MUSEUM ASSOCIATES
AND AFFILIATE

(NOT-FOR-PROFIT CORPORATIONS)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010

MUSEUM ASSOCIATES
AND AFFILIATE
(NOT-FOR-PROFIT CORPORATIONS)
CONTENTS
June 30, 2011 and 2010

SingerLewak LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Museum Associates and Affiliate
Los Angeles, California

We have audited the accompanying consolidated statements of financial position of Museum Associates and affiliate (not-for-profit corporations) (collectively, the "Museum") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Museum Associates and affiliate as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
October 12, 2011

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MUSEUM ASSOCIATES
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(NOT-FOR-PROFIT CORPORATIONS)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 15,288,830	$ 28,602,532
Accounts receivable and accrued revenue	2,513,997	1,832,699
Pledges receivable – current portion, net	27,450,120	24,532,736
Inventories, net	1,614,031	1,205,376
Prepaid expenses and other current assets	581,395	1,356,680
Total current assets	47,448,373	57,530,023
Noncurrent assets		
Investments	231,001,487	199,544,622
Pledges receivable – long-term portion, net	67,451,117	89,170,634
Receivables under trust agreement, net	148,534	131,950
Property and equipment, net	320,648,827	314,168,921
Revenue bond trust accounts	48,596,038	64,692,387
Revenue bond issuance costs, net	16,240,132	16,271,065
Total noncurrent assets	684,086,135	683,979,579
Total assets	**$ 731,534,508**	**$ 741,509,602**

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Notes payable – current portion	$ 3,000,000	$ 6,500,000
Capital lease obligation – current portion	244,665	258,676
Accounts payable and accrued liabilities	5,827,674	11,683,001
Deferred revenue	2,084,772	1,724,306
Split-interest agreement liabilities	124,097	179,387
Total current liabilities	11,281,208	20,345,370
Noncurrent liabilities		
Revenue bonds	383,000,000	383,000,000
Notes payable – long-term portion	-	1,000,000
Capital lease obligation – long-term portion	300,025	543,692
Split-interest agreement liabilities	807,678	938,166
Interest rate swap	35,954,259	44,836,523
Underfunded pension liabilities	-	672,456
Total noncurrent liabilities	420,061,962	430,990,837
Total liabilities	431,343,170	451,336,207
Commitments and contingencies (Note 11)		
Net assets		
Unrestricted		
Board-designated, funds functioning as endowment	58,944,275	52,227,292
Donor-restricted endowment fund losses, net	(1,576,160)	(2,363,530)
Other	79,808,916	66,417,265
Temporarily restricted		
Funds functioning as endowment	38,519,711	34,934,912
Other	102,507,077	116,978,191
Permanently restricted – endowment funds	21,987,519	21,979,265
Total net assets	300,191,338	290,173,395
Total liabilities and net assets	**$ 731,534,508**	**$ 741,509,602**

Total funds functioning as endowment in net assets are $117,875,345 and $106,777,939 as of June 30, 2011 and 2010, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

MUSEUM ASSOCIATES
AND AFFILIATE
(NOT-FOR-PROFIT CORPORATIONS)
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support								
Revenues								
Membership dues	$ 6,704,800	$ 851,560	$ -	$ 7,556,360	$ 6,658,740	$ 721,740	$ -	$ 7,380,480
Admissions	2,932,983	-	-	2,932,983	2,527,665	-	-	2,527,665
Investment income, net	795,384	841,000	-	1,636,384	1,404,952	670,947	-	2,075,899
Net realized and unrealized gain on investments	23,035,063	5,477,829	-	28,512,892	18,163,389	5,161,977	-	23,325,366
Unrealized gain (loss) on interest rate swap	8,882,264	-	-	8,882,264	(13,609,484)	-	-	(13,609,484)
County operating contract	27,683,000	-	-	27,683,000	18,887,000	-	-	18,887,000
Auxiliary activities	2,429,328	804,088	-	3,233,416	1,678,439	915,066	-	2,593,505
Other	2,554,082	118,819	-	2,672,901	2,711,765	30,135	-	2,741,900
Total revenues	75,016,904	8,093,296	-	83,110,200	38,422,466	7,499,865	-	45,922,331
Support								
Gifts	5,145,921	21,143,669	8,254	26,297,844	6,479,913	27,514,871	17,948	34,012,732
Government grants	5,000,000	484,127	-	5,484,127	-	579,598	-	579,598
Fundraising events, net	867,615	1,428,716	-	2,296,331	840,669	1,267,598	-	2,108,267
Total support	11,013,536	23,056,512	8,254	34,078,302	7,320,582	29,362,067	17,948	36,700,597
Net assets released from restrictions								
Satisfaction of program restrictions	24,702,012	(24,702,012)	-	-	26,386,224	(26,386,224)	-	-
Expiration of time restrictions and other transfers	17,825,006	(17,825,006)	-	-	17,130,185	(17,130,185)	-	-
Other transfers between net assets and release from donor restrictions	-	-	-	-	(219,951)	(821,725)	1,041,676	-
Total net assets released from restrictions	42,527,018	(42,527,018)	-	-	43,296,458	(44,338,134)	1,041,676	-
Total revenues and support	128,557,458	(11,377,210)	8,254	117,188,502	89,039,506	(7,476,202)	1,059,624	82,622,928

The accompanying notes are an integral part of these consolidated financial statements.

MUSEUM ASSOCIATES
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(NOT-FOR-PROFIT CORPORATIONS)
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Program-related expenses								
Exhibitions and collections management	$ 14,293,320	$ -	$ -	$ 14,293,320	$ 11,176,197	$ -	$ -	$ 11,176,197
Curatorial	7,788,778	-	-	7,788,778	6,549,437	-	-	6,549,437
Education and public programs	4,732,194	-	-	4,732,194	4,165,286	-	-	4,165,286
Marketing and communication	5,965,304	-	-	5,965,304	5,177,482	-	-	5,177,482
Operations and public services	13,685,649	-	-	13,685,649	11,232,186	-	-	11,232,186
Property and deferred maintenance	434,008	-	-	434,008	928,341	-	-	928,341
Provision for doubtful pledges and bad debt expense	4,200,000	-	-	4,200,000	3,005,521	-	-	3,005,521
Depreciation expense	7,507,317	-	-	7,507,317	4,951,759	-	-	4,951,759
Revenue bond interest expense and fees	15,407,126	-	-	15,407,126	7,726,022	-	-	7,726,022
Revenue bond cost of issuance amortization	999,404	-	-	999,404	575,967	-	-	575,967
Auxiliary activities	3,115,365	-	-	3,115,365	2,638,225	-	-	2,638,225
General and administrative	8,468,109	-	-	8,468,109	7,349,597	-	-	7,349,597
Development	2,762,806	-	-	2,762,806	3,124,568	-	-	3,124,568
Total expenses	89,359,380	-	-	89,359,380	68,600,588	-	-	68,600,588
Change in net assets before change related to collection items	39,198,078	(11,377,210)	8,254	27,829,122	20,438,918	(7,476,202)	1,059,624	14,022,340
Collection items purchased	(18,302,074)	-	-	(18,302,074)	(16,047,435)	-	-	(16,047,435)
Collection items sold	-	490,895	-	490,895	-	9,026,630	-	9,026,630
Change in net assets after change related to collection items	20,896,004	(10,886,315)	8,254	10,017,943	4,391,483	1,550,428	1,059,624	7,001,535
Net assets, beginning of year	116,281,027	151,913,103	21,979,265	290,173,395	111,889,544	150,362,675	20,919,641	283,171,860
Net assets, end of year	**$ 137,177,031**	**$ 141,026,788**	**$ 21,987,519**	**$ 300,191,338**	**$ 116,281,027**	**$ 151,913,103**	**$ 21,979,265**	**$ 290,173,395**

The accompanying notes are an integral part of these consolidated financial statements.

