

**MUSEUM ASSOCIATES AND AFFILIATE
AND THE DEPARTMENT OF MUSEUM
OF ART, COUNTY OF LOS ANGELES**

COMBINING FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
OF MUSEUM OF ART, COUNTY OF LOS ANGELES**

COMBINING FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of Museum Associates and Affiliate
and to the Chief Executive Officer of the County of Los Angeles

We have audited the accompanying combining statement of activities of Museum Associates and Affiliate (not-for-profit corporations) and the Department of Museum of Art, County of Los Angeles (a department of the County of Los Angeles), which collectively are the Los Angeles County Museum of Art (the Museum), for the year ended June 30, 2012. This financial statement is the responsibility of the Museum's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the results of operations of Museum Associates and Affiliate and the Department of Museum of Art, County of Los Angeles, for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combining statement of activities is of Museum Associates and Affiliate and the Department of Museum of Art, County of Los Angeles only and does not represent the full audited consolidated financial statements of Museum Associates and Affiliate nor the full audited financial statements of the County of Los Angeles and its related funds, functions and departments. The full audited consolidated financial statements of Museum Associates and Affiliate have been issued to the Board of Trustees.

This report is intended solely for the information and use of the Board of Trustees of Museum Associates and Affiliate, management and others within the Museum, the Department of Museum of Art, County of Los Angeles, and the County of Los Angeles and is not intended to be and should not be used by anyone other than these specified parties.

Green Hasson & Janks LLP

October 3, 2012
Los Angeles, California

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
OF MUSEUM OF ART, COUNTY OF LOS ANGELES**

**COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

	Museum Associates				Department of Museum of Art, County of Los Angeles		Eliminations	Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	-		
Revenues and support								
Revenues								
Membership dues	\$ 7,085,026	\$ 782,799	\$ -	\$ 7,867,825	\$ -	\$ -	\$ -	\$ 7,867,825
Admissions	6,726,429	-	-	6,726,429	-	-	-	6,726,429
Investment income, net	338,791	802,367	-	1,141,158	-	-	-	1,141,158
Net realized and unrealized loss on investments	(1,904,742)	(621,065)	-	(2,525,807)	-	-	-	(2,525,807)
Unrealized loss on interest rate swap	(52,194,101)	-	-	(52,194,101)	-	-	-	(52,194,101)
Appropriation from the county	-	-	-	-	27,010,849	-	-	27,010,849
County operating contract	21,584,000	-	-	21,584,000	-	(21,584,000)	-	-
Auxiliary activities	4,000,768	665,988	-	4,666,756	-	-	-	4,666,756
Other	6,916,937	442,498	-	7,359,435	-	-	-	7,359,435
Total revenues	(7,446,892)	2,072,587	-	(5,374,305)	27,010,849	(21,584,000)	-	52,544
Support								
Gifts	6,478,655	22,797,575	14,931	29,291,161	-	-	-	29,291,161
Government grants	-	650,220	-	650,220	-	-	-	650,220
Fundraising events, net	1,358,158	1,452,479	-	2,810,637	-	-	-	2,810,637
Total support	7,836,813	24,900,274	14,931	32,752,018	-	-	-	32,752,018
Net assets released from restrictions								
Satisfaction of program restrictions	23,366,921	(23,366,921)	-	-	-	-	-	-
Expiration of time restrictions and other transfers	21,875,275	(21,875,275)	-	-	-	-	-	-
Total net assets released from restrictions	45,242,196	(45,242,196)	-	-	-	-	-	-
Total revenues and support	45,632,117	(18,269,335)	14,931	27,377,713	27,010,849	(21,584,000)	-	32,804,562

The accompanying notes are an integral part of this combined financial statement

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
OF MUSEUM OF ART, COUNTY OF LOS ANGELES**

COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Museum Associates				Department of Museum of Art, County of Los Angeles		Eliminations	Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	-		
Expenses								
Program-related expenses								
Exhibitions and collections management	\$ 16,884,085	\$ -	\$ -	\$ 16,884,085	\$ 702,088	\$ -	\$ -	\$ 17,586,173
County operating contract	-	-	-	-	21,584,000	(21,584,000)	-	-
Curatorial	7,969,500	-	-	7,969,500	1,155,414	-	-	9,124,914
Education and public programs	5,309,390	-	-	5,309,390	106,736	-	-	5,416,126
Marketing and communication	5,855,380	-	-	5,855,380	-	-	-	5,855,380
Operations and public services	13,777,523	-	-	13,777,523	2,561,733	-	-	16,339,256
Property and deferred maintenance	602,075	-	-	602,075	-	-	-	602,075
Depreciation expense	7,889,870	-	-	7,889,870	-	-	-	7,889,870
Revenue bond interest expense and fees	13,723,496	-	-	13,723,496	-	-	-	13,723,496
Revenue bond cost of issuance amortization	610,914	-	-	610,914	-	-	-	610,914
Auxiliary activities	4,574,076	-	-	4,574,076	-	-	-	4,574,076
General and administrative	8,856,348	-	-	8,856,348	900,878	-	-	9,757,226
Development	3,731,157	-	-	3,731,157	-	-	-	3,731,157
Total expenses	89,783,814	-	-	89,783,814	27,010,849	(21,584,000)	-	95,210,663
Change in net assets before change related to collection items	(44,151,697)	(18,269,335)	14,931	(62,406,101)	-	-	-	(62,406,101)
Collection items purchased	(24,161,480)	-	-	(24,161,480)	-	-	-	(24,161,480)
Collection items sold	-	114,356	-	114,356	-	-	-	114,356
Change in net assets after change related to collection items	\$ (68,313,177)	\$ (18,154,979)	\$ 14,931	\$ (86,453,225)	\$ -	\$ -	\$ -	\$ (86,453,225)

