

# MILWAUKEE ART MUSEUM

March 8, 2016

To: County Chairman Theodore Lipscomb, Sr.  
County Executive Chris Abele

CC: Chairman Gerry Broderick, Committee on Parks, Energy and Environment  
Co-Chairman Willie Johnson, Jr., Committee on Finance, Personnel and Audit  
Co-Chairman Jim "Luigi" Schmitt Committee on Finance, Personnel and Audit  
Director Teig Whaley-Smith, Department of Administrative Services  
Allyson R. Smith, Committee on Parks, Energy and Environment  
Jerome Heer, Director of Audits, Office of the Comptroller

From: Jane Wočhos, COFO, Milwaukee Art Museum, Inc.

RE: Report from the Milwaukee Art Museum, Inc.  
Fiscal 2016 – Q1 update (November 2015)

## **Summary**

The mission of the Milwaukee Art Museum, Inc. (Art Museum) is to serve the community and present art as a vital source of inspiration and education. Through exhibitions and related programs, the Art Museum is committed to bring people together to inform, educate and engage in conversation around art.

For the quarter ended November 30, 2015, the Art Museum presented the following major exhibitions; Larry Sultan: Here and Home which ran through January 24, 2016 and Sam Francis: Master Printmaker which runs through March 20, 2016. Our permanent collection was off view to the public until November 24, 2015 as part of our renovation, which was partially funded by Milwaukee County. Attendance was 30% above plan for the year through November; ending at just over 52,000 visitors for the three months ended November 30, 2015, with approximately 60% coming from Milwaukee County. School tours welcomed over 1800 students to the Art Museum for the three months ended November 30 2015, with over 62% of school students from Milwaukee County.

## **Financial results**

Attached are the financial results for the three months ended November 30, 2015, respectively. The Art Museum plans to end the year with a balanced operating budget. The Art Museum contributed revenue accounted for over 54% of all revenue sources. The earned revenue was just over 32% of total revenue. The remaining 14% of revenue was primarily due to the distribution to operations from the endowment fund.

**Looking forward**

We are happy to report that the Museum's campaign to renovate the building and reinstall the art collection in partnership with the County is complete. The project would not have been possible without the generous County contribution of over \$10 million, which included funds for improvement to War Memorial spaces as well. We appreciate the County's efforts to make this project a success.

The Art Museum's current exhibition is Nature and the American Vision: The Hudson River School, which is open until May 8, 2016. Future exhibitions include: American Epics: Thomas Hart Benton and Hollywood, opening June 10, 2016; Taking Center Stage: The Lanford Wilson Collection of Self-Taught Art, opening April 15, 2016 and From Rembrandt to Parmigianino: Old Masters from Private Collections, opening July 29, 2016.

Please contact me if you have any questions or concerns with the enclosed materials.

Regards,

*Jane Wocho*

Jane Wocho  
Chief Operating and Financial Officer  
Milwaukee Art Museum, Inc.

**Milwaukee Art Museum, Inc.**  
**Statements of Financial Position**  
**November 30, 2015 and August 31, 2015**

<b>Assets</b>	<b>11/30/2015</b>	<b>8/31/2015</b>
Cash and cash equivalents	\$ 6,283,772	6,823,140
Accounts receivable - Net	544,939	111,649
Pledges receivable	8,106,583	9,124,489
Investment income receivable	100,187	97,664
Inventories - Net	415,944	385,256
Prepaid expenses	460,565	422,455
Investments	42,250,330	41,917,495
Beneficial interest in assets held in trusts	311,413	311,413
Property and equipment - Net	<u>88,762,920</u>	<u>89,444,850</u>
<b>Total Assets</b>	<b>\$ <u>147,236,653</u></b>	<b>\$ <u>148,638,411</u></b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,030,185	\$ 2,297,171
Construction line of credit	3,700,000	-
Deferred revenue	<u>985,504</u>	<u>1,028,870</u>
<b>Total Liabilities</b>	<b><u>5,715,689</u></b>	<b><u>3,326,041</u></b>
<b>Net Assets</b>		
Unrestricted:		
Board designated	5,410,073	3,756,672
Undesignated	<u>91,046,200</u>	<u>90,277,166</u>
Total unrestricted	96,456,273	94,033,838
Temporarily restricted	19,985,239	23,215,095
Permanently restricted	<u>25,079,462</u>	<u>25,063,437</u>
<b>Total net assets</b>	<b><u>141,520,974</u></b>	<b><u>142,312,370</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>147,236,663</u></b>	<b>\$ <u>145,638,411</u></b>

**Milwaukee Art Museum, Inc.**  
**Statement of Revenues and Expenditures (Operating Fund)**  
**For the Years ending August 31, 2015, First Quarter ending November 30, 2015 and Budget for year ending August 31, 2016**

**BUDGET SUMMARY**

	<b>FY 2015 Actual</b>	<b>FY 2016 Q1 ending 11/30/15</b>	<b>FY 2016 Budget</b>	<b>FY16 Actual As % of Budget</b>
<b>Expenditures</b>				
Personnel expenses	\$ 7,779,546	\$ 1,901,817	\$ 8,580,091	22.2%
Professional services	455,356	159,915	439,734	36.4%
Supplies	324,065	77,535	394,044	19.7%
Equipment rental/maintenance	435,559	133,510	465,999	28.7%
Building repairs/maintenance	489,216	113,872	693,125	16.4%
Insurance	177,517	56,552	220,000	25.7%
Utilities	863,984	215,730	904,480	23.9%
Advertising and marketing	873,969	56,321	964,032	5.8%
Postage/shipping/printing	240,398	88,862	304,563	29.2%
Education programs	184,391	87,069	300,111	29.0%
Exhibitions	1,431,246	81,691	1,145,059	7.1%
Other	258,763	71,278	367,683	19.4%
Fundraising/donor/volunteer	493,355	74,961	451,900	16.6%
Bank fees	187,818	46,172	154,023	30.0%
<b>Total Expenditures</b>	<b>14,195,183</b>	<b>3,165,285</b>	<b>15,384,844</b>	<b>20.6%</b>
<b>Revenues</b>				
Annual campaign and membership	4,649,721	1,057,947	5,354,000	19.8%
Grants and sponsorships	1,613,708	368,646	1,874,016	19.7%
Admissions	988,518	215,147	1,488,024	14.5%
Exhibition revenue	297,215	1,398	33,250	4.2%
Facility rental	415,717	127,111	501,725	25.3%
Parking	304,101	68,569	358,766	19.1%
Tours	102,066	11,295	229,501	4.9%
Store gross margin	668,255	158,618	649,026	24.4%
Café gross margin	1,112,848	331,207	1,375,717	24.1%
Other	1,335,397	101,994	948,619	10.8%
Distribution from endowment	1,610,000	445,886	1,472,200	30.3%
<b>Milwaukee County Contribution</b>	<b>1,100,000</b>	<b>275,000</b>	<b>1,100,000</b>	<b>25.0%</b>
<b>Total Revenue</b>	<b>\$ 14,197,546</b>	<b>3,162,818</b>	<b>15,384,844</b>	<b>20.6%</b>
<b>Budget Surplus/(Deficit):*</b>	<b>2,363</b>	<b>(2,467)</b>	<b>-</b>	
<b>County Contribution as % of Total Revenue:</b>	<b>8%</b>	<b>9%</b>	<b>7%</b>	