MUSEUM ASSOCIATES
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(NOT-FOR-PROFIT CORPORATIONS)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 10,017,943	$ 7,001,535
Adjustments to reconcile change in net assets to cash provided by operating activities		
Net realized and unrealized gain on investments	(28,512,892)	(23,325,366)
Unrealized (gain) loss on interest rate swap	(8,882,264)	13,609,484
Provision for doubtful pledges	4,200,000	3,005,521
Depreciation expense	7,507,317	4,951,759
Revenue bond cost of issuance amortization	999,404	575,967
Collection items purchased	18,302,074	16,047,435
Collection items sold	(490,895)	(9,026,630)
Change in operating assets and liabilities		
Accounts receivable and accrued revenue	(681,298)	733,554
Pledges receivable, net	14,602,133	604,784
Inventories, net	(408,655)	(112,569)
Prepaid expense and other current assets	775,285	(1,232,533)
Receivables under trust agreements, net	(16,584)	(14,177)
Accounts payable and accrued liabilities	(5,855,325)	(4,269,257)
Deferred revenue	360,466	655,180
Underfunded pension liabilities	(672,456)	(59,711)
Net cash provided by operating activities	11,244,253	9,144,976
Cash flows from investing activities		
Net purchases of investments	(2,943,973)	(12,330,503)
Purchase of property and equipment	(13,987,225)	(37,843,698)
Collection items purchased	(18,302,074)	(16,047,435)
Proceeds from collection items sold	490,895	9,026,630
Net cash used in investing activities	(34,742,377)	(57,195,006)
Cash flows from financing activities		
Decrease in revenue bond trust accounts	16,096,349	38,433,643
Revenue bond cost of issuance	(968,471)	-
Repayment of notes payable	(8,500,000)	(1,199,589)
Increase in notes payable	4,000,000	7,500,000
Payments on capital lease obligation	(257,678)	(200,845)
(Decrease) increase in split-interest agreements liability	(185,778)	47,494
Net cash provided by financing activities	10,184,422	44,580,703
Net decrease in cash and cash equivalents	(13,313,702)	(3,469,327)
Cash and cash equivalents, beginning of year	28,602,532	32,071,859
Cash and cash equivalents, end of year	**$ 15,288,830**	**$ 28,602,532**

Supplemental disclosure of noncash investing activities

At June 30, 2011 and 2010 the Museum had $842,810 and $1,709,223, respectively, included in accounts payable and accrued liabilities for the purchase of property and equipment. During the year ended June 30, 2011 and 2010, the Museum paid $8,862,115 and $6,678,322, respectively, in interest expense.

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – GENERAL

Museum Associates (the "Museum") 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").

On August 25, 2010, the Museum became the sole voting member of the Foundation for the Advancement of Mesoamerican Studies, Inc. ("FAMSI"), a 501(c)(3) private operating foundation organized under the laws of the state of Florida, and thereupon elected the Museum's designees as members of the board of directors and officers of FAMSI. The purpose of the transaction was to continue the operations of FAMSI, including its website, and to maintain its other tangible and intangible assets, as part of the Museum's commitment to the collection, exhibition and study of Pre-Columbian art and culture. In this way, FAMSI helps the Museum fulfill its mission. The acquisition of control of FAMSI by the Museum was related to the Museum's acquisition, on July 31, 2010, of a collection of pre-Columbian artworks from the founder and sole voting member of FAMSI for consideration of approximately $7,000,000.

In conformity with its art collection policy, the collection items acquired by the Museum were not capitalized in its consolidated statement of financial position. In addition, any assets acquired and liabilities assumed in the acquisition were not capitalized by the Museum as those amounts were deemed immaterial.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Museum Associates and its affiliate, FAMSI. All material intercompany transactions and balances have been eliminated in consolidation. Museum Associates and FAMSI are collectively referred to in these financial statements as the "Museum."

Basis of Presentation

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)
The accompanying financial statements include a statement of financial position that presents the amounts 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.

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 (to the extent required by donor restrictions) 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.

Certain amounts included in the prior year have been reclassified to conform to the current-year presentation.

Revenues and Support
Annual membership dues 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.

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period pledged. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the date of the contribution. The Museum has established a general reserve based on an estimated percentage of the pledge balance.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Museum considers all short-term, highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Inventories
Inventories consist of Museum Shop goods and are stated at the lower of cost or market. At June 30, 2011 and 2010, inventories included on the statements of financial position of $1,614,031 and $1,205,376, respectively, were net of obsolescence reserves of $200,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Museum's investments are reflected on the consolidated statements of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the consolidated statements of activities. 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 long-only equity investments and fixed income securities in publicly traded securities are generally publicly traded on national securities exchanges and have readily available quoted market values. The fair value of other fixed income securities and a portion of the absolute return fund investments are based on market values of similar observable or underlying assets or unobservable inputs such as cash flows and discount rates.

The Museum's other partnership interests and other funds, and portions of its absolute return fund investments, are carried at estimated fair value. Management establishes fair value of these nonmarketable investments through (a) observable trading activity reported at net asset value, or (b) a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities. Because of the inherent uncertainty of valuation of nonmarketable investments, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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

Dividend and interest income are accrued when earned. Such amounts are presented net of related investment expenses, which were $673,720 and $687,149 for the years ended June 30, 2011 and 2010, respectively. Dividend and interest income and investment income earned from investments 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.

Receivables under Trust Agreement and Split-interest Agreement Liabilities

The Museum has been named as the beneficiary of a trust agreement for which a third party has been named as the trustee. Assets contributed by the donor under this trust agreement are recognized at the present value of the estimated future distributions to be received. The interest rate used in determining the present value was the Museum's appropriate market rate of return at the date of the gift. Amortization of the discount and changes in actuarial assumptions are included in "Other" in the consolidated statements of activities. The present value of the total future amounts to be received was $148,534 and $131,950 at June 30, 2011 and 2010, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables under Trust Agreement and Split-interest Agreement Liabilities (Continued)
Assets contributed by donors under gift annuity agreements and controlled by the Museum are recognized at fair value with a corresponding liability to beneficiaries of the annuity agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The Museum has determined such liability using investment returns consistent with the composition of investment portfolios, single or joint life expectancies from the Internal Revenue Service Publication 1457, and the discount rates applicable in the years in which the agreements were entered into. The present value of these split-interest liabilities was $931,775 and $1,117,553 at June 30, 2011 and 2010, respectively.

Property and Equipment
Costs of renovating and constructing facilities located on land owned by the County of Los Angeles (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 is purchased are recorded at cost. Equipment and other property are depreciated using the straight-line method over the estimated useful life of five years.

Capitalized Interest
When qualifying assets are financed with the proceeds of restricted tax-exempt borrowings, the amount of interest cost is capitalized less any interest earned on temporary investment of the proceeds of the borrowings, from the date of the borrowings until the assets constructed with those borrowings are ready for their intended use.