The accompanying notes are an integral part of this combined financial statement

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
OF MUSEUM OF ART, COUNTY OF LOS ANGELES**

**NOTES TO COMBINING FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 - GENERAL

Museum Associates is a California nonprofit corporation whose mission is to serve the public through the collection, conservation, exhibition and interpretation of significant works of art from a broad range of cultures and historical periods, and through the translation of these collections into meaningful educational, aesthetic, intellectual and cultural experiences for the widest array of audiences. To that end, the Museum finances the construction of new facilities, mounts exhibitions and conducts other educational programs to enhance public knowledge of the arts through the operation of the Los Angeles County Museum of Art (LACMA).

The Museum is the premier encyclopedic art museum in the Western United States. The Museum's collection of more than 100,000 artworks from around the world spans the history of art, from ancient to contemporary times, including especially strong collections of Asian, Latin American, European, and American art. Through its varied collections, the Museum is both a resource to and a reflection of the many cultural communities and heritages in Southern California and throughout the world.

The Department of Museum of Art, County of Los Angeles (the Department) is a department of the County of Los Angeles (the County). The Department, through the County, owns some of the buildings of LACMA and provides some resources out of the County General Fund to Associates primarily in the form of cash and personnel. Such amounts are reflected as "Appropriation from the County" in the combining statement of activities. Under a contract between the Los Angeles County Board of Supervisors and Associates, the Department and Associates (collectively, the Museum) combine efforts and resources to operate LACMA.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF COMBINATION

The combining statement of activities of Museum Associates and the Department has been prepared to depict the complete operations of LACMA. All material inter-entity transactions and balances have been eliminated in combination.

(b) BASIS OF PRESENTATION

The accompanying combining statement of activities has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

It presents the changes in net assets for each of the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
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**NOTES TO COMBINING STATEMENT OF ACTIVITIES
June 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PRESENTATION (continued)

Temporarily restricted net assets include those assets whose use by the Museum has been limited by donors to later periods of time or for specified purposes. Permanently restricted net assets include those net assets that must be maintained in perpetuity; the investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, for purposes as approved by the Board of Trustees.

(c) INVESTMENTS

The Museum's investments consist of long-only equities, fixed income securities, absolute return funds, and other partnership interests and other funds. The Museum's investment return, consisting of interest, investment and dividend income, realized gains and losses from investment purchases and sales, and changes in unrealized gains and losses resulting from changes in fair value, is reflected in the combining statement of activities.

Investment return in all net asset classifications is allocated based on the individual investment asset as a percentage of total investment assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

Investments received through gifts are recorded at estimated fair value at the date of donation.

(d) PROPERTY AND EQUIPMENT

Costs of renovating and constructing facilities located on land owned by the County are expensed, as title to these facilities is either vested in the County or transferred to the County at the close of the construction period, which is relatively short. Facilities that are not located on land owned by the County are capitalized at cost and depreciated using the straight-line method over an estimated life of forty years.

Equipment and other property that are purchased are recorded at cost. Equipment and other property are depreciated using the straight-line method over the estimated useful life of five years.

**MUSEUM ASSOCIATES AND AFFILIATE AND THE DEPARTMENT
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**NOTES TO COMBINING STATEMENT OF ACTIVITIES
June 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) ART COLLECTION

In conformity with the practice followed by many museums, art objects purchased by or donated to the Museum are not capitalized in the combined statement of financial position. The Museum's art collection is made up of art objects that are held for exhibition and various other program activities. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are excluded from the combining statement of activities.

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. Deaccession proceeds are required by Museum policy to be applied to the acquisition of works of art for the permanent collection. The Museum purchased collection items in the amount of \$24,161,480 during the year ended June 30, 2012. The Museum received donated art objects valued at \$16,952,720 during the year ended June 30, 2012.

Associates retains title to art objects that it acquires; art objects acquired jointly with County and Associates' funds become the property of the County and Associates on a pro rata basis.

(f) FINANCING COSTS

Financing costs are capitalized at cost and amortized using the straight-line method over the term of the related financing.

(g) REVENUES AND SUPPORT

Annual membership dues and admissions are recognized as revenue when such income is received. Monies received for conditional grants are recorded as deferred revenue until the monies are spent for the specified program or purpose. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

(h) CONTRIBUTED SERVICES

A substantial number of unpaid volunteers, including council members, have made significant contributions of their time to develop the Museum's programs. The value of this contributed time is not reflected in this combined financial statement, as it is not susceptible to objective measurement or valuation.

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**NOTES TO COMBINING STATEMENT OF ACTIVITIES
June 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) INCOME TAXES

Museum Associates and its affiliate are California and Florida not-for-profit corporations, respectively, and are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) and they are also exempt from state franchise taxes.

(j) USE OF ESTIMATES

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) SUBSEQUENT EVENTS

The Museum has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 3, 2012, the date these financial statements were available to be issued.

The merger of the Museum's affiliate was completed effective September 30, 2012.

NOTE 3 - CONTINGENCIES

In the normal course of business, the Museum may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the consolidated financial statements of the Museum as of June 30, 2012.