

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2010 AND 2009**

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
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**June 30, 2010 and 2009**

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## INDEPENDENT AUDITOR'S REPORT



To the Board of Trustees  
Museum Associates  
Los Angeles, California

We have audited the accompanying statements of financial position of Museum Associates (the "Museum") as of June 30, 2010 and 2009, and the related 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 financial statements referred to above present fairly, in all material respects, the financial position of Museum Associates as of June 30, 2010 and 2009, and the changes in its net assets and its 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 21, 2010

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2010 and 2009**

<b>ASSETS</b>		<u>2010</u>	<u>2009</u>
<b>Current assets</b>			
Cash and cash equivalents	\$	28,602,532	\$ 32,071,859
Accounts receivable and accrued revenue		1,832,699	2,566,253
Pledges receivable – current portion, net		24,532,736	33,835,944
Inventories, net		1,205,376	1,092,807
Prepaid expenses and other current assets		<u>1,356,680</u>	<u>124,147</u>
Total current assets		<u>57,530,023</u>	<u>69,691,010</u>
<b>Non-current assets</b>			
Investments		199,544,622	163,888,753
Pledges receivable – long-term portion, net		89,170,634	83,477,731
Receivables under trust agreement, net		131,950	117,773
Property and equipment, net		314,168,921	280,273,771
Revenue bond trust accounts		64,692,387	103,126,030
Revenue bond issuance costs, net		<u>16,271,065</u>	<u>16,847,032</u>
Total noncurrent assets		<u>683,979,579</u>	<u>647,731,090</u>
<b>Total assets</b>		<b><u>\$ 741,509,602</u></b>	<b><u>\$ 717,422,100</u></b>

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

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2010 and 2009**

**LIABILITIES AND NET ASSETS**

	2010	2009
<b>Current liabilities</b>		
Notes payable – current portion	\$ 6,500,000	\$ 1,199,589
Capital lease obligation – current portion	258,676	-
Accounts payable and accrued liabilities	11,683,001	15,952,260
Underfunded pension liabilities	672,456	732,167
Deferred revenue	1,724,306	1,069,126
Split-interest agreement liabilities	179,387	173,072
Total current liabilities	21,017,826	19,126,214
<b>Non-current liabilities</b>		
Revenue bonds	383,000,000	383,000,000
Notes payable – long-term portion	1,000,000	-
Capital lease obligation – long-term portion	543,692	-
Split-interest agreement liabilities	938,166	896,987
Interest rate swap	44,836,523	31,227,039
Total noncurrent liabilities	430,318,381	415,124,026
Total liabilities	451,336,207	434,250,240
<b>Commitments and contingencies (Note 12)</b>		
<b>Net assets</b>		
Unrestricted		
Board-designated, funds functioning as endowment	52,227,292	47,136,627
Donor-restricted endowment fund losses, net	(2,363,530)	(3,037,941)
Other	66,417,265	67,790,858
Temporarily restricted		
Funds functioning as endowment	34,934,912	34,552,828
Other	116,978,191	115,809,847
Permanently restricted – endowment funds	21,979,265	20,919,641
Total net assets	290,173,395	283,171,860
<b>Total liabilities and net assets</b>	<b>\$ 741,509,602</b>	<b>\$ 717,422,100</b>

Total funds functioning as endowment in net assets are \$106,777,939 and \$99,571,155 as of June 30, 2010 and 2009, respectively.