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 consolidated 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, or in temporarily restricted net assets if the net assets used to purchase the items are restricted by donors; contributed collection items are excluded from the consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Art Collection (Continued)
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 $18,302,074 and $16,047,435 during the years ended June 30, 2011 and 2010, respectively. The Museum received donated art objects valued at approximately $8,016,410 (unaudited) and $21,308,199 (unaudited) during the years ended June 30, 2011 and 2010, respectively.

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

Financing Costs
Financing costs are capitalized at cost and amortized using the using the effective interest method over the terms of the related financing.

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 these consolidated financial statements, as it is not susceptible to objective measurement or valuation.

Income Taxes
The Museum and its affiliate are California and Florida not-for-profit corporations, respectively, and are therefore exempt from taxation under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Museum and its affiliate are exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state franchise taxes.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 740, "Uncertainty in Income Taxes" ("ASC 740"), the Museum recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Museum has not recorded any uncertain tax positions.

The Museum recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended June 30, 2011 and 2010, respectively, the Museum performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the consolidated financial statements or which may have an effect on its tax-exempt status.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Jurisdiction	Open Tax Years
Federal	2007 – 2011
State	2006 – 2011

Estimated Fair Value of Financial Instruments
As defined in FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" ("ASC 820"), fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Museum uses the market or income approach. Based on this approach, the Museum utilizes certain assumptions about the risk and or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. The Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Museum is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal year ended June 30, 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the fiscal year ending June 30, 2010.

Financial instruments included in the Museum's consolidated statement of financial position include cash and cash equivalents, accounts receivable and accrued revenue, pledges receivable, investments, receivables under trust agreement, revenue bond trust accounts, accounts payable and accrued liabilities, notes payable, capital lease obligation, split-interest agreement liabilities, and interest rate swap. The following is a description of the valuation methodologies used for instruments measured at fair value:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)
For cash and cash equivalents, accounts receivable and accrued revenue, accounts payable and accrued liabilities, the carrying amounts represent a reasonable estimate of fair values due to their short-term maturity. Pledges receivable have been discounted using applicable market rates to approximate fair value. The receivables under trust agreement and split-interest agreement liabilities are reflected at their estimated fair values using the methodology described above. The estimated fair value of the Museum's notes payable and capital lease obligation approximates the carrying value of these liabilities as these bear interest commensurate with their risks. Investments, revenue bond trust accounts, and derivative financial instruments (i.e., interest rate swaps) are reflected at estimated fair value as described below.

Investments and Revenue Bond Trust Accounts
The basis of fair value for the Museum's investments and revenue bond trust accounts differs depending on the investment type. For certain investments, market value is based on quoted market prices. These are classified within Level 1 of the valuation hierarchy. For certain investments, the market value is based on net asset value or market values of similar observable or underlying assets; these are classified within Level 2 of the fair value hierarchy. Some investments are based on unobservable inputs such as net asset value, cash flows, discount rates and alternative investments which are supported by little or no market activity; these are classified within Level 3 of the fair value hierarchy.

Interest Rate Swap
Concurrent with the issuance and sale of the Series 2008 Bonds (see Note 6) and in order to manage exposure to interest rate fluctuations, the Museum entered into an interest rate swap agreement with Citibank, the counterparty. On May 6, 2011, the interest rate swap agreement was novated to Wells Fargo (see Note 6).

The interest rate swap is valued separately from its underlying debt and is accounted for using a "mark-to-market" basis. As market fixed rates change over time, existing fixed rate swaps become more or less valuable than at inception, resulting in a mark-to-market value which includes either an unrealized gain or loss.

The fair value of the interest rate swap is estimated using Level 2 inputs, which are based on model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The estimated market value of the interest rate swap at June 30, 2011 and 2010 was computed by the counterparty and includes adjustments to reflect counterparty credit risk and the Museum's non-performance credit risk in estimating the fair value, in accordance with ASC 820.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk
Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Museum to concentrations of credit risk consist primarily of cash and cash equivalents, pledges and receivables, investments and interest rate swaps.

The Museum maintains its cash balances with several financial institutions that from time to time exceed amounts insured by the Federal Deposit Insurance Corporation. Effective December 31, 2010, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, all funds in non-interest-bearing accounts are fully insured by the FDIC. To date, the Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

With respect to pledges and receivables, the Museum routinely assesses the financial strength of its creditors and believes that the related credit risk exposure is limited. At June 30, 2011 and 2010, 79% and 64% of pledges are due from members of the Board of Trustees or their affiliates.

Investment securities, 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 investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position. The Museum attempts to limit its credit risk associated with investments through diversification and by utilizing the expertise and processes of an outside investment consultant.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements
In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" ("ASU 2010-06"). This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using Level 3 measurements.

The guidance is effective for the reporting period beginning July 1, 2010, except for the disclosure on the rollforward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning July 1, 2011. The Museum has adopted the provisions under ASU 2010-06 except for the disclosure on the rollforward activities for Level 3 fair value measurements, for its fiscal year ending June 30, 2011, and it did not have a material impact on the fiscal 2011 consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-07, "Not-for-Profit Entities: Mergers and Acquisitions (Topic 958)." This guidance amends and clarifies the requirements under ASC 958-805, which establishes principles and requirements for how a not-for-profit entity accounts for and discloses mergers and acquisitions. It also amends SFAS No. 142, "Goodwill and Other Intangible Assets," to make it fully applicable to not-for-profit entities. ASC 958-805 is effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. During the year ended June 30, 2011, the Museum was a party to an acquisition of another entity. See Note 1 for further details.

Recently Issued Accounting Pronouncements
In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs" ("ASU 2011-04"), which amends ASC Topic 820, "Fair Value Measurement." ASU 2011-04 changes the wording used to describe the requirements in US GAAP for measuring fair value and for disclosing information about fair value measurements. The update clarifies the application of existing fair value measurement requirements. The update also requires reporting entities to disclose additional information regarding fair value measurements categorized within Level 3 of the fair value hierarchy. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. Other than the expanded disclosure requirements, the adoption of this provision is not expected to have a material impact on the Museum's fiscal 2012 consolidated statements of activities or consolidated financial position.

NOTE 3 – PLEDGES RECEIVABLE

At June 30, 2011 and 2010, the Museum had the following pledges receivable:

	2011	2010
Due within one year	$ 28,750,120	$ 24,532,736
Allowance for doubtful pledges	(1,300,000)	-
Pledges receivable – current portion, net	27,450,120	24,532,736
Due between one and five years	50,590,323	51,378,734
Due after five years	35,387,056	57,695,385
Present value discount of approximately 2 – 5%	(13,826,262)	(17,603,485)
Allowance for doubtful pledges	(4,700,000)	(2,300,000)
Pledges receivable – noncurrent portion, net	67,451,117	89,170,634
Total pledges receivable, net	**$ 94,901,237**	**$113,703,370**

NOTE 4 – INVESTMENTS

The Museum's investments consist of operating reserves, funds functioning as endowment and funds which have been restricted by the donor as endowment. The Museum's investments are managed as a single diversified portfolio governed by the Museum's investment policy, which sets asset allocation ranges for marketable and nonmarketable investments and minimum percentage of liquid assets, as well as equity and fixed-income investments. Management establishes the fair value of Level 1 investments based on quoted market prices. Management establishes Level 2 investments through observation of trading activity reported at net asset value (i.e., in accordance with ASU No. 2009-12, "Fair Value Disclosures—Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" ("ASU 2009-12"), with ASC 820) or market values of similar observable or underlying assets. Management establishes Level 3 investments through a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities.