\* Quarterly reporting is variable based on timing of gifts, pledges and other revenue. MAM is forecasting to have a balanced budget for FY2016

# **Milwaukee Art Museum, Inc.**

Milwaukee, Wisconsin

## **Financial Statements and Supplementary Information**

Years Ended August 31, 2015 and 2014

# Milwaukee Art Museum, Inc.

Financial Statements and Supplementary Information  
Years Ended August 31, 2015 and 2014

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Milwaukee Art Museum, Inc., which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Art Museum, Inc. as of August 31, 2015 and 2014, 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.

## Correction of an Error

As discussed in Note 10 to the financial statements, an error resulting in an understatement of amounts previously reported for deferred revenue and an overstatement in contributions and membership support were discovered by management of Milwaukee Art Museum, Inc. during the current year. Accordingly, amounts reported for deferred revenue and contributions and membership support have been restated in the 2014 financial statements now presented, and an adjustment has been made to unrestricted net assets as of September 1, 2013 to correct the error. In addition, an error resulting in the understatement of amounts released from temporarily restricted net assets was discovered by management of the Milwaukee Art Museum. Accordingly, amounts reported for net assets released from restrictions have been increased in the 2014 financial statements. Our opinion is not modified with respect to these matters.

## Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information appearing on pages 35 and 36 is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Wipfli LLP*

Wipfli LLP

Milwaukee, Wisconsin  
December 21, 2015



# Milwaukee Art Museum, Inc.

## Statements of Financial Position

August 31, 2015 and 2014

<i>Assets</i>	2015	2014 (Restated)
Current assets:		
Cash and cash equivalents	\$ 6,823,139	\$ 5,001,075
Accounts receivable - Net	111,648	197,303
Current portion of pledges receivable	4,166,856	7,309,079
Investment income receivable	97,664	100,401
Inventories - Net	385,256	450,635
Prepaid expenses	422,457	883,348
<b>Total current assets</b>	<b>12,007,020</b>	<b>13,941,841</b>
Investments	42,533,782	51,268,384
Pledges receivable, less current portion	4,341,346	3,854,524
Beneficial interest in assets held in trust	311,413	328,272
Property and equipment - Net	89,444,850	78,170,814
Collections (see Note 1 to the financial statements)		
<b>TOTAL ASSETS</b>	<b>\$ 148,638,411</b>	<b>\$ 147,563,835</b>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,297,171	\$ 1,381,448
Deferred revenue	1,028,870	1,224,530
<b>Total current liabilities</b>	<b>3,326,041</b>	<b>2,605,978</b>
Net assets:		
Unrestricted:		
Board designated	6,756,672	6,298,840
Undesignated	90,277,166	79,017,624
<b>Total unrestricted</b>	<b>97,033,838</b>	<b>85,316,464</b>
Temporarily restricted	23,215,095	35,260,250
Permanently restricted	25,063,437	24,381,143
<b>Total net assets</b>	<b>145,312,370</b>	<b>144,957,857</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 148,638,411</b>	<b>\$ 147,563,835</b>

See accompanying notes to financial statements.

# Milwaukee Art Museum, Inc.

## Statements of Activities

Year Ended August 31, 2015

	Operating Fund	Other Funds	Subtotal Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Operating support and revenue:						
Contributions and membership	\$ 4,611,341	\$ 1,266,769	\$ 5,878,110	\$ 607,724	\$ -	\$ 6,485,834
Grants and sponsorships	17,500	-	17,500	5,543,766	-	5,561,266
Milwaukee County	1,100,000	-	1,100,000	-	-	1,100,000
Admission, tour fees, and parking	1,394,684	-	1,394,684	-	-	1,394,684
Education programs	131,672	-	131,672	-	-	131,672
Exhibition and curatorial income	297,215	-	297,215	-	-	297,215
Net retail operations (cost of sales of \$679,525)	678,797	-	678,797	-	-	678,797
Net museum café (cost of sales of \$564,584)	1,112,848	-	1,112,848	-	-	1,112,848
Facility rental income	415,717	-	415,717	-	-	415,717
Fundraising events and auxiliary activities	261,107	-	261,107	597,933	-	859,040
Other	497,586	-	497,586	15,636	-	513,222
Investment return appropriated for operations	1,610,000	(13,682)	1,596,318	(1,596,318)	-	-
Net assets released from restrictions	3,804,233	13,500,879	17,305,112	(17,528,866)	223,754	-
<b>Total operating support and revenue</b>	<b>15,932,700</b>	<b>14,753,966</b>	<b>30,686,666</b>	<b>(12,360,125)</b>	<b>223,754</b>	<b>18,550,295</b>
Operating expenses:						
Program services:						
Education	1,127,716	-	1,127,716	-	-	1,127,716
Audience, communication, and member development	1,993,440	-	1,993,440	-	-	1,993,440
Presentation and curatorial	3,506,575	-	3,506,575	-	-	3,506,575
Business operations	1,461,680	-	1,461,680	-	-	1,461,680
<b>Total program services</b>	<b>8,089,411</b>	<b>-</b>	<b>8,089,411</b>	<b>-</b>	<b>-</b>	<b>8,089,411</b>
Supporting services:						
General and administrative	2,308,022	25,063	2,333,085	-	-	2,333,085
Financial development and volunteer services	2,560,034	-	2,560,034	-	-	2,560,034
Building services	2,975,537	-	2,975,537	-	-	2,975,537
<b>Total supporting services</b>	<b>7,843,593</b>	<b>25,063</b>	<b>7,868,656</b>	<b>-</b>	<b>-</b>	<b>7,868,656</b>
<b>Total operating expenses</b>	<b>15,933,004</b>	<b>25,063</b>	<b>15,958,067</b>	<b>-</b>	<b>-</b>	<b>15,958,067</b>
<b>Change in net assets from operating activities</b>	<b>(304)</b>	<b>14,728,903</b>	<b>14,728,599</b>	<b>(12,360,125)</b>	<b>223,754</b>	<b>2,592,228</b>