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

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2010 and 2009**

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and support</b>								
Revenues								
Membership dues	\$ 6,658,740	\$ 1,904,240	\$ -	\$ 8,562,980	\$ 6,613,079	\$ 1,740,961	\$ -	\$ 8,354,040
Admissions	2,527,665	-	-	2,527,665	1,909,247	-	-	1,909,247
Investment income, net	1,404,952	670,947	-	2,075,899	2,185,494	1,574,942	-	3,760,436
Net realized and unrealized gain (loss) on investments	18,163,389	5,161,977	-	23,325,366	(45,151,822)	(17,338,005)	-	(62,489,827)
Unrealized loss on interest rate swap	(13,609,484)	-	-	(13,609,484)	(18,346,628)	-	-	(18,346,628)
County operating contract	18,887,000	-	-	18,887,000	16,829,000	-	-	16,829,000
Auxiliary activities	1,678,439	915,066	-	2,593,505	1,533,802	1,181,301	-	2,715,103
Other	2,711,765	30,135	-	2,741,900	2,293,141	(116,130)	-	2,177,011
<b>Total revenues</b>	<b>38,422,466</b>	<b>8,682,365</b>	<b>-</b>	<b>47,104,831</b>	<b>(32,134,687)</b>	<b>(12,956,931)</b>	<b>-</b>	<b>(45,091,618)</b>
Support								
Gifts	6,479,913	27,514,871	17,948	34,012,732	9,369,115	19,567,326	37,200	28,973,641
Government grants	-	579,598	-	579,598	5,000,000	338,176	-	5,338,176
Fundraising events, net	840,669	85,098	-	925,767	-	111,065	-	111,065
<b>Total support</b>	<b>7,320,582</b>	<b>28,179,567</b>	<b>17,948</b>	<b>35,518,097</b>	<b>14,369,115</b>	<b>20,016,567</b>	<b>37,200</b>	<b>34,422,882</b>
Net assets released from restrictions								
Satisfaction of program restrictions	26,386,224	(26,386,224)	-	-	37,403,341	(37,403,341)	-	-
Expiration of time restrictions and other transfers	17,130,185	(17,130,185)	-	-	15,178,529	(15,178,529)	-	-
Other transfers between net assets and release from donor restrictions	(219,951)	(821,725)	1,041,676	-	11,249,621	-	(11,249,621)	-
<b>Total net assets released from restrictions</b>	<b>43,296,458</b>	<b>(44,338,134)</b>	<b>1,041,676</b>	<b>-</b>	<b>63,831,491</b>	<b>(52,581,870)</b>	<b>(11,249,621)</b>	<b>-</b>
<b>Total revenues and support</b>	<b>89,039,506</b>	<b>(7,476,202)</b>	<b>1,059,624</b>	<b>82,622,928</b>	<b>46,065,919</b>	<b>(45,522,234)</b>	<b>(11,212,421)</b>	<b>(10,668,736)</b>

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

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2010 and 2009**

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Expenses</b>								
Program-related expenses								
Exhibitions and collections management	\$ 11,176,197	\$ -	\$ -	\$ 11,176,197	\$ 11,546,475	\$ -	\$ -	\$ 11,546,475
Curatorial	6,549,437	-	-	6,549,437	7,245,333	-	-	7,245,333
Education and public programs	4,165,286	-	-	4,165,286	4,115,843	-	-	4,115,843
Marketing and communication	5,177,482	-	-	5,177,482	5,443,218	-	-	5,443,218
Operations and public services	11,232,186	-	-	11,232,186	12,059,986	-	-	12,059,986
Property and deferred maintenance	928,341	-	-	928,341	1,623,610	-	-	1,623,610
Provision for doubtful pledges and bad debt expenses	3,005,521	-	-	3,005,521	100,000	-	-	100,000
Depreciation expense	4,951,759	-	-	4,951,759	4,749,916	-	-	4,749,916
Revenue bond interest expense and fees	7,726,022	-	-	7,726,022	7,435,505	-	-	7,435,505
Revenue bond cost of issuance amortization	575,967	-	-	575,967	598,533	-	-	598,533
Auxiliary activities	2,638,225	-	-	2,638,225	3,091,012	-	-	3,091,012
General and administrative	7,138,168	-	-	7,138,168	7,871,132	-	-	7,871,132
Development	3,124,568	-	-	3,124,568	2,770,570	-	-	2,770,570
Total expenses	<u>68,389,159</u>	<u>-</u>	<u>-</u>	<u>68,389,159</u>	<u>68,651,133</u>	<u>-</u>	<u>-</u>	<u>68,651,133</u>
<b>Change in net assets before change related to collection items</b>	20,650,347	(7,476,202)	1,059,624	14,233,769	(22,585,214)	(45,522,234)	(11,212,421)	(79,319,869)
Collection items purchased	(16,047,435)	-	-	(16,047,435)	(26,883,469)	-	-	(26,883,469)
Collection items sold	-	9,026,630	-	9,026,630	-	4,160,831	-	4,160,831
<b>Change in net assets after change related to collection items and before changes related to pension plan</b>	4,602,912	1,550,428	1,059,624	7,212,964	(49,468,683)	(41,361,403)	(11,212,421)	(102,042,507)
Increase in pension plan deferred actuarial loss and amortization of prior service cost	(211,429)	-	-	(211,429)	(2,230,893)	-	-	(2,230,893)
<b>Change in net assets after changes related to pension plan</b>	4,391,483	1,550,428	1,059,624	7,001,535	(51,699,576)	(41,361,403)	(11,212,421)	(104,273,400)
<b>Net assets, beginning of year</b>	<u>111,889,544</u>	<u>150,362,675</u>	<u>20,919,641</u>	<u>283,171,860</u>	<u>163,589,120</u>	<u>191,724,078</u>	<u>32,132,062</u>	<u>387,445,260</u>
<b>Net assets, end of year</b>	<u>\$ 116,281,027</u>	<u>\$ 151,913,103</u>	<u>\$ 21,979,265</u>	<u>\$ 290,173,395</u>	<u>\$ 111,889,544</u>	<u>\$ 150,362,675</u>	<u>\$ 20,919,641</u>	<u>\$ 283,171,860</u>