NOTE 4 – INVESTMENTS (Continued)

Investments at June 30, 2011 and 2010 are stated at fair value and consist of the following:

	2011	2010
Long-only equity	$ 54,444,999	$ 33,479,735
Fixed income	58,383,428	50,602,801
Absolute return	106,910,720	109,194,599
Other partnerships and other funds	11,262,340	6,267,487
Total investments	**$231,001,487**	**$199,544,622**

As of June 30, 2011, the Museum's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Long-only equity	$ 49,490,322	$ 4,954,677	$ -	$ 54,444,999
Fixed income	27,255,723	28,564,520	2,563,185	58,383,428
Absolute return	5,461,546	98,190,708	3,258,466	106,910,720
Other partnerships and other funds	-	1,093,732	10,168,608	11,262,340
Total	**$ 82,207,591**	**$132,803,637**	**$ 15,990,259**	**$231,001,487**

As of June 30, 2010, the Museum's investments were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Long-only equity	$ 33,479,735	$ -	$ -	$ 33,479,735
Fixed income	35,018,777	14,873,024	711,000	50,602,801
Absolute return	5,339,951	69,011,751	34,842,897	109,194,599
Other partnerships and other funds	-	1,163,819	5,103,668	6,267,487
Total	**$ 73,838,463**	**$ 85,048,594**	**$ 40,657,565**	**$199,544,622**

NOTE 4 – INVESTMENTS (Continued)

For the years ended June 30, 2011 and 2010, the changes in fair value of the Museum's Level 3 investments are as follows.

	2011	2010
Balance, beginning of year	$ 40,657,565	$ 66,642,552
Purchases (sales), net	(12,912,472)	(13,280,895)
Unrealized gains (losses), net	2,641,518	5,347,262
Transfers in and/or out of Level 3[(a)]	(14,396,352)	(18,051,354)
Total investments	**$ 15,990,259**	**$ 40,657,565**

(a) For the year ending June 30, 2011 transfers of $14,096,073 from Level 3 to Level 2 and $300,279 from Level 3 to Level 1 were due to expiration of investment lock-up periods and liquidation of the investment resulting in only cash assets held at year-end, respectively.

For the year ending June 30, 2010 transfers of $18,051,354 out of Level 3 were due to the adoption of ASU 2009-12.

Investments Valued at Net Asset Value
The following table summarizes the Museum's investments in funds valued using the fair value practical expedient of net asset value in accordance with ASU 2009-12 as of June 30, 2011:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long only equity[(b)]	$ 4,954,677	$ -	Monthly	30 days
Fixed income[(c)]	31,127,705	6,282,000	Generally monthly*	10 – 15 days*
Absolute return[(d)]	101,449,174	4,350,000	Generally monthly – annually	30 – 90 days
Other partnerships and other funds[(e)]	10,168,608	9,553,597	Illiquid	Illiquid
Total	**$ 147,700,164**	**$ 20,185,597**		

* Portions of the underlying investments up to 8% of the total fund assets may be comprised of illiquid assets.

NOTE 4 – INVESTMENTS (Continued)

Investments Valued at Net Asset Value (Continued)

(b) 100% of this asset class includes investments in foreign and domestic long-only emerging market growth fund securities which can be redeemed monthly with no restrictions.

(c) Approximately 58% of this asset class includes investments in foreign government debt and high-yield securities which can be redeemed monthly with no restrictions.

Approximately 8% of this asset class includes mezzanine debt investments that generally cannot be redeemed before their seven- to ten-year expected liquidation period.

Approximately 34% of this asset class includes government agency pass-through mortgage securities with high coupon rates and short durations which can be redeemed monthly with no restrictions.

(d) Approximately 39% of this asset class includes investments that invest long and short in specific subsectors of the equity markets such as natural resources, health care, financial services, value, emerging markets and small and micro-cap equity. These investments can be redeemed monthly to quarterly with no restrictions.

Approximately 6% of this asset class includes investments in commodity trading advisor funds, 50% of which can be redeemed on a monthly basis with the balance redeemable quarterly.

Approximately 31% of this asset class includes investments across the corporate capital structure from bank debt to equities, fixed income investments across the credit spectrum, multi-asset value arbitrage, and liquid mortgage instruments, along with various hedging transactions such as options and forwards. The funds in this category are redeemable quarterly.

Approximately 21% of this asset class includes investments in global macro interest rate, credit and foreign exchange instruments, investments across the corporate capital structure from bank debt to equities, and fixed income investments across the credit spectrum, along with various hedging transactions such as options and forwards. The funds in this category are redeemable from quarterly and annually with lock-up periods that range from already expired to March 31, 2012.

Approximately 3% of this asset class includes investments in triple net leases and the residual illiquid portion of multi-strategy hedge funds that have been redeemed. The anticipated liquidation period for these funds is three to seven years.

NOTE 4 – INVESTMENTS (Continued)

Investments Valued at Net Asset Value (Continued)

(e) Approximately 37% of this asset class includes investments in private and publicly traded metals and mining companies and banks and thrifts. The anticipated life of the funds in this category is seven to ten years.

Approximately 32% of this asset class provides financing for small publicly traded mining companies with redemption every three years. The anticipated life of the funds in this category is three years.

Approximately 25% of this asset class includes investments in commercial real estate debt funds, interests in commercial foreign and domestic properties, and fund of funds. The anticipated life of the funds in this category is 7 to 10 years.

Approximately 3% of this asset class includes investments in secondary limited partnership interests in late or early stage capital funds with less than 50% called. The anticipated life of the funds in this category is seven to ten years.

Approximately 3% of this asset class includes investments in private equity funds invested in water rights, water storage, and water technology. The anticipated life of the funds in this category is greater than fifteen years.

The following table summarizes the Museum's investments in funds valued using the fair value practical expedient of net asset value in accordance with ASU 2009-12 as of June 30, 2010:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income(f)	$ 15,584,024	$ 8,289,000	Generally monthly*	10 – 15 days*
Absolute return(g)	103,854,648	5,550,000	Generally monthly – annually**	30 – 90 days**
Other partnerships and other funds(h)	5,103,668	3,853,404	Illiquid	Illiquid
Total	**$ 124,542,340**	**$ 17,692,404**		

* Portions of the underlying investments up to 4% of the total fund assets may be comprised of illiquid assets

NOTE 4 – INVESTMENTS (Continued)

Investments Valued at Net Asset Value (Continued)

** The contractual or anticipated redemption frequency for these investments ranges from monthly to annually to longer than annually. Twenty-six percent of these investments have investment characteristics or lock-ups that will restrict the ability to redeem them until after one year from June 30, 2011. The anticipated redemption dates for these investments range from 1.5 to 7 years or more.

(f) Approximately 96% of this asset class includes investments in foreign government debt and high-yield securities which can be redeemed monthly with no restrictions.

Approximately 4% of this asset class includes mezzanine debt investments that generally cannot be redeemed before their seven- to ten-year expected liquidation period.

(g) Approximately 30% of this asset class includes investments that invest long and short in specific subsectors of the equity markets such as natural resources, health care, technology, financial services and value equity. These investments can be redeemed quarterly with no restrictions.

Approximately 6% of this asset class includes investments in commodity trading advisor funds, 50% of which can be redeemed on a monthly basis with the balance redeemable quarterly.