# Milwaukee Art Museum, Inc.

## Statements of Activities (Continued)

Year Ended August 31, 2015

	Operating Fund	Other Funds	Subtotal Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Nonoperating revenue, support, gains, and losses:						
Contributions designated for acquisition of art	-	-	-	1,363,158	-	1,363,158
Net assets released to fund acquisitions of art	-	308,135	308,135	(308,135)	-	-
Acquisitions of art	-	(343,031)	(343,031)	(866,170)	-	(1,209,201)
Investment income	2,669	36,581	39,250	157,564	8,332	205,146
Contributions designated for endowment or building fund	-	1,123	1,123	12,553	450,208	463,884
Depreciation and amortization	-	(2,999,843)	(2,999,843)	-	-	(2,999,843)
Other	-	(16,859)	(16,859)	(44,000)	-	(60,859)
Total nonoperating revenue, support, gains, and losses	2,669	(3,013,894)	(3,011,225)	314,970	458,540	(2,237,715)
Changes in net assets	2,365	11,715,009	11,717,374	(12,045,155)	682,294	354,513
Net assets at beginning of year, as restated	518,537	84,797,927	85,316,464	35,260,250	24,381,143	144,957,857
Net assets at end of year	\$ 520,902	\$ 96,512,936	\$ 97,033,838	\$ 23,215,095	\$ 25,063,437	\$ 145,312,370

See accompanying notes to financial statements.

# Milwaukee Art Museum, Inc.

## Statements of Activities (Continued)

Year Ended August 31, 2014 (Restated)

	Operating Fund (Restated)	Other Funds	Subtotal Unrestricted (Restated)	Temporarily Restricted	Permanently Restricted	Totals (Restated)
Operating support and revenue:						
Contributions and membership	\$ 4,586,239	\$ 2,580,314	\$ 7,166,553	\$ 394,857	\$ -	\$ 7,561,410
Grants and sponsorships	17,500	-	17,500	13,289,105	-	13,306,605
Milwaukee County	971,419	-	971,419	-	-	971,419
Milwaukee County War Memorial Center, Inc.	55,250	-	55,250	-	-	55,250
Admission, tour fees, and parking	1,960,571	-	1,960,571	-	-	1,960,571
Education programs	150,863	-	150,863	-	-	150,863
Exhibition and curatorial income	293,640	-	293,640	-	-	293,640
Net retail operations (cost of sales of \$847,755)	695,141	-	695,141	-	-	695,141
Net museum café (cost of sales of \$521,352)	1,158,773	-	1,158,773	-	-	1,158,773
Facility rental income	501,417	-	501,417	-	-	501,417
Fundraising events and auxiliary activities	280,163	-	280,163	509,909	-	790,072
Other	416,500	-	416,500	77,522	-	494,022
Investment return appropriated for operations	1,220,499	(92,666)	1,127,833	(1,127,833)	-	-
Net assets released from restrictions	2,852,612	1,702,674	4,555,286	(4,991,893)	436,607	-
<b>Total operating support and revenue</b>	<b>15,160,587</b>	<b>4,190,322</b>	<b>19,350,909</b>	<b>8,151,667</b>	<b>436,607</b>	<b>27,939,183</b>
Operating expenses:						
Program services:						
Education	1,320,665	-	1,320,665	-	-	1,320,665
Audience, communication, and member development	2,119,079	-	2,119,079	-	-	2,119,079
Presentation and curatorial	3,463,934	-	3,463,934	-	-	3,463,934
Business operations	1,436,130	-	1,436,130	-	-	1,436,130
<b>Total program services</b>	<b>8,339,808</b>	<b>-</b>	<b>8,339,808</b>	<b>-</b>	<b>-</b>	<b>8,339,808</b>
Supporting services:						
General and administrative	1,830,104	34	1,830,138	-	-	1,830,138
Financial development and volunteer services	2,218,070	-	2,218,070	-	-	2,218,070
Building services	2,967,146	-	2,967,146	-	-	2,967,146
<b>Total supporting services</b>	<b>7,015,320</b>	<b>34</b>	<b>7,015,354</b>	<b>-</b>	<b>-</b>	<b>7,015,354</b>
<b>Total operating expenses</b>	<b>15,355,128</b>	<b>34</b>	<b>15,355,162</b>	<b>-</b>	<b>-</b>	<b>15,355,162</b>
<b>Change in net assets from operating activities</b>	<b>(194,541)</b>	<b>4,190,288</b>	<b>3,995,747</b>	<b>8,151,667</b>	<b>436,607</b>	<b>12,584,021</b>

# Milwaukee Art Museum, Inc.

## Statements of Activities (Continued)

Year Ended August 31, 2014 (Restated)