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

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2010 and 2009**

	2010	2009
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 7,001,535	\$ (104,273,400)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Net realized and unrealized (gain) loss on investments	(23,325,366)	62,489,827
Unrealized loss on interest rate swap	13,609,484	18,346,628
Provision for doubtful pledges	3,005,521	100,000
Depreciation expense	4,951,759	4,749,916
Revenue bond cost of issuance amortization	575,967	598,533
Collection items purchased	16,047,435	26,883,469
Collection items sold	(9,026,630)	(4,160,831)
Change in operating assets and liabilities		
Accounts receivable and accrued revenue	733,554	(1,499,180)
Pledges receivable, net	604,784	17,475,726
Inventories, net	(112,569)	(23,979)
Prepaid expense and other current assets	(1,232,533)	352,843
Receivables under trust agreements, net	(14,177)	231,515
Overfunded pension assets	-	806,438
Accounts payable and accrued liabilities	(4,269,257)	1,987,467
Underfunded pension liabilities	(59,711)	732,167
Deferred revenue	655,180	246,412
	9,144,976	25,043,551
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities</b>		
Net (purchases) sales of investments	(12,330,503)	24,024,311
Purchase of property and equipment	(37,843,698)	(43,302,729)
Collection items purchased	(16,047,435)	(26,883,469)
Proceeds from collection items sold	9,026,630	4,160,831
	(57,195,006)	(42,001,056)
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Decrease in revenue bond trust accounts	38,433,643	45,034,563
Proceeds from revenue bonds	-	6,800,000
Revenue bond cost of issuance	-	(3,165,786)
Repayment of notes payable	(1,199,589)	(4,200,000)
Increase in notes payable	7,500,000	-
Payments on capital lease obligation	(200,845)	-
Increase in split-interest agreements liability	47,494	273,253
	44,580,703	44,742,030
<b>Net cash provided by financing activities</b>		
Net (decrease) increase in cash and cash equivalents	(3,469,327)	27,784,525
<b>Cash and cash equivalents, beginning of year</b>	32,071,859	4,287,334
<b>Cash and cash equivalents, end of year</b>	<b>\$ 28,602,532</b>	<b>\$ 32,071,859</b>

**Supplemental disclosure of noncash investing activities**

During the year ended June 30, 2010, the Museum acquired certain property and equipment amounting to \$1,003,213 and financed through a capital lease arrangement. At June 30, 2010 and 2009, the Museum had \$1,709,223 and \$5,444,833, respectively, included in accounts payable and accrued liabilities for the purchase of property and equipment. During the year ended June 30, 2010 and 2009, the Museum paid \$6,678,322 and \$7,435,505, respectively, in interest expense.