Approximately 26% of this asset class includes investments across the corporate capital structure from bank debt to equities, fixed income investments across the credit spectrum, multi-asset value arbitrage, and liquid mortgage instruments, along with various hedging transactions such as options and forwards. The funds in this category are redeemable quarterly.

Approximately 21% of this asset class includes investments in global macro interest rate, credit and foreign exchange instruments, long/short REITs and other real estate-related securities, investments across the corporate capital structure from bank debt to equities, and fixed income investments across the credit spectrum, along with various hedging transactions such as options and forwards. The funds in this category are redeemable from quarterly and semiannually to annually with lock-up periods that range from already expired to March 31, 2012.

Approximately 14% of this asset class includes high-quality mortgage-backed securities. The funds in this category were purchased with three-year lock-ups, but are of a vintage from January 2009 or earlier and are currently self-liquidating.

NOTE 4 – INVESTMENTS (Continued)

Investments Valued at Net Asset Value (Continued)

Approximately 3% of this asset class includes investments in triple net leases and the residual illiquid portion of multi-strategy hedge funds that have been redeemed. The anticipated liquidation period for these funds is three to seven years.

(h) Approximately 47% of this asset class includes private equity investments in private and publicly listed companies, and 100% of the assets are redeemable only through liquidation of the underlying assets. The assets in this category are currently being liquidated with cash proceeds anticipated within one year.

Approximately 33% of this asset class includes investments in private and publicly traded metals and mining companies and banks and thrifts. The anticipated life of the funds in this category is seven to ten years.

Approximately 20% of this asset class includes investments in commercial real estate debt funds or fund of funds. The anticipated life of the funds in this category is seven to ten years.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Land	$ 36,143,953	$ 36,143,953
Buildings and improvements	303,277,925	289,416,241
Software held for use	1,086,707	1,086,707
Equipment and other property	8,367,357	8,241,819
	348,875,942	334,888,720
Less accumulated depreciation	28,227,115	20,719,799
Property and equipment, net	**$320,648,827**	**$314,168,921**

Depreciation expense amounted to $7,507,317 and $4,951,759, respectively, for the years ended June 30, 2011 and 2010.

NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Interest expense and related fees of approximately $6,678,000, which is net of approximately $(2,665,000) in investment income and realized and unrealized losses, were capitalized in construction in progress during the year ended June 30, 2010. The Museum did not capitalize interest expense during the year ended June 30, 2011 as the related construction was already complete.

NOTE 6 – REVENUE BONDS AND INTEREST RATE SWAPS

Revenue Bonds

On September 10, 2008, pursuant to an Indenture (the "Indenture") by and between the California Statewide Communities Development Authority (the "Issuer") and US Bank (the "Trustee"), the Museum refinanced the prior bonds issued in 2004 (Series A, B and C) and 2007 (Series A, B, C and D) with $383,000,000 of tax-exempt Variable Rate Demand Obligations (the "2008 Bonds"). The 2008 Bonds were issued in $100,000 denominations with a variable interest rate that is reset, depending on the series, either weekly or daily.

The 2008 Bonds were issued in five series: Series 2008A was issued for $100,000,000, Series 2008B was issued for $100,000,000, Series 2008C was issued for $95,000,000, Series 2008D was issued for $60,000,000 and Series 2008E was issued for $28,000,000.

The Issuer lent the proceeds of the 2008 Bonds to the Museum pursuant to a loan agreement (the "Loan Agreement") by and between the Issuer and the Museum. Such proceeds received by the Museum were used to (i) redeem all of the Museum's 2004 and 2007 bonds, (ii) finance capitalized interest on the 2008 Bonds, and (iii) finance costs of issuance of the 2008 Bonds.

The 2008 Bonds were supported by a letter of credit from a consortium of banks fronted by Wells Fargo. The letter of credit had an initial three-year term, and was set to expire in September 2011. In May 2011, the Museum renewed and restructured the letter of credit arrangement. In conjunction with this renewal, the Series 2008C and Series 2008E bonds, totaling $123,000,000, were directly purchased by Wells Fargo and the Series D bonds, totaling $60,000,000, were directly purchased by US Bank.

The Series 2008A and Series 2008B bonds, totaling $200,000,000, will remain variable rate demand obligations and remarketed on a weekly basis. These bonds are supported by a letter of credit from a consortium of banks fronted by Union Bank.

NOTE 6 – REVENUE BONDS AND INTEREST RATE SWAPS (Continued)

Revenue Bonds (Continued)
Terms of both the renewed letter of credit and the direct purchase agreements are parallel; both have terms of four years and expire in May 2015. Fees are charged at a rate of 1.25% on the letter of credit and direct purchase arrangements, with an increase possible if LACMA's credit rating is downgraded (see Note 12 for subsequent event). As of June 30, 2011 and 2010, respectively, there were no amounts borrowed or outstanding on the letter of credit.

Under the terms of the Loan Agreement, the Museum is subject to a certain financial covenant, the adjusted unrestricted net assets to indebtedness ratio ("UNA ratio"), which is tested each June 30 and December 31. If the ratio falls below 0.75 more than one time during the term of the letter of credit and direct purchase agreements, it is an event of default. As of June 30, 2011, the UNA ratio was 0.85.

As of June 30, 2011 and 2010, unspent bond proceeds held in trust with the Trustee of $48,596,038 and $64,692,387, respectively, consisted of cash and cash equivalents, United States Treasury securities and corporate bonds, which are classified under Level 1 and Level 2 of the valuation hierarchy.

As of June 30, 2011 and 2010, outstanding amounts due on the 2008 Bonds were $383,000,000. The carrying amounts of the bonds approximate fair value. As of June 30, 2011, the 2008 Bonds' mandatory bond redemption requirements have been summarized as follows:

Redemption Date December 1,	
2030	$ 35,580,000
2031	35,965,000
2032	36,450,000
2033	75,155,000
2034	76,350,000
2035	39,810,000
2036	41,180,000
2037	42,510,000
Total	**$ 383,000,000**

NOTE 6 – REVENUE BONDS AND INTEREST RATE SWAPS (Continued)

Interest Rate Swaps

In September 2008, the Museum recast five existing swap agreements on prior bonds (2004 and 2007 Bonds) with Citibank and consolidated them into one swap agreement with the same aggregate notional amount of $256,315,000 and a termination date of December 1, 2037. Under the recast swap agreement, the Museum agreed to pay Citibank a synthetic fixed amount of interest, 3.552% per month, and received 59.5% of one-month LIBOR (0.35% at June 30, 2010) plus 0.3%.

On May 6, 2011, in conjunction with the May 2011 letter of credit renewal, Citibank novated the interest rate swap agreement with the Museum to Wells Fargo. Under the terms of the novated interest rate swap agreement with Wells Fargo, the aggregate notional amount of $256,315,000 and the termination date of December 1, 2037 remain unchanged. In addition, the Museum agrees to pay Wells Fargo a synthetic fixed amount of interest, 3.592% per month, and will receive 59.5% of one-month LIBOR (0.19% at June 30, 2011) plus 0.3%. The Museum can terminate this agreement at any time, but Wells Fargo may terminate the agreement only if certain adverse conditions occur.

As discussed in Note 2, the fair value of the interest rate swap is estimated using Level 2 inputs, which are based on model derived valuations in which all significant inputs and significant value drivers are observable in active markets. The Museum considers the counterparty credit risk and bilateral or "own" credit risk adjustments in estimating fair value in accordance with ASC 820.