	Operating Fund (Restated)	Other Funds	Subtotal Unrestricted (Restated)	Temporarily Restricted	Permanently Restricted	Totals (Restated)
Nonoperating revenue, support, gains, and losses:						
Contributions designated for acquisition of art	-	-	-	196,916	-	196,916
Net assets released to fund acquisitions of art	-	164,500	164,500	(164,500)	-	-
Acquisitions of art	-	(164,500)	(164,500)	(806,105)	-	(970,605)
Investment income	1,958	140,733	142,691	4,838,637	50,722	5,032,050
Contributions designated for endowment or building fund	-	300,300	300,300	15,688	563,725	879,713
Depreciation and amortization	-	(3,019,798)	(3,019,798)	-	-	(3,019,798)
Transfer of net assets	-	(100,168)	(100,168)	200,168	(100,000)	-
Other	-	34,131	34,131	6,212	-	40,343
<b>Total nonoperating revenue, support, gains, and losses</b>	<b>1,958</b>	<b>(2,644,802)</b>	<b>(2,642,844)</b>	<b>4,287,016</b>	<b>514,447</b>	<b>2,158,619</b>
Changes in net assets	(192,583)	1,545,486	1,352,903	12,438,683	951,054	14,742,640
Net assets at beginning of year, original	1,085,570	83,252,441	84,338,011	22,821,567	23,430,089	130,589,667
Prior period adjustment (Note 10)	(374,450)	-	(374,450)	-	-	(374,450)
Net assets at beginning of year, as restated	711,120	83,252,441	83,963,561	22,821,567	23,430,089	130,215,217
Net assets at end of year, as restated	\$ 518,537	\$ 84,797,927	\$ 85,316,464	\$ 35,260,250	\$ 24,381,143	\$ 144,957,857

See accompanying notes to financial statements.

# Milwaukee Art Museum, Inc.

## Statements of Cash Flows

Years Ended August 31, 2015 and 2014

	2015	2014 (Restated)
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 354,513	\$ 14,742,640
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Provision for inventory obsolescence	(15,100)	2,000
Recovery of uncollectable accounts	(28,503)	(49,693)
Depreciation and amortization	2,999,843	3,019,798
Contributions designated for long-term investments, capital expenditures, and art purchases	(8,895,419)	(13,191,033)
Acquisitions of art	1,209,201	970,605
Net realized gains on sale of investments	(3,283,727)	(1,843,201)
Net change in unrealized losses (gains) on investments	3,173,566	(2,397,485)
Change in beneficial interest in assets held in trust	6,790	(30,010)
Changes in assets and liabilities:		
Accounts receivable	111,655	108,561
Pledges receivable	7,508,657	778,829
Investment income receivable	2,737	4,623
Inventories	80,479	(28,005)
Prepaid expenses	460,891	(348,062)
Accounts payable and accrued expenses	915,723	200,431
Deferred revenue	(195,660)	268,410
<b>Net cash provided by operating activities</b>	<b>4,405,646</b>	<b>2,208,408</b>
Cash flows from investing activities:		
Acquisitions of art	(1,209,201)	(970,605)
Purchases of investments	(53,611,910)	(36,434,831)
Proceeds from sale of investments	62,456,673	36,127,736
Proceeds from assets held in trusts	10,069	569,745
Purchases of property and equipment	(14,273,879)	(1,640,703)
<b>Net cash used in investing activities</b>	<b>(6,628,248)</b>	<b>(2,348,658)</b>
Net cash provided by financing activities - Contributions designated for long-term investments received		
	4,044,666	3,912,710
<b>Increase in cash and cash equivalents</b>	<b>1,822,064</b>	<b>3,772,460</b>
Cash and cash equivalents at beginning of year	5,001,075	1,228,615
<b>Cash and cash equivalents at end of year</b>	<b>\$ 6,823,139</b>	<b>\$ 5,001,075</b>

See accompanying notes to financial statements.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1      Summary of Significant Accounting Policies

#### Nature of Activities

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

#### Financial Statement Preparation

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

The Art Museum maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

#### Use of Estimates in Preparation of Financial Statements

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

#### Net Assets

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or where donor imposed stipulations are met in the year of the contribution. The statements of activities categorizes unrestricted net assets between the operating fund and all other funds in which unrestricted net assets are recorded.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Net Assets (Continued)

Unrestricted net assets (Continued) - The operating fund is the fund used by the Art Museum to record the day-to-day activities performed in accomplishing the appreciation, understanding, and education of the visual arts. At the end of each fiscal year, an amount equal to the surplus (deficit) in the operating fund is transferred to (from) the board-designated reserves from (to) the operating fund.

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

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Art Museum. Generally, the donors of these assets permit the Art Museum to use all or part of the income earned on any related investments for general or specific purposes.

#### Art Collections

The Art Museum's collection comprises more than 29,000 works of art that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items.



# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Art Collections (Continued)

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

#### Cash and Cash Equivalents

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

#### Accounts Receivable

Accounts receivable are generally uncollateralized client obligations due upon receipt. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management individually reviews all past due accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of accounts receivable have been reduced by allowances of \$39,000 and \$65,000 that reflect management's estimate of uncollectable accounts at August 31, 2015 and 2014, respectively.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Pledges Receivable

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets and reclassified to unrestricted net assets when received.

Pledges receivable are reported in the statements of financial position net of unamortized discounts and an allowance for uncollectable pledges. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate that approximates the rate of government securities applicable to the years in which payments are to be received (between 0.15% and 0.55%). Amortization of the discount is recorded as a change to contributions and membership in the accompanying statement of activities. An allowance for uncollectible accounts is determined by management based on past collection history.

Pledges receivable consist primarily of pledges for the annual campaign, the facility expansion project, and exhibition and education programs.

#### Inventories

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

#### Prepaid Expenses

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

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Investments

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

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

#### Fair Value Measurements

The Art Museum measures the fair value of its financial instruments, pledges receivable, and beneficial interest in assets held in trusts using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Art Museum determines fair value by:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical asset or liabilities in active markets that the Art Museum has the ability to access.
- Level 2 inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in active markets;
  - Inputs, other than quoted prices, that are observable for the asset or liability.
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Fair Value Measurements (Continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs

#### Property, Equipment and Depreciation

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

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

The Art Museum periodically assesses the recoverability of long-lived assets (including property and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows, exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. The Art Museum did not recognize any impairment of long-lived assets during 2015 and 2014.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1      Summary of Significant Accounting Policies (Continued)

#### Deferred Revenue

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

#### Contributions

Contributions, including unconditional promises to give, are recorded in the period the contribution or unconditional promise is received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Donated Building Services

The Art Museum had occupied a portion of its current facility under the terms of an agreement between the Art Museum and the Milwaukee County War Memorial Center, Inc. (the "War Memorial"). The agreement was terminated on September 30, 2013. (see note 15 for updated agreement) Under the agreement, the Art Museum was allowed to occupy permanently and perpetually, without cost, those premises as a memorial decorative arts gallery. With funds provided by Milwaukee County, the War Memorial provided building services, including building maintenance and repairs, utilities, and insurance. The War Memorial determined the fair value of the building services annually. The fair value of the facility and building services amounted to \$55,250 for the year ended August 31, 2014. The Art Museum has recorded in the accompanying statements of activities the in-kind value as support from the War Memorial and a corresponding expense in building services.