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

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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**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”).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

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 with 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.

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenues and Support (Continued)

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 does not generally experience collectibility issues regarding its contributions; however, for conservative purposes, the Museum has established a general reserve based on an estimated percentage of the pledge balance.

The fundraising efforts of the Museum are supported by the efforts of various groups of volunteers organized in separate councils. These councils organize and facilitate fundraising activities throughout the year, with the proceeds being used to purchase works of art and fund other Museum programs. The net proceeds generated from these activities are shown as fundraising events in the combining statement of activities.

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, 2010 and 2009, inventories included on the statements of financial position of \$1,205,376 and \$1,092,807, respectively, were net of obsolescence reserves of \$200,000.

Investments

The Museum's investments are reflected on the statements of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the 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.

**MUSEUM ASSOCIATES**  
**(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments (Continued)

The Museum's other partnership interests and other funds, and some 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. 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 statements of activities. The present value of the total future amounts to be received was \$131,950 and \$117,773 at June 30, 2010 and 2009, respectively.

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 \$1,117,553 and \$1,070,059 at June 30, 2010 and 2009, respectively.

**MUSEUM ASSOCIATES**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

With the exception of the facilities described in the following paragraph, 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 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 financial statements.

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 \$16,047,435 and \$26,883,469 during the years ended June 30, 2010 and 2009, respectively. The Museum received donated art objects valued at approximately \$21,308,199 and \$15,856,000 during the years ended June 30, 2010 and 2009, 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.

**MUSEUM ASSOCIATES**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financing Costs

Financing costs are capitalized at cost and amortized using the straight-line 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 financial statements, as it is not susceptible to objective measurement or valuation.

Income Taxes

The Museum is a California not-for-profit corporation and is therefore exempt from taxation under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code, and is 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") (formerly FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109"), 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, 2010 and 2009, respectively, the Museum performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status.

Estimated Fair Value of Financial Instruments

As defined in FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" ("ASC 820") (formerly SFAS No. 157, "Fair Value Measurements"), 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 risk and or the 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 the following 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.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimated Fair Value of Financial Instruments (Continued)

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, 2010, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Financial instruments included in the Museum's 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:

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.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimated Fair Value of Financial Instruments (Continued)

*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*

The Museum uses the income approach to determine the estimated fair value of its interest rate swap. This approach generally represents a discounted cash flow model, which uses observable inputs such credit ratings and historic default rates, credit spreads, credit default swap rates or other similar measures for similar observable instruments; these are classified within Level 2 of the fair value hierarchy.

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 places its cash and cash equivalents with investment-grade institutions. These account balances usually exceed the Federally insured limit of \$250,000 per institution. However, the Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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, 2010 and 2009, 64% and 76% 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.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Recently Adopted Accounting Pronouncements

On December 30, 2008, FASB ASC Topic No. 715, “Compensation – Retirement Benefits” (“ASC 715”) (formerly FASB Staff Position (“FSP”) FAS 132R-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”), was issued. ASC 715 significantly expands the disclosures required by employers for postretirement plan assets. The amended postretirement benefit plan disclosure requirements in ASC 715 require plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. In addition, the amended postretirement benefit plan disclosure requirements in ASC 715 require new disclosures similar to those in FASB ASC Topic No. 820, “Fair Value Measurements and Disclosures” (“ASC 820”) (formerly SFAS 157, “Fair Value Measurements”), in terms of the three-level fair value hierarchy, including a reconciliation of the beginning and ending balances of plan assets that fall within Level 3 of the hierarchy. The amended postretirement benefit plan disclosure requirements in ASC 715 are effective for periods ending after December 15, 2009. The Museum has adopted ASC 715 for its year ended June 30, 2010 and has included the expanded disclosures in Note 11 to the financial statements.

