears to have reversed a trend of slowly declining base museum attendance dating back to 2008 (a trend experienced by many museums nationwide), and the average admission paid per visitor (or “per cap”) increased 10% over the prior year to \$5.27 In addition, we anticipate a significant attendance bump with the opening of the re-imagined *Streets of Old Milwaukee* on December 11th, followed by the opening of the exhibition, *Ultimate Dinosaurs*, in February. Both of these will have a favorable impact on attendance and revenue.

For the mid-term, MPM has already put in place contracts for exceptionally high-quality major exhibits through 2019, and has started development on several exhibition projects that draw on our own collection of 4.5 million objects. Establishing a long lead-time for these projects allows our development team the time to find and secure key corporate sponsorships for these exhibits. It also allows more planning time for creation of the related educational and public programming

Milwaukee Public Museum

associated with each. Further development of mission related programs and sponsorship of those programs will support the growth of MPM's financial performance.

Finally, in the long term, MPM has previously announced that it is engaged in a large-scale strategic planning process, which is ongoing. Working with Gallagher & Associates (Washington, DC), MPM is initially conducting a Visitor Experience planning project that solicits community input (more than 3,000 individuals have participated so far). The planning process will eventually dovetail with internal strategic planning, collections strategies planning, and feasibility and fundraising capacity studies. MPM anticipates concluding the Visitor Experience planning process during 2016.

The following financial statements have been audited externally and approved by the MPM Board of Directors. Please contact me if you have any questions or concerns with the enclosed materials.

Sincerely,

Michael A. Bernatz

Michael A. Bernatz
Chief Financial Officer
Milwaukee Public Museum

Milwaukee Public Museum

MPM Consolidated Statement of Activities for the Year Ended 8/31/15					
	YTD	YTD		Prior Year	Prior Year
	Actual	Budget	Dev	Actual	Change
Revenue:					
Contributions	2,782,120	2,861,838	(79,718)	2,355,725	426,395
Vision Fund	241,175	0	241,175	10,000	231,175
Membership	961,281	951,878	9,403	888,077	73,204
Special Event Revenue	465,768	545,750	(79,982)	486,313	(20,545)
Public Support	3,500,000	3,500,000	0	3,500,792	(792)
Admissions	1,476,601	1,829,800	(353,199)	1,950,513	(473,913)
Theatre/Planetarium	359,244	493,055	(133,811)	466,224	(106,979)
Programs	147,272	177,601	(30,329)	157,081	(9,808)
Contributed Services	287,623	0	287,623	312,471	(24,848)
Restaurant and Facility Rental	229,227	206,500	22,727	201,367	27,861
Retail	555,435	573,755	(18,320)	566,298	(10,863)
Other income	51,247	33,183	18,063	143,862	(92,616)
Net Assets released from restrictions	2,395,415	2,788,636	(393,220)	2,471,716	(76,301)
Total Unrestricted Revenue	13,452,409	13,961,997	(509,588)	13,510,438	(58,030)
Operating Expenses:					
Cost of Goods Sold	245,237	237,022	8,215	227,398	17,839
Supplies	907,998	1,036,687	(128,689)	1,111,233	(203,235)
Salaries and Wages	6,050,885	5,967,174	83,711	5,976,873	74,011
Benefits	1,823,526	1,681,108	142,418	1,686,012	137,514
Travel	45,658	73,055	(27,397)	38,044	7,614
Insurance	113,457	113,914	(456)	107,468	5,989
Marketing/Public Relations	425,728	691,797	(266,069)	611,387	(185,659)
Member/Donor Development	49,557	85,118	(35,561)	39,916	9,641
Subscriptions/Memberships	20,466	27,830	(7,364)	26,060	(5,594)
Maintenance	789,472	650,263	139,209	757,871	31,601
Utilities	1,048,938	1,076,010	(27,072)	1,090,480	(41,542)
Professional Fees	630,157	736,567	(106,410)	554,430	75,726
Interest Expense	129,852	148,612	(18,760)	156,717	(26,865)
Miscellaneous	95,694	100,803	(5,109)	82,560	13,134
Sales Tax Expense	13,343	15,400	(2,057)	12,496	848
Contributed Services	284,623	0	284,623	312,471	(27,848)
Depreciation	1,132,392	1,083,586	48,806	1,180,197	(47,805)
Total Operating Expenses	13,806,983	13,724,946	82,037	13,971,614	(164,631)
Inc/(dec) in Unrestricted Net Assets in Operating Items	(354,574)	237,051	(591,625)	(461,176)	106,602
Non-Operating Items:					
Investment Earnings	(211,421)	0	(211,421)	328,879	(540,300)
Loss on Swap Liability	57,916	0	57,916	43,100	14,816
Pension & Post Retirement Expenses	(2,632,454)	(108,000)	(2,524,454)	3,104,297	(5,736,751)
Non-Operating Expense	(198,612)	0	(198,612)	0	(198,612)
Total Non-Operating Items	(2,984,571)	(108,000)	(2,876,571)	3,476,276	(6,460,847)
Inc/(dec) in Unrestricted Net Assets	(3,339,145)	129,051	(3,468,196)	3,015,100	(6,354,246)
Changes in Temporarily Restricted Net Assets:					
Contributions	1,452,242	2,921,800	(1,469,558)	1,514,210	(61,968)
Investment Earnings	(158,925)	0	(158,925)	538,801	(697,725)
Net Assets released from restrictions for operations	(2,395,415)	(2,788,636)	393,220	(2,471,716)	76,301
Inc/(dec) in Temporarily Restricted Net Assets	(1,102,098)	133,164	(1,235,262)	(418,706)	(683,392)
Changes in Permanently Restricted Net Assets:					
Contributions	2,100	0	2,100	5,000	(2,900)
Investment Earnings	0	0	0	13,189	(13,189)
Net Assets released from restrictions for operations	0	0	0	0	0
Inc/(dec) in Permanently Restricted Net Assets	2,100	0	2,100	18,189	(16,089)
Inc/(dec) in Net Assets	(4,439,144)	262,215	(4,701,359)	2,614,583	(7,053,727)
Total Net Assets at Beginning of Period	20,501,075	20,501,075	0	17,886,491	2,614,584
Total Net Assets at End of Period	16,061,931	20,763,290	(4,701,359)	20,501,074	(4,439,143)