#### Admissions and Memberships

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

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising costs charged to expense during the years ended August 31, 2015 and 2014, were \$910,782 and \$834,632, respectively.

#### Purchases and Sales of Art

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

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 1      Summary of Significant Accounting Policies (Continued)

#### Income Taxes

The Art Museum is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Art Museum is also exempt from state income taxes on related income.

The Art Museum's unrelated business income was less than the expenses related to this income in both 2015 and 2014, and therefore, no provision has been made for income taxes in the accompanying financial statements.

#### Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. Such reclassification had no effect upon net assets or the change in net assets.

#### Subsequent Events

Subsequent events have been evaluated through December 21, 2015, which is the date the financial statements were available to be issued.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 2 Inventories

Inventories at August 31 consisted of the following:

	2015	2014
Store inventory	\$ 267,467	\$ 342,671
Publications inventory	113,002	125,976
Café inventory	60,787	45,590
Miscellaneous inventory	-	7,498
Reserve for obsolescence	(56,000)	(71,100)
Inventories - Net	<u>\$ 385,256</u>	<u>\$ 450,635</u>

### Note 3 Investments

Investments consisted of the following at August 31:

	2015	2014
Money market funds	\$ 6,293,316	\$ 7,736,103
U.S. government obligations	3,683,733	3,955,869
Fixed income securities	9,533,097	10,011,784
Equities	11,699,004	11,905,602
Fixed income mutual funds	1,254,288	7,504,807
Equity Mutual funds	10,070,344	10,154,219
Total investments	<u>\$ 42,533,782</u>	<u>\$ 51,268,384</u>



# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 3 Investments (Continued)

Investments were held for the following purposes at August 31:

	2015	2014
Endowment:		
Operations	\$ 19,241,901	\$ 20,310,778
Education	3,650,666	3,695,702
Curatorial	6,181,859	6,137,493
Acquisitions	5,641,375	7,275,469
Other	1,386,639	1,386,353
Total endowment	36,102,440	38,805,795
Funds for reinstatement project	-	5,936,092
Other	6,431,342	6,526,497
Total investments	\$ 42,533,782	\$ 51,268,384

Investment income for the years ended August 31 is as follows:

	2015	2014
Interest and dividend income, net of trustee and management fees	\$ 94,985	\$ 791,364
Net realized gains on sale of investments	3,283,727	1,843,201
Net change in unrealized (losses) gains on investments	(3,173,566)	2,397,485
Total investment income	\$ 205,146	\$ 5,032,050

Investment trustee and management fees of \$145,415 and \$163,501 were paid by the Art Museum for the years ended August 31, 2015 and 2014, respectively.

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

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 4 Pledges Receivable

Pledges receivable at August 31, are summarized as follows:

	2015	2014
Less than one year	\$ 4,166,856	\$ 7,309,079
One to five years	4,437,532	3,944,161
Gross pledges receivable	8,604,388	11,253,240
Less:		
Unamortized discount	46,686	43,137
Allowance for uncollectable accounts	49,500	46,500
Pledges receivable - Net	8,508,202	11,163,603
Less - Current portion	4,166,856	7,309,079
Pledges receivable, less current portion	\$ 4,341,346	\$ 3,854,524

### Note 5 Beneficial Interest in Assets Held in Trust

The Art Museum is the income beneficiary of certain funds maintained by the Greater Milwaukee Foundation, a community support foundation. The Milwaukee Art Museum Endowment Fund (the "Endowment Fund") is a component fund of the Greater Milwaukee Foundation. The assets of the Endowment Fund were unrestricted donations by third-party donors to the Art Museum and then transferred by the Art Museum to the Greater Milwaukee Foundation, with the Art Museum named as beneficiary. Periodic distributions of income are made to the Art Museum. Under GAAP, the fair value of the Endowment Fund of \$311,413 and \$328,272 as of August 31, 2015 and 2014, respectively, is recorded as a beneficial interest in assets held in trust in the accompanying statements of financial position. The Art Museum received income distributions of \$10,069 and \$9,718 from this fund during 2015 and 2014, respectively.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 5 Beneficial Interest in Assets Held in Trust (Continued)

The Art Museum is also the income beneficiary of eleven other designated funds of the Greater Milwaukee Foundation. Because these funds have been established at the Greater Milwaukee Foundation by third-party donors (not established by the Art Museum) and due to the Greater Milwaukee Foundation's explicit variance power over the use of these funds, the Art Museum has not recorded any beneficial interest in these assets, nor does the Art Museum record an asset for any potential future distributions from these funds. The designated funds had a fair value of \$6,290,030 and \$6,406,827 at August 31, 2015 and 2014, respectively. The Art Museum received income distributions of \$202,315 and \$183,243 during 2015 and 2014, respectively, from these designated funds.

### Note 6 Property and Equipment

Property and equipment consisted of the following at August 31:

	2015	2014
Building	\$ 95,352,427	\$ 95,352,427
Building improvements	215,747	215,747
Land improvements	11,490,898	11,490,898
Leasehold improvements	5,579,525	5,571,906
Furniture and equipment	4,996,695	4,862,440
Construction in process	16,376,514	2,244,509
Total property and equipment	134,011,806	119,737,927
Less - Accumulated depreciation	44,566,956	41,567,113
Property and equipment - Net	\$ 89,444,850	\$ 78,170,814

Construction in process at August 31, 2015 consists of renovations and construction of additional space (See note 15 and note 16).