In May 2009, FASB ASC Topic No. 855, “Subsequent Events” (“ASC 855”), was issued. ASC 855 provides general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. The Museum adopted ASC 855 during the year ended June 30, 2010 and, other than the additional disclosures made in Note 13, it did not have a material impact on the financial statements. The subsequent events have been evaluated through October 21, 2010, which is the date the financial statements were issued.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recently Adopted Accounting Pronouncements (Continued)

In June 2009, the FASB ASC Topic No. 105, “The *FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“ASC 105”) (formerly SFAS 168, “The FASB Codification and the Hierarchy of Generally Accepted Accounting Principles”), was issued. ASC 105 establishes the *FASB Accounting Standards Codification* (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by entities in the preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”). The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of ASC 105 and the Codification does not change GAAP. ASC 105 became effective for the Museum as of the year ended June 30, 2010. The adoption of ASC 105 had no impact on the Museum’s financial statements. However, because the Codification completely replaces existing standards, it has affected the way GAAP is referenced by the Museum in its financial statements. As such, where the Museum has referred to specific authoritative accounting literature, the Codification is disclosed.

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, “Fair Value Measurements and Disclosures” (Topic 820). 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’s management has not yet assessed the impact of ASU 2010-06, but does not believe it will have a material effect on its financial statements.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recently Issued Accounting Pronouncements (Continued)

In January 2010, the FASB issued ASU 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. Subsequent to the year ended June 30, 2010, the Museum was a party to an acquisition of another entity. Management is currently assessing the impact of ASU 2010-07 and ASC 958-805 on this transaction in its 2011 financial statements. See Note 13 for further details.

**NOTE 3 – PLEDGES RECEIVABLE**

At June 30, 2010 and 2009, the Museum had the following pledges receivable:

	2010	2009
Due within one year	\$ 24,532,736	\$ 34,035,944
Allowance for doubtful pledges	-	(200,000)
Pledges receivable – current portion, net	<u>24,532,736</u>	<u>33,835,944</u>
Due between one and five years	51,378,734	67,033,491
Due after five years	57,695,385	40,727,540
Present value discount	(17,603,485)	(19,283,300)
Allowance for doubtful pledges	(2,300,000)	(5,000,000)
Pledges receivable – noncurrent portion, net	<u>89,170,634</u>	<u>83,477,731</u>
<b>Total pledges receivable, net</b>	<b><u>\$113,703,370</u></b>	<b><u>\$117,313,675</u></b>

During the year ended June 30, 2010, the Museum wrote off a pledge that, thus far, remains unpaid from Eli Broad, a non-voting Life Trustee and a major donor to the Museum, in the amount of \$5,496,589. This amount is related to a 2004 pledge agreement in which BCAM building costs over \$50 million were to be approved and paid by the donor. Although the donor disputes the amount in question, management believes the costs were approved and that the amount remains due and owing. Until the resolution of this issue, the Museum believes the most appropriate and conservative accounting treatment is to write down the full amount of the unpaid pledge.

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**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 2009-12) 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.

Investments at June 30, 2010 and 2009 are stated at fair value and consist of the following:

	2010	2009
Long-only equity	\$ 33,479,735	\$ 20,059,293
Fixed income	50,602,801	40,889,250
Absolute return	109,194,599	93,769,997
Other partnerships and other funds	6,267,487	9,170,213
<b>Total investments</b>	<b>\$199,544,622</b>	<b>\$163,888,753</b>

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
<b>Total</b>	<b>\$ 73,838,463</b>	<b>\$ 85,048,594</b>	<b>\$ 40,657,565</b>	<b>\$199,544,622</b>

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**NOTE 4 – INVESTMENTS (Continued)**

As of June 30, 2009, the Museum’s investments were classified by level within the valuation hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-only equity	\$ 20,059,293	\$ -	\$ -	\$ 20,059,293
Fixed income	27,707,201	13,182,049	-	40,889,250
Absolute return	8,530,540	27,767,118	57,472,339	93,769,997
Other partnerships and other funds	-	-	9,170,213	9,170,213
<b>Total</b>	<b><u>\$ 56,297,034</u></b>	<b><u>\$ 40,949,167</u></b>	<b><u>\$ 66,642,552</u></b>	<b><u>\$163,888,753</u></b>