As of June 30, 2011 and 2010, the value of the interest rate swap liability was $(35,954,259) and $(44,836,523), respectively. The aggregate unrealized gain (loss) reflecting the change in the swap value for the years ended June 30, 2011 and 2010 was $8,882,264 and $(13,609,484), respectively.

Revenue Bond Issuance Costs

The Museum amortizes its revenue bond issuance costs using the effective interest rate method over the term of the related debt. At June 30, 2011 and 2010, the aggregate net capitalized costs on the 2004, 2007 and 2008 Bonds were $16,240,132, net of $3,962,094 of accumulated amortization, and $16,271,065, net of $2,294,031 of accumulated amortization, respectively, and are included under "Revenue bond issuance costs, net" on the consolidated statements of financial position. The Museum recognized $999,404 and $575,967 in amortization costs on the capitalized bond issuance costs for the year ended June 30, 2011 and 2010, respectively, and such costs are included under "Revenue bond cost of issuance amortization" on the consolidated statements of activities.

NOTE 7 – NOTES PAYABLE

All notes payable outstanding at June 30, 2011 and 2010 related to the purchase of artwork from restricted funds and consisted of the following:

Note	Due	Interest Rate	2011	2010
Note Payable #1	01/31/12	N/A	$ 1,000,000	$ 7,500,000
Note Payable #2	01/31/12	N/A	2,000,000	-
Total notes payable			3,000,000	7,500,000
Less current portion			3,000,000	6,500,000
Long-term portion			**$ -**	**$ 1,000,000**

Interest expense incurred on notes payable for the years ended June 30, 2011 and 2010 were $0 and $29,990, respectively.

NOTE 8 – NET ASSETS

Unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2011 were available for the following purposes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and funds functioning as endowment				
Operating support	$ 56,894,512	$ -	$ 712,337	$ 57,606,849
Restricted operating support	-	34,034,787	15,064,411	49,099,198
Art acquisition	2,049,763	4,484,924	6,210,771	12,745,458
Donor-restricted endowment fund losses	(1,576,160)	-	-	(1,576,160)
Total endowment and funds functioning as endowment	57,368,115	38,519,711	21,987,519	117,875,345
Other funds				
Programs	106,764,312	98,083,309	-	204,847,621
Art acquisition	-	4,423,768	-	4,423,768
Property and equipment	(26,955,396)	-	-	(26,955,396)
Total other funds	79,808,916	102,507,077	-	182,315,993
Total	**$ 137,177,031**	**$ 141,026,788**	**$ 21,987,519**	**$ 300,191,338**

NOTE 8 – NET ASSETS (Continued)

Unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2010 were available for the following purposes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and funds functioning as endowment				
Operating support	$ 50,413,055	$ -	$ 712,337	$ 51,125,392
Restricted operating support	-	30,797,793	14,556,911	45,354,704
Art acquisition	1,814,237	4,137,119	6,710,017	12,661,373
Donor-restricted endowment fund losses	(2,363,530)	-	-	(2,363,530)
Total endowment and funds functioning as endowment	49,863,762	34,934,912	21,979,265	106,777,939
Other funds				
Programs	95,720,617	111,908,485	-	207,629,102
Art acquisition	4,433,228	5,069,706	-	9,502,934
Property and equipment	(33,736,580)	-	-	(33,736,580)
Total other funds	66,417,265	116,978,191	-	183,395,456
Total	**$ 116,281,027**	**$ 151,913,103**	**$ 21,979,265**	**$ 290,173,395**

NOTE 9 – ENDOWMENT

The Museum's endowment funds consist of funds functioning as endowment through (a) designation by the Board, (b) temporarily restricted funds managed as endowment funds and (c) donor-restricted endowment funds. The earnings of the Museum's endowment funds support education and art programs, and the mission of the Museum. Net assets associated with endowment funds, including funds designated by the board to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, the state of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which replaces the Uniform Management of Institutional Funds Act ("UMIFA"). In August of 2008, the FASB issued ASC Topic No. 958, "Not-for-Profit Entities" ("ASC 958"). The disclosure provisions of ASC 958 were applied by the Museum in the years ended June 30, 2011 and 2010 as shown below.

NOTE 9 – ENDOWMENT (Continued)

At June 30, 2011, the Museum's endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 58,944,275	$ -	$ -	$ 58,944,275
Temporarily restricted funds managed as endowment funds	-	24,527,652	-	24,527,652
Donor-restricted endowment funds	(1,576,160)	13,992,059	21,987,519	34,403,418
Total endowment funds	**$ 57,368,115**	**$ 38,519,711**	**$ 21,987,519**	**$117,875,345**

At June 30, 2010, the Museum's endowment net asset composition by type of fund was as follows:

	Temporarily Unrestricted	Permanently Restricted	Restricted	Total
Board-designated endowment funds	$ 52,227,292	$ -	$ -	$ 52,227,292
Temporarily restricted funds managed as endowment funds	-	22,756,424	-	22,756,424
Donor-restricted endowment funds	(2,363,530)	12,178,488	21,979,265	31,794,223
Total endowment funds	**$ 49,863,762**	**$ 34,934,912**	**$ 21,979,265**	**$106,777,939**

NOTE 9 – ENDOWMENT (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with the provisions of ASC 958, deficiencies of this nature that are reported in unrestricted net assets were $1,576,160 and $2,363,530 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs, which was deemed prudent by the Board of Trustees.

For the year ended June 30, 2011, the Museum's endowment net assets changed as follows:

		Temporarily Restricted			
	Unrestricted	Donor-restricted	Managed as Endowment	Permanently Restricted	Total
Balance, beginning of year	$ 49,863,762	$ 12,178,488	$ 22,756,424	$ 21,979,265	$106,777,939
Investment return					
Investment income, net	107,932	186,504	105,128	-	399,564
Net realized and unrealized appreciation	6,876,261	2,147,227	1,666,100	-	10,689,588
Total investment return	6,984,193	2,333,731	1,771,228	-	11,089,152
Contributions	-	-	-	8,254	8,254
Other changes					
Transfers of endowment funds and non-endowment funds	(267,210)	267,210	-	-	-
Reclassification of underwater endowment funds	787,370	(787,370)	-	-	-
Total endowment funds	**$ 57,368,115**	**$ 13,992,059**	**$ 24,527,652**	**$ 21,987,519**	**$117,875,345**

NOTE 9 – ENDOWMENT (Continued)

For the year ended June 30, 2010, the Museum's endowment net assets changed as follows:

		Temporarily Restricted			
	Unrestricted	Donor-restricted	Managed as Endowment	Permanently Restricted	Total
Balance, beginning of year	$ 44,098,686	$ 11,716,432	$ 22,836,396	$ 20,919,641	$ 99,571,155
Investment return					
Investment income, net	624,475	232,938	192,633	-	1,050,046
Net realized and unrealized appreciation	4,859,200	1,534,620	1,139,562	-	7,533,382
Total investment return	5,483,675	1,767,558	1,332,195	-	8,583,428
Contributions	-	-	-	17,948	17,948
Other changes					
Transfers of endowment funds and non-endowment funds	(393,010)	(631,091)	(1,412,167)	1,041,676	(1,394,592)
Reclassification of underwater endowment funds	674,411	(674,411)	-	-	-
Total endowment funds	**$ 49,863,762**	**$ 12,178,488**	**$ 22,756,424**	**$ 21,979,265**	**$106,777,939**

In conformity with generally accepted accounting principles, investment income on the Museum's restricted endowment is recorded as temporarily restricted revenue and temporarily restricted net assets, unless otherwise directed by the applicable donor gift instrument.