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 7 Fair Value Measurements

Information regarding assets measured at fair value on a recurring basis as of August 31, 2015 was as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Cash and equivalents:				
Money market funds	\$ -	\$ 6,293,316	\$ -	\$ 6,293,316
U.S. Government obligations	3,683,733	-	-	3,683,733
Fixed income securities:				
Mortgage-backed securities	6,555,843	-	-	6,555,843
Corporate obligations	-	2,061,592	-	2,061,592
Foreign obligations	-	915,662	-	915,662
Equities:				
Domestic				
Consumer discretionary	1,754,940	-	-	1,754,940
Energy	295,421	-	-	295,421
Financials	2,129,664	-	-	2,129,664
Health care	684,110	-	-	684,110
Industrials	2,466,209	-	-	2,466,209
Information technology	1,056,608	-	-	1,056,608
Materials	144,795	-	-	144,795
Privately held stock	-	-	616,287	616,287
Foreign	2,550,970	-	-	2,550,970
Fixed income mutual funds	1,254,288	-	-	1,254,288
Equity mutual funds:				
Domestic	4,737,482	-	-	4,737,482
Foreign	5,332,862	-	-	5,332,862
Total investments	32,646,925	9,270,570	616,287	42,533,782
Pledges receivable	-	8,508,202	-	8,508,202
Beneficial interest in assets				
held by a third party	-	311,413	-	311,413
Totals	\$ 32,646,925	\$ 18,090,185	\$ 616,287	\$ 51,353,397

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 7 Fair Value Measurements (Continued)

Information regarding assets measured at fair value on a recurring basis as of August 31, 2014 was as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Cash and equivalents:				
Money market funds	\$ -	\$ 7,736,103	\$ -	\$ 7,736,103
U.S. Government obligations	3,955,869	-	-	3,955,869
Fixed income securities:				
Mortgage-backed securities	8,101,825	-	-	8,101,825
Corporate obligations	-	846,676	-	846,676
Foreign obligations	-	1,063,283	-	1,063,283
Equities:				
Domestic				
Consumer discretionary	1,048,443	-	-	1,048,443
Energy	577,004	-	-	577,004
Financials	2,290,431	-	-	2,290,431
Health care	1,116,105	-	-	1,116,105
Industrials	2,341,789	-	-	2,341,789
Information technology	1,154,887	-	-	1,154,887
Materials	214,268	-	-	214,268
Foreign	3,162,675	-	-	3,162,675
Fixed income mutual funds	7,504,807	-	-	7,504,807
Equity mutual funds:				
Domestic	4,388,345	-	-	4,388,345
Foreign	5,765,874	-	-	5,765,874
Total investments	41,622,322	9,646,062	-	51,268,384
Pledges receivable	-	11,163,603	-	11,163,603
Beneficial interest in assets held by a third party	-	328,272	-	328,272
Totals	\$ 41,622,322	\$ 21,137,937	\$ -	\$ 62,760,259

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 7 Fair Value Measurements (Continued)

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

Balance August 31, 2014	\$	-
Contribution		616,287
<hr/>		
Balance August 31, 2015	\$	616,287

Following is a description of the valuation methodology used for each asset measured at fair value on a recurring basis:

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Art Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 8      Lines of Credit

#### Operating Line of Credit

The Art Museum has a bank line of credit agreement with an available credit balance of \$1,500,000 as of August 31, 2015 and 2014. The line of credit bears interest at the London Interbank Offered Rate (LIBOR) plus 100 basis points and is collateralized by certain contributions receivable and investments. The agreement contains covenants that restrict the Art Museum with regard to additional debt, disposition of assets, and use of endowment funds and requires the maintenance of certain financial and reporting covenants. Management believes the Art Museum is in compliance with all financial covenants as of August 31, 2015 and 2014. The line of credit agreement expires April 30, 2016. There were no borrowings under the line of credit at August 31, 2015 and 2014.

#### Construction Line of Credit

In April 2015, the Art Museum entered into a \$10,000,000 construction line of credit agreement in order to fund renovations and construction of additional space. The agreement is secured by pledges associated with a campaign. Under the terms of the agreement, the Art Museum is required to maintain specified financial covenants at which management believes the Art Museum is in compliance as of August 31, 2015. The line of credit has a 24 month interest only period, followed by full amortization of the principal over four years. The line of credit will be converted into a construction note when the renovation project is completed or at the latest on March 1, 2017. The rate during the interest only period is 1-month LIBOR plus 100 basis points (currently at 1.20% as of August 31, 2015). The Art Museum has the right to fix the interest rate during the principal amortization period. There were no borrowings under the line of credit at August 31, 2015. Subsequent to August 31, 2015, the Art Museum has drawn \$3,700,000 on the construction line of credit.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 9 Board-Designated Net Assets

Certain unrestricted net assets are designated for specific purposes by the board of trustees as endowments or restricted by various internal operating and administrative arrangements of the Art Museum. A summary of board designated net assets is as follows at August 31:

	2015	2014
Board-designated endowment	\$ 1,323,299	\$ 1,334,473
Deaccessioning fund	93,066	127,752
Board-designated reserve	5,340,307	4,836,615
Total board designated net assets	\$ 6,756,672	\$ 6,298,840

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

### Note 10 Prior Period Adjustment and Restated Financial Statement

During 2015, the Art Museum determined that it should have recognized certain membership revenue received as deferred revenue in its previously issued financial statements. As a result, beginning unrestricted net assets at September 1, 2013 were reduced by \$374,450, deferred revenues at August 31, 2014 were increased by \$569,147, and contributions and membership revenue for the year ending August 31, 2014 were reduced by \$194,697 to correct this error. In addition the Art Museum, determined that \$664,582 of temporarily restricted net assets were incorrectly not released from restriction for the year ended August 31, 2014. As a result, net assets released from restriction were increased by \$664,582 for the year ended August 31, 2014.



# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 11 Temporarily Restricted Net Assets

Donor restrictions of temporarily restricted net assets at August 31 are summarized as follows:

	2015	2014
Facility expansion project	\$ 857,983	\$ 1,311,504
Acquisition of art	7,134,235	8,223,345
Exhibitions	1,449,465	1,548,294
Education	1,980,255	2,682,363
Collection - Care and maintenance	520,904	699,762
Reinstallation project	6,015,772	14,575,332
Auxiliary activities	1,629,327	1,543,142
Program services	66,500	60,000
Operations	3,560,654	4,616,508
<b>Total temporarily restricted net assets</b>	<b>\$ 23,215,095</b>	<b>\$ 35,260,250</b>

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

	2015	2014
Temporarily restricted net assets released for operations:		
Education	\$ 763,501	\$ 1,029,662
Audience, communication, and member development	286,837	378,773
Presentation and curatorial	659,751	1,349,522
General, administrative, and development	344,009	29,575
Renovations	14,132,005	1,364,909
Transfer to permanently restricted net assets to meet donor designation requirements	223,754	318,372
Financial development and volunteer services	753,996	521,080
Building services	365,013	-
<b>Total temporarily restricted net assets released for operations</b>	<b>17,528,866</b>	<b>4,991,893</b>
Investment return appropriated for operations (see note 12)	1,596,318	1,127,833
Acquisitions of art for collection	308,135	164,500
<b>Total temporarily restricted net assets released from restrictions</b>	<b>\$ 19,433,319</b>	<b>\$ 6,284,226</b>

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 12      Endowments

The Art Museum's endowments consist of various funds established to benefit the Art Museum for a variety of purposes. The Art Museum's endowments include both donor-restricted endowments and funds designated by the board of trustees to function as an endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Donor-Restricted Endowments

The Art Museum has received various endowment gifts for which the donors have stipulated that the gift amount be invested and maintained permanently to generate annual income that benefits the Art Museum for a variety of purposes.

The board of trustees of the Art Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Wisconsin state legislature, as requiring the Art Museum to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Art Museum classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Art Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Art Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (b) the purposes of the donor-restricted endowment funds, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) other resources of the Art Museum, and (g) the Art Museum's investment policies.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 12      Endowments (Continued)

#### Board-Designated Endowment

The board of trustees has set aside certain unrestricted net assets for endowment purposes. Since these amounts are not restricted by the donor but are restricted only by board policy, the amounts have been classified as unrestricted net assets. The board of trustees' intent is that the board-designated endowment will always be equal to the unrestricted net assets of the Endowment Fund. The Board of trustees may designate additional amounts from time to time to be added to the endowment fund.

#### Investment Return Objectives, Risk Parameters, and Strategies

The Art Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to preserve the fair value of the endowment assets. Under the Art Museum's investment policy, as approved by the board of trustees, the endowment assets are invested in a manner to produce a rate of return which will permit maximum support for the general operating fund to protect principal, grow the aggregate portfolio value in excess of the rate of inflation and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and ensure that any risk assumed is commensurate with the given investment vehicle and the Art Museum's objectives. The endowment funds are reviewed quarterly by the Art Museum Investment committee, which reports to the Art Museum Finance committee. Changes to the Art Museum investment policy are recommended by the investment committee, approved by the finance committee and by the board of trustees.

To achieve its investment goals, the Art Museum targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control. The Art Museum's asset allocations include a blend of equity and debt securities and cash equivalents.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 12 Endowments (Continued)

#### Distributions

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

An additional allocation is allowed and was approved by the board in 2014 based on market returns. An additional allocation from the endowment was made for 2.78% or \$673,514 for the year ended August 31, 2014. There was no additional allocations from the endowment for the year ended August 31, 2015.

#### Endowment Net Assets

Endowment net assets consisted of the following at August 31:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-designated endowment funds	\$ -	\$ 9,722,622	\$ 25,063,437	\$ 34,786,059
Board-designated and other endowment funds	1,323,299	-	-	1,323,299
<b>Total</b>	<b>\$ 1,323,299</b>	<b>\$ 9,722,622</b>	<b>\$ 25,063,437</b>	<b>\$ 36,109,358</b>

  

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-designated endowment funds	\$ -	\$ 13,114,343	\$ 24,381,143	\$ 37,495,486
Board-designated and other endowment funds	1,334,473	-	-	1,334,473
<b>Total</b>	<b>\$ 1,334,473</b>	<b>\$ 13,114,343</b>	<b>\$ 24,381,143</b>	<b>\$ 38,829,959</b>

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

### Note 12 Endowments (Continued)

#### Endowment Net Assets (Continued)

Changes in the endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 1, 2013	\$ 1,367,401	\$ 10,474,664	\$ 23,430,089	\$ 35,272,154
Contributions	300,300	11,544	563,725	875,569
Investment return:				
Interest and dividends	18,164	633,537	6,679	658,380
Net appreciation	118,602	4,069,721	44,043	4,232,366
Total investment return	136,766	4,703,258	50,722	4,890,746
Appropriations - Acquisition of art	-	(164,500)	-	(164,500)
Appropriations - Operating reserves	(7,012)	(666,502)	-	(673,514)
Investment return appropriated for expenditures	(92,666)	(1,127,833)	-	(1,220,499)
Designated transfers	(370,316)	(116,288)	336,607	(149,997)
Endowment net assets at August 31, 2014	1,334,473	13,114,343	24,381,143	38,829,959
Contributions	1,123	9,232	450,208	460,563
Investment return:				
Interest and dividends	22,971	690,175	10,648	723,794
Net depreciation	(21,586)	(605,377)	(2,316)	(629,279)
Total investment return	1,385	84,798	8,332	94,515
Appropriations - Acquisition of art	-	(308,135)	-	(308,135)
Appropriations - Miscellaneous	-	(5,599)	-	(5,599)
Investment return appropriated for expenditures	(13,682)	(1,596,318)	-	(1,610,000)
Designated transfer - Renovations	-	(1,351,945)	-	(1,351,945)
Designated transfers - Other	-	(223,754)	223,754	-
Endowment net assets at August 31, 2015	\$ 1,323,299	\$ 9,722,622	\$ 25,063,437	\$ 36,109,358

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 13 Employee Benefit Plans

The Art Museum maintains a tax deferred annuity plan qualified under Section 403(b) of the Code. The plan covers all Art Museum employees on their date of hire. The Art Museum matches employee contributions of 1% to 7% of gross salaries for qualified employees who have completed a minimum of one year of continuous employment of 1,000 hours or more. The match for the years ending August 31, 2015 and 2014 was 2%. Employees may make contributions to the plan up to the maximum amount allowed by the Code. The Art Museum's expenses related to this plan were \$44,461 and \$65,357 for the years ended August 31, 2015 and 2014, respectively.

The Art Museum also contributes to a pension plan for eligible security staff as specified by an agreement between the Art Museum and District #10 International Association of Machinists and Aerospace Workers, the labor union representing the security staff. The security staff represents approximately 12% of Art Museum employees. The current agreement is in effect until August 31, 2017. Expenses related to this plan for contributions on behalf of eligible union employees were \$32,022 and \$39,838 for the years ended August 31, 2015 and 2014, respectively.