For the years ended June 30, 2010 and 2009, the changes in fair value of the Museum’s Level 3 investments are as follows.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 66,642,552	\$ 41,750,405
Purchases (sales), net	(13,280,895)	29,722,181
Unrealized gain (loss), net	5,347,262	(264,926)
Transfers in and/or out of Level 3	<u>(18,051,354)</u>	<u>(4,565,108)</u>
<b>Total investments</b>	<b><u>\$ 40,657,565</u></b>	<b><u>\$ 66,642,552</u></b>

Investments Valued at Net Asset Value

On July 1, 2009, the Museum adopted Accounting Standards Update 2009-12, “Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),” and applied it to value certain investments and alternative investments in funds that do not have readily determinable fair values, including private equity funds, hedge funds, real estate, fund of funds and other funds. The new rules amend various provisions related to disclosures for fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this update permit a reporting entity, as a practical expedient, to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity’s measurement date, including measurement of all or substantially all of the underlying investments in accordance with Topic 820.

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**NOTE 4 – INVESTMENTS (Continued)**

Investments Valued at Net Asset Value (Continued)

The amendments in the update also require disclosure by major category of investment about the attributes of investments such as the nature of any restrictions on the investor’s ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. The disclosures are required for all investments within scope of the amendments in this update regardless of whether the fair value of the investments is measured using the practical expedient.

At June 30, 2010, the Museum has \$124,542,340 of investments in funds reported at net asset value. For these investments, the Museum has concluded that the net asset value reported by the underlying fund is a practical expedient to fair value and that these investments are redeemable with the fund at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Museum’s interests in the funds.

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:

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

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

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**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. 26% of these investments have investment characteristics or lock-ups that will restrict the ability to redeem them until after one year from June 30, 2010. The anticipated redemption dates for these investments range from 1.5 to 7 years or more.*

- (a) 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 7 – 10 year expected liquidation period.

- (b) 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.

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 3 to 7 years.

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**NOTE 4 – INVESTMENTS (Continued)**

Investments Valued at Net Asset Value (Continued)

(c) 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 7 to 10 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 7 to 10 years.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 36,143,953	\$ 36,143,953
Buildings and improvements	289,416,241	186,715,975
Construction in progress	-	64,973,586
Software in progress	1,086,707	-
Equipment and other property	8,241,819	8,208,297
	334,888,720	296,041,811
Less accumulated depreciation	20,719,799	15,768,040
<b>Property and equipment, net</b>	<b>\$314,168,921</b>	<b>\$280,273,771</b>

Depreciation expense amounted to \$4,951,759 and \$4,749,916, respectively, for the years ended June 30, 2010 and 2009.

Interest expense and related fees of approximately \$6,678,000 and \$8,956,000, which is net of approximately (\$2,665,000) and (\$2,362,000) in investment income, realized and unrealized gains (losses), were capitalized in construction in progress during the years ended June 30, 2010 and 2009, respectively.

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**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 (“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 2008 bonds are supported by a letter of credit from a consortium of banks fronted by Wells Fargo. The letter of credit has a three-year term which is set to expire in September 2011, but which may be renewed before that date. The Museum’s management is currently exploring its renewal options, which may include renewal of this letter of credit with Wells Fargo or obtaining a new letter of credit facility with other financial institutions. Interest is charged at a rate of 1.0% on the letter of credit. As of June 30, 2010 and 2009, respectively, there were no amounts borrowed or outstanding on the letter of credit.

The Issuer lent the proceeds of the Series 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.

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 .75, it is an event of default. If the ratio falls below .95 or .85, the Museum is subject to certain requirements by the letter of credit banks and the swap counterparty. As of June 30, 2010, the UNA ratio was .88, which means the letter of credit banks and swap counterparty may require the Museum to deposit the equivalent of one year’s interest into an account with the bond Trustee. This amount is estimated to be \$12,500,000 at June 30, 2010, and the Museum may use unspent bond proceeds to satisfy this requirement.