Milwaukee Public Museum

MPM Consolidated Statement of Financial Position as of 8/31/15			
	Consolidated	Consolidated	
	<u>8/31/15</u>	<u>8/31/14</u>	<u>Change</u>
Assets:			
Cash and cash equivalents	1,691,129	1,467,247	223,882
Investments	263,309	277,223	(13,914)
Accounts Receivable	46,309	98,115	(51,806)
Contributions Receivable -Current	1,119,980	1,145,523	(25,543)
Due From Other Entities	0	0	0
Inventories, net	39,093	72,073	(32,980)
Prepaid Expenses	79,779	141,572	(61,793)
Total Current Assets	3,239,599	3,201,753	37,846
Other Assets:			
Cash and investments held for endowment	5,783,561	6,932,992	(1,149,431)
Contributions Receivable - Long Term	2,129,003	3,090,977	(961,974)
Other Long Term Assets	0	0	0
Total Other Aassets	7,912,564	10,023,969	(2,111,405)
Property & Equipment:			
Construction in Progress	1,403,488	1,319,611	83,877
Building Additions	19,680,737	19,508,737	172,000
Furniture, equipment and other improvements	12,041,996	11,344,519	697,477
Gross Property & Equipment	33,126,221	32,172,867	953,354
Less-Accumulated depreciation	(18,163,074)	(17,407,903)	(755,171)
Net Property & Equipment	14,963,147	14,764,964	198,183
Total Assets	26,115,310	27,990,686	(1,875,376)
Liabilities and Net Assets:			
Accounts Payable	489,030	636,033	(147,003)
Accrued Payroll & Benefits	773,057	513,836	259,221
Deferred Revenue	1,003,482	1,022,032	(18,550)
Interest Payable	10,071	11,856	(1,785)
Accrued Postretirement Benefits - Current	124,639	105,408	19,231
Notes Payable - Current	1,600,000	1,180,000	420,000
Lease Payable - Current	25,328	23,743	1,585
Total Current Liabilities	4,025,606	3,492,908	532,698
Accrued Postretirement Benefits	5,176,624	2,632,310	2,544,314
Interest Rate Swap Liability	75,335	133,251	(57,916)
Due to Other Entities	0	0	0
Notes Payable	767,000	1,197,000	(430,000)
Lease Payable	8,814	34,142	(25,328)
Total Liabilities	10,053,379	7,489,611	2,563,768
Net Assets:			
Unrestricted	6,470,913	9,810,058	(3,339,145)
Temporarily Restricted	5,730,314	6,832,412	(1,102,098)
Permanently Restricted	3,860,705	3,858,605	2,100
Total Net Assets	16,061,931	20,501,075	(4,439,144)
Total Liabilities and Net Assets	26,115,310	27,990,686	(1,875,376)

Milwaukee Public Museum

Consolidated Statement of Cash Flows for the Year Ended 8/31/15		
	YTD	Prior YTD
	<u>Actual</u>	<u>Actual</u>
Operating Activities:		
Increase in net assets	(4,439,144)	2,614,583
Adjustments to reconcile net cash flows from operations:		
Depreciation and amortization	1,132,392	1,180,197
Loss on disposal of assets	5,231	0
Change in value of interest rate swap	(57,916)	(43,100)
Unrealized (gain)/loss on investments	696,486	(425,030)
Realized (gain)/loss on investments	(200,000)	(320,589)
Changes in operating assets and liabilities:		
Accounts Receivable	51,807	(43,222)
Contribution Receivable	987,517	(51,804)
Inventories and Other Assets	32,981	(10,094)
Prepaid Expenses	61,793	18,454
Accounts Payable, Accrued Expenses and Accrued Benefits	2,675,759	(2,926,227)
Due to Affiliates	(0)	0
Interest Payable	(1,785)	(6,035)
Deferred Revenue	(18,550)	(78,279)
Total Adjustments	5,365,714	(2,705,731)
Net cash provided/(used) by operating activities	926,570	(91,147)
Investing Activities:		
Purchases of Property & Equipment	(79,939)	(140,046)
Purchases of Property & Equipment - Restricted	(1,255,865)	(1,290,966)
Proceeds from Sale of Investments	5,250,888	3,315,150
Purchases of Investments	(4,584,029)	(2,972,569)
Net cash provided/(used) in investing activities	(668,945)	(1,088,430)
Financing Activities:		
Principal payments on notes payable	(1,910,000)	(495,000)
Proceeds from Notes Payable/Line of Credit	1,900,000	300,000
Inception of lease	0	72,882
Payments on lease obligations	(23,743)	(14,997)
Net cash provided/(used) in financing activities	(33,743)	(137,115)
Net Inc/(Dec) in Cash and Cash Equivalents	223,882	(1,316,693)
Cash and Cash Equivalents, beginning of period	1,467,247	2,783,938
Cash and Cash Equivalents, end of period	1,691,129	1,467,245

Milwaukee Public Museum