The Museum's endowment spending policy is based on the trailing market value of its endowment. Specifically, it is 5% of the average market value of the endowment at each of the twelve prior quarters as of March 31 in the most recent fiscal year. The spending policy is reviewed by the Finance Committee of the Board of Trustees annually.

NOTE 9 – ENDOWMENT (Continued)

As delegated authority by the full Board, the Finance Committee of the Board has adopted an investment policy that governs the management and oversight of the endowment funds and other investments (endowment and reserves). The policy sets forth the objectives for the endowment and reserves of the Museum, the strategies to achieve the objectives, procedures for monitoring and control, and the delineation of responsibilities for the Finance Committee, consultant, investment managers, staff and custodian in relation to the portfolio. The policy is intended to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters that a prudent person would take in the execution of the investment program. Investment assets are managed on a total return basis, with emphasis on both preservation of capital and acceptance of investment risk necessary to achieve favorable performance on a risk-adjusted basis. In addition to parameters of return and risk, the policy establishes minimum liquidity guidelines for the portfolio. Other objectives are to maintain or enhance the real purchasing power of the endowment and reserves after covering its spending rate; to provide sufficient cash to cover debt interest and retirement of debt over the life of the Museum's outstanding debt; to outperform a policy benchmark return, after fees, at a lower level of risk over seven- to ten-year rolling periods; and to diversify investments to reduce the impact of losses in single investments, industries or asset classes.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The Museum sponsors four (4) employee benefit plans as described below:

Defined Benefit Plan
The Museum sponsors a defined benefit pension plan. Retirement benefits are provided through a noncontributory defined-benefit retirement plan (the "Plan") for generally all employees who have completed one year of service, and have not attained age sixty-five (65). The Museum's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act, plus additional amounts as determined to be appropriate. Contributions to the Plan were $1,375,000 and $1,200,000 during the years ended June 30, 2011 and 2010, respectively.

The following sets forth the components of net periodic benefit costs and the obligations and funded status of the defined benefit plan. Valuations of assets and liabilities are determined using a measurement date of June 30.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)
Net periodic benefit costs for the years ended June 30:

	2011	2010
Service cost	$ 1,003,634	$ 869,137
Interest cost	604,972	543,624
Expected return on plan assets	(772,496)	(655,331)
Amortization of prior service cost	34,779	34,779
Amortization of actuarial (gains) losses	157,471	92,291
Settlement charge	-	44,360
Net periodic benefit cost	**$ 1,028,360**	**$ 928,860**

Obligation and funded status at June 30:

	2011	2010
Change in benefit obligation		
Benefit obligation, beginning of year	$ 10,495,473	$ 8,660,956
Service cost	1,003,634	869,137
Interest cost	604,972	543,624
Benefits paid	(876,532)	(550,933)
Settlements, curtailments or other events	-	44,360
Actuarial (gain) or loss	1,137,422	928,329
Benefit obligation, end of year	12,364,969	10,495,473
Change in plan assets		
Fair value of plan assets, beginning of year	9,823,017	7,928,789
Actual return on plan assets	2,056,763	1,245,161
Employer contributions	1,375,000	1,200,000
Benefit and settlement or curtailment payments	(876,532)	(550,933)
Fair value of plan assets, end of year	12,378,248	9,823,017
Funded status	**$ 13,279**	**$ (672,456)**

The funded status amounts at June 30, 2011 and 2010 are included under “Prepaid expenses and other current assets” and “Underfunded pension liabilities” on the consolidated statements of financial position, respectively.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)
The following represents pension costs directly charged to net assets at June 30:

	2011	2010
Accumulated net adjustment to net assets, beginning of year	$(2,923,311)	$(2,711,882)
Current-year change		
Actuarial gain (loss) during the year	304,316	(246,208)
Amortization of prior service cost	34,779	34,779
Total current-year change	339,095	(211,429)
Accumulated net adjustment to net assets, end of year	**$(2,584,216)**	**$(2,923,311)**

The accumulated benefit obligation for the plan was $12,364,969 and $10,495,473 at June 30, 2011 and 2010, respectively.

Weighted-average assumptions used to determine benefit obligations were as follows at June 30:

	2011	2010
Discount rate	5.5%	5.8%
Expected return on plan assets	7.8%	7.8%
Rate of compensation increase	3.0%	5.0%

The discount rate is estimated based on the yield on a portfolio of high-quality debt instruments. Expected long-term rate of return on plan assets is the projected rate for plan assets, and the rate of compensation increase is estimated based on the Museum's historical rate. The Museum's management develops all actuarial assumptions with the third-party pension actuary.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)
The Museum's year-end plan weighted-average asset allocations by category were as follows:

	Target	2011	2010
Long-only equities	26.0%	33.0%	25.0%
Fixed income	28.0%	17.0%	27.8%
Long/short equities	36.0%	27.1%	34.4%
Alternatives	10.0%	15.9%	9.8%
Cash	0.0%	7.0%	3.2%

Plan assets are invested in a diversified portfolio whose value is subject to fluctuations of the securities market.

Changes in this value attributable to differences between actual and assumed returns on plan assets are deferred as unrecognized gains or losses and included in the determination of net pension expense over time.

The Museum expects to contribute $1,500,000 to the defined benefit Plan for the fiscal year ending June 30, 2012.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

For the Year Ending June 30,	
2012	$ 681,655
2013	819,646
2014	1,192,500
2015	1,044,668
2016	1,819,185
2017 to 2021	8,878,182
Total	**$14,435,836**

Investment allocation decisions for plan assets are made in order to achieve the Plan's investment return objectives, consistent with its risk parameters. The investment objectives are to achieve an absolute total return of 8% – 10% as measured as an average annual return over a seven- to ten-year period. This is in order to attain or beat the actuarial target rate of return (currently 8%) for the plan. Its risk parameters include:

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)

- Avoiding failure to provide sufficient capital to meet the Plan's distribution obligations

- Avoiding sustained or meaningful underperformance relative to the Plan's actuarial target rate of return

The risk parameters will be judged with the following criteria: To achieve the targeted rate of return, while at the same time experiencing a level of market/systematic risk no greater than 70% of that of the MSCI World Index as measured by BETA. The portfolio's total volatility (as measured by Standard Deviation) should be no greater than that of a passively managed portfolio consisting of 75% MSCI World and 25% Barclays Aggregate Bond indices.

In order to achieve the above return and risk objectives, the Plan asset allocation makes use of a broadly diverse group of investments to provide returns from each separate investment that are relatively uncorrelated with those of other investments in the Plan portfolio. As part of the allocation, a portion of the investments provides high liquidity in order to meet known and potential immediate benefit pay-outs. Other investments are less liquid consistent with the broad asset allocation in order to achieve the long-term investment objective.