### Note 14 Concentrations

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

At August 31, 2015 and 2014, pledges from one donor totaled 18% and 19%, respectively, of total pledges receivable.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 15      Leases

#### Lease with Milwaukee County

As of October 1, 2013, the Art Museum, the War Memorial, and Milwaukee County (the "County") entered into various agreements, which changed the structure of the previous agreement with the War Memorial, which terminated on September 30, 2013.

The Art Museum has a direct lease with the County for spaces it currently occupies in the County owned buildings. The Art Museum is responsible for all mechanical functions of their occupied space and will receive \$1,100,000 in support annually from the County through 2023. There is no rent payable under the terms of the lease agreement. The amount received for the year ended August 31, 2015 and 2014 was \$1,100,000 and \$971,419, respectively.

In addition, the Art Museum and the County agreed to jointly share the costs of renovations of \$31,300,000 to existing space and construction of additional space. The construction project began in the fall of 2014 and was completed subsequent to August 31, 2015. The Art Museum will contribute \$21,300,000, while the County is to contribute the remaining \$10,000,000 toward the project. Per the agreement, the improved and additional spaces are donated by the Art Museum to the County, and then leased back to the Art Museum. See note 16 for additional information.

#### Other Leases

The Art Museum leases office equipment and office space under operating leases which expire through September 2018. Rent expense for the years ended August 31, 2015 and 2014 totaled \$92,175 and \$58,480, respectively.

# Milwaukee Art Museum, Inc.

## Notes to Financial Statements

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### Note 15 Leases (Continued)

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

2016	\$	30,431
2017		26,413
2018		11,759
2019		330
<hr/>		
Total	\$	68,933

### Note 16 Commitments and Contingencies

The Art Museum has a letter of credit agreement with an area bank in the amount of \$118,145. The letter of credit agreement is secured by certain assets of the Art Museum and expires in December 2018. The letter of credit agreement is required by the State of Wisconsin since the Museum is self-funded in regard to unemployment insurance.

In 2014, the Art Museum's board of trustees approved renovations to existing space and construction of additional space for an estimated amount of \$21,300,000 (see Note 15). Construction was completed subsequent to August 31, 2015. Construction and other commitments relating to this project total approximately \$4,600,000 at August 31, 2015.

The Art Museum and the County are in mediation related to who is liable for cost overruns related to the renovations.

### Note 17 Subsequent Events

In September 2015, the Art Museum signed an operating lease agreement to lease office space. The lease agreement requires the Art Museum to pay an allocation of property taxes and insurance. The lease commences in December 2015 and expires in September 2026. Total future lease expense approximate \$1,140,000 over the lease term.



# Supplementary Information

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# Milwaukee Art Museum, Inc.

## Schedule of Endowment Funds

August 31, 2015 and 2014

	2015	2014
<b>Donor-restricted endowments:</b>		
Albert Tooman Acquisition Fund	\$ 567,600	\$ 566,528
Boyd Fund	107,340	112,740
Bradley Conservation/Maintenance Fund	1,335,312	1,044,136
Bradley Foundation Fund	4,647,556	5,225,775
Catherine Jean Quirk Fund	94,276	99,019
CAS/Dimoff Fund	220,765	220,349
Constance P. Godfrey Acquisition Fund	471,738	1,820,241
Croasdaile Acquisition Fund	1,593,536	1,626,482
Doerfler Fund	104,233	113,503
Dunham Fund for Education	446,731	361,951
Endowment for Conservation	39,697	41,694
Endowment for Education	603,103	632,946
Erich C. Stern Fund	86,613	86,449
Esther S. Weber Memorial Education Fund	43,753	45,954
Expansion Operating Endowment	889,401	913,701
Florence Eiseman Foundation Fund	46,811	49,163
Frederick Layton Lecture Series Fund	228,530	240,023
Friends of Art Exhibition Fund	1,547,534	1,499,741
General Operating Endowment	7,235,919	7,596,670
Grootemaat Fund	54,473	57,214
Hambling Endowment	901,408	939,927
Hay Gift Annuity	2,392	2,386
Herzfeld Curator of Photography Fund	636,244	436,918
James H. Brachman Fund	74,712	78,474
Jill and Jack Pelisek Fund	85,831	85,669
Joan Marcus Memorial Fund	68,688	72,144
John Hill Gift Annuity	-	5,589
John Porter Retzer and Florence Horn Retzer Competition Fund	288,847	303,378
Katherine Smith Gift Annuity	10,869	10,851
LaBahn Fund	1,514,251	1,590,429
Laskin Fund	1,164,493	1,420,209
Lee, Barbara Brown, Director of Education Endowment	398,321	395,009
Miller Lewensohn Gift Annuity	8,843	8,827
NEA Challenge Endowment-Match	1,489,855	1,564,815
Orth Fund	163,807	171,971
Patti Baker Education Endowment Fund	1,330,633	1,397,573
Pellegrin Family Endowment for Education	333,296	350,064
Pieper Challenge Grant Matching Fund	2,728,125	2,976,603
Rene von Schleinitz Memorial Fund	285,251	284,713
Richard and Ethel Herzfeld Photography Exhibition Fund	515,080	540,993
Schuchardt Fund	29,631	29,575
Suzanne and Richard Pieper Family Fund	1,349,639	1,453,339
Viiski Gift Annuity	9,240	-
Virginia Booth Vogel Acquisition Fund	1,031,682	1,021,751
<b>Total donor-restricted endowments</b>	<b>34,786,059</b>	<b>37,495,486</b>

# Milwaukee Art Museum, Inc.

## Schedule of Endowment Funds (Continued)

August 31, 2015 and 2014

	2015	2014
Board-designated endowments:		
Ruth K. Abrams Fund	\$ 64,483	\$ 67,729
Board Designated Fund	965,077	962,128
Karen Johnson Boyd Fund	194,164	205,215
Gift Annuity Reserve	99,575	99,401
Total board-designated endowments	1,323,299	1,334,473
Total endowment funds	\$ 36,109,358	\$ 38,829,959

Endowment assets consisted of the following at August 31:

	2015	2014
Investments	\$ 36,102,440	\$ 38,805,795
Other	6,918	24,164
Total endowment funds	\$ 36,109,358	\$ 38,829,959