As of June 30, 2010 and 2009, unspent bond proceeds held in trust with the Trustee of \$64,692,387 and \$103,126,030, 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.

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

Revenue Bonds (Continued)

As of June 30, 2010 and 2009, outstanding amounts due on the 2008 Bonds were \$383,000,000.

As of June 30, 2010, the Series 2008 Bond mandatory bond redemption requirements have been summarized as follows:

<u>Redemption Date</u> <u>December 1,</u>	
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	<u>42,510,000</u>
<b>Total</b>	<b><u>\$ 383,000,000</u></b>

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 agrees to pay Citibank a synthetic fixed amount of interest, 3.552% per month, and will receive 59.5% of one-month LIBOR (3.25% at June 30, 2010) plus 0.3%. The Museum can terminate the swap agreements at any time, but Citibank may terminate the agreement only if certain adverse conditions occur.

The Museum records its interest rate swaps at fair value, adjusted for credit risk. Credit adjustments consider the estimated future cash flows between the Museum and its counterparty under the terms of the instrument and affect the credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognized net asset or liability. Counterparty credit risk adjustments are applied to derivatives, such as over-the-counter derivatives, where the base valuation uses market parameters based on LIBOR interest rate curves.

The fair value of the Museum's interest rate swap liability was estimated in relation to its credit rating by the ratings agencies. Changes in fair value resulting from changes in instrument-specific credit risk were estimated based on credit default swap spreads and an interpolated bond yield spread analysis, and are classified under Level 2 of the valuation hierarchy.

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

Interest Rate Swaps (Continued)

As of June 30, 2010 and 2009, the aggregate interest rate swap value on the 2008 Bonds was (\$44,836,523) and (\$31,227,039), respectively.

The aggregate unrealized loss reflecting the change in swap value for the 2008 Bonds for the years ended June 30, 2010 and 2009 was \$13,609,484 and \$18,346,628, respectively.

Revenue Bond Issuance Costs

The Museum amortizes its revenue bond issuance costs using the straight-line method over the term of the debt. At June 30, 2010 and 2009, the aggregate net capitalized costs on the 2004, 2007 and 2008 Bonds were \$16,271,065 and \$16,847,032, respectively, and are included under “Revenue bond issuance costs, net” on the statements of financial position. The Museum recognized \$575,967 and \$598,533 in amortization costs on the capitalized bond issuance costs for the year ended June 30, 2010 and 2009, respectively, and such costs are included under “Revenue bond costs of issuance amortization” on the statements of activities.

**NOTE 7 – NOTES PAYABLE**

All notes payable outstanding at June 30, 2010 and 2009 related to the purchase of artwork from restricted funds and consisted of the following:

<u>Note</u>	<u>Due</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>
Note Payable #1	01/01/10	5.0%	\$ -	\$ 1,199,589
Note Payable #2	01/31/12	N/A	<u>7,500,000</u>	<u>-</u>
Total notes payable			7,500,000	1,199,589
Less current portion			<u>6,500,000</u>	<u>1,199,589</u>
<b>Long-term portion</b>			<b><u>\$ 1,000,000</u></b>	<b><u>\$ -</u></b>

Interest expense incurred on notes payable for the years ended June 30, 2010 and 2009 were \$29,990 and \$89,980, respectively.

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**NOTE 8 – NET ASSETS**

Unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

	2010			
	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	<u>(2,363,530)</u>	<u>-</u>	<u>-</u>	<u>(2,363,530)</u>
Total endowment and funds functioning as endowment	<u>49,863,762</u>	<u>34,934,912</u>	<u>21,979,265</u>	<u>106,777,939</u>
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	<u>(33,736,580)</u>	<u>-</u>	<u>-</u>	<u>(33,736,580)</u>
Total other funds	<u>66,417,265</u>	<u>116,978,191</u>	<u>-</u>	<u>183,395,456</u>
<b>Total</b>	<b><u>\$116,281,027</u></b>	<b><u>\$151,913,103</u></b>	<b><u>\$ 21,979,265</u></b>	<b><u>\$290,173,395</u></b>