As of June 30, 2011, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 867,932	$ -	$ -	$ 867,932
Investment-grade fixed income	2,112,634	-	-	2,112,634
Domestic equity	2,809,559	-	-	2,809,559
International equity(i)	-	1,272,280	-	1,272,280
Long/short equity(j)	-	3,350,950	-	3,350,950
High-yield and liquid credit(k)	-	948,313	-	948,313
Alternatives(l)	-	-	1,016,580	1,016,580
Total	**$ 5,790,125**	**$ 5,571,543**	**$ 1,016,580**	**$12,378,248**

(i) This category includes a partnership that invests in long-only securities traded on standard exchanges but that has monthly liquidity and a NAV that is not, itself, traded on a standard exchange.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)

(j) This category includes hedge funds that invest long and short in specific subsectors of the equity markets such as small-cap, value, financial services, health care or REITs.

(k) This category includes investments primarily in high-yield bonds, but with manager discretion to invest in other segments of a target company's capital structure.

(l) This category includes investments in distressed debt, opportunistic credit and bank assets.

As of June 30, 2010, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 24,648	$ -	$ -	$ 24,648
Investment grade fixed income	1,959,373	-	-	1,959,373
Domestic equity	1,520,923	-	-	1,520,923
International equity[m]	-	1,010,023	-	1,010,023
Long/short equity[n]	-	2,834,895	631,763	3,466,658
High-yield and liquid credit[o]	-	848,899	-	848,899
Alternatives[p]	-	-	992,493	992,493
Total	**$ 3,504,944**	**$ 4,693,817**	**$ 1,624,256**	**$ 9,823,017**

(m) This category includes a partnership that invests in long-only securities traded on standard exchanges but that has monthly liquidity and a NAV that is not, itself, traded on a standard exchange.

(n) This category includes hedge funds that invest long and short in specific subsectors of the equity markets such as small-cap, value, financial services, health care or REITs.

(o) This category includes investments primarily in high-yield bonds, but with manager discretion to invest in other segments of a target company's capital structure.

(p) This category includes investments in distressed debt, opportunistic credit and bank assets.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Plan (Continued)
For the year ended June 30, 2011, the changes in fair value of the Museum's Level 3 plan assets are as follows.

	Long/Short Equity	Alternatives	Total
Beginning balance, July 1, 2010	$ 631,763	$ 992,493	$ 1,624,256
Actual return on plan assets			
Relating to assets still held at the reporting date	-	168,455	168,455
Relating to assets sold during the period	79,783	-	79,783
Purchases, sales and settlements	(711,546)	(144,368)	(855,914)
Ending balance, June 30, 2011	**$ -**	**$ 1,016,580**	**$ 1,016,580**

For the year ended June 30, 2010, the changes in fair value of the Museum's Level 3 plan assets are as follows.

	Long/Short Equity	Alternatives	Total
Beginning balance, July 1, 2009	$ -	$ -	$ -
Actual return on plan assets			
Relating to assets still held at the reporting date	31,763	142,493	174,256
Relating to assets sold during the period	-	-	-
Purchases, sales and settlements	600,000	850,000	1,450,000
Ending balance, June 30, 2010	**$ 631,763**	**$ 992,493**	**$ 1,624,256**

Defined Contribution Plan
The Museum also offers a defined contribution plan, whereby employees elect to make voluntary contributions (up to limits set by law) to the plan through a payroll deduction. The Museum then matches 100% of the employee contributions, up to four percent (4%) of salary. Matching contributions during the years ended June 30, 2011 and 2010 amounted to approximately $458,000 and $468,000, respectively.

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan

The Museum offers a deferred compensation plan for its highly compensated employees. Employees compensated in excess of $90,000 annually are eligible to elect to make voluntary contributions (up to the limits set by law) to the plan through payroll deductions in excess of the annual thresholds allowed under the Museum's defined contribution plan.

Executive Deferred Compensation Plans

In April 2006, pursuant to an employment agreement entered into at that time, the Museum implemented an executive deferred compensation program for its Director. The deferred compensation, in the amount of $1,000,000, was subject to forfeiture during the five-year term of the agreement ending April 1, 2011, at which time, if the Director was still employed by the Museum, the full amount of the deferred compensation would vest and be payable to the employee. The deferred compensation was expensed in five equal installments of $200,000 each commencing July 1, 2006, with the final installment expensed on July 1, 2010. Effective as of July 1, 2010, the Museum and the Director entered into a new six-year employment agreement, pursuant to which the vesting of the deferred compensation accrued under the 2006 agreement was accelerated to July 1, 2010 and the entire $1,000,000 in accrued deferred compensation was paid to the employee. Under the terms of the 2010 employment agreement, the deferred compensation will be expensed in six equal installments of approximately $83,333 each, commencing June 30, 2011, totaling $500,000, with the final installment to be expensed on June 30, 2016.

Effective January 1, 2008, the Museum entered into a three-year employment agreement with its President, pursuant to which the Museum implemented a deferred compensation plan in the amount of $450,000 that vests and was payable if the employee was still employed by the Museum as of January 1, 2011, the expiration date of the employment agreement. The total $450,000 cost of the program was expensed over the three-year vesting period in the amount of $150,000 annually. As of June 30, 2011, all vested and accrued amounts under this plan have been paid.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation

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 financial statements of the Museum as of June 30, 2011.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases

The Museum has certain equipment under noncancelable operating leases with terms up to sixty-nine months and expiring through 2015. Total rental expense on operating leases was approximately $163,000 and $368,000 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments are as follows:

For the Year Ending June 30,		
2012	$	83,000
2013		16,000
2014		16,000
2015		12,000
Total	**$**	**127,000**

Capital Lease

The Museum financed the purchase of certain software through a capital lease obligation with a principal amount of $1,003,213 and quarterly payments of $64,669 expiring through September 2013. The imputed interest is approximately 0.9% per annum. Future minimum annual payments under this capital lease obligation are as follows:

For the Year Ending June 30,		
2012	$	258,676
2013		258,676
2014		26,340
Balance, June 30, 2011		543,692
Less current portion		258,676
Long-term portion	**$**	**285,016**

At June 30, 2011 and 2010, $1,086,707 was capitalized as software held for use. As of and for the year ended June 30, 2011 and 2010, there was no related depreciation expense and accumulated depreciation recognized as the software has not been placed in service.

NOTE 12 – SUBSEQUENT EVENTS

In 2009, FASB issued a new standard on subsequent events as codified in ASC 855, which was amended in February 2010, pursuant to ASU 2010-09. The new standard establishes general requirements for accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued with respect to companies that file financial statements with the Securities and Exchange Commission, are conduit obligors that file financial statements with the Securities and Exchange Commission or are conduit obligors of publicly traded securities. More specifically, the new standard sets forth the period and circumstances after the statement of financial position date which management of a reporting entity should evaluate to identify events or transactions that have occurred for potential recognition in the financial statements, and the disclosures that should be made about those and other events or transactions that occur after the statement of financial position date. The new standard is effective for fiscal years and interim periods ending after June 15, 2009. The Museum adopted this standard during its fiscal year ending June 30, 2009. The Museum has evaluated subsequent events through October 12, 2011, which is the date the consolidated financial statements were issued. Other than the disclosures in the following paragraphs, no other significant changes to these consolidated financial statements were necessary as a result of the subsequent events evaluation.

In August 2011, the Museum's credit rating was downgraded from A2 status to A3 status. As a result, the fee charged on the Museum's letter of credit and direct purchase arrangements related to its 2008 Bonds was increased from 1.25% to 1.50% effective October 1, 2011.

In October 2011, the Museum and the Academy of Motion Picture Arts and Sciences ("AMPAS") have committed to a memo of understanding to plan for the founding of the Academy Museum of Motion Pictures to be located in LACMA West.