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**NOTE 8 – NET ASSETS (Continued)**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment and funds functioning as endowment				
Operating support	\$ 45,498,407	\$ -	\$ 712,337	\$ 46,210,744
Restricted operating support	-	29,272,624	13,497,735	42,770,359
Art acquisition	1,638,220	5,280,204	6,709,569	13,627,993
Donor-restricted endowment fund losses	<u>(3,037,941)</u>	-	-	<u>(3,037,941)</u>
Total endowment and funds functioning as endowment	<u>44,098,686</u>	<u>34,552,828</u>	<u>20,919,641</u>	<u>99,571,155</u>
Other funds				
Programs	76,728,577	114,235,371	-	190,963,948
Art acquisition	5,052,565	1,574,476	-	6,627,041
Property and equipment	<u>(13,990,284)</u>	-	-	<u>(13,990,284)</u>
Total other funds	<u>67,790,858</u>	<u>115,809,847</u>	-	<u>183,600,705</u>
<b>Total</b>	<b><u>\$111,889,544</u></b>	<b><u>\$150,362,675</u></b>	<b><u>\$ 20,919,641</u></b>	<b><u>\$283,171,860</u></b>

**NOTE 9 – NET ASSETS RECLASSIFICATION**

During the year ended June 30, 2009, certain donors released the permanent restrictions attached to their respective donations. As a result, the Museum reclassified \$11,249,621 in permanently restricted net assets to unrestricted net assets as of June 30, 2009. There were no permanently restricted donations released by donors and reclassified by the Museum during the year ended June 30, 2010.

**NOTE 10 – 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.

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**NOTE 10 – ENDOWMENT (Continued)**

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”) (formerly FSP No. 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds”). The disclosure provisions of ASC 958 were applied by the Museum in the years ended June 30, 2010 and 2009 as shown below.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>(2,363,530)</u>	<u>12,178,488</u>	<u>21,979,265</u>	<u>31,794,223</u>
<b>Total endowment funds</b>	<b><u>\$ 49,863,762</u></b>	<b><u>\$ 34,934,912</u></b>	<b><u>\$ 21,979,265</u></b>	<b><u>\$106,777,939</u></b>

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**NOTE 10 – ENDOWMENT (Continued)**

At June 30, 2009, the Museum’s endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 47,136,627	\$ -	\$ -	\$ 47,136,627
Temporarily restricted funds managed as endowment funds	-	22,836,396	-	22,836,396
Donor-restricted endowment funds	<u>(3,037,941)</u>	<u>11,716,432</u>	<u>20,919,641</u>	<u>29,598,132</u>
<b>Total endowment funds</b>	<b><u>\$ 44,098,686</u></b>	<b><u>\$ 34,552,828</u></b>	<b><u>\$ 20,919,641</u></b>	<b><u>\$ 99,571,155</u></b>

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 \$2,363,530 and \$3,037,941 as of June 30, 2010 and 2009, 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.

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**NOTE 10 – ENDOWMENT (Continued)**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	<u>Total</u>
		<u>Donor-restricted</u>	<u>Managed as Endowment</u>		
Balance, beginning of year	<u>\$ 44,098,686</u>	<u>\$ 11,716,432</u>	<u>\$ 22,836,396</u>	<u>\$ 20,919,641</u>	<u>\$ 99,571,155</u>
Investment return					
Investment income, net	624,475	232,938	192,633	-	1,050,046
Net realized and unrealized appreciation	<u>4,859,200</u>	<u>1,534,620</u>	<u>1,139,562</u>	<u>-</u>	<u>7,533,382</u>
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)
Donor-released from restrictions	-	-	-	-	-
Reclassification of underwater endowment funds	<u>674,411</u>	<u>(674,411)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total endowment funds</b>	<b><u>\$ 49,863,762</u></b>	<b><u>\$ 12,178,488</u></b>	<b><u>\$ 22,756,424</u></b>	<b><u>\$ 21,979,265</u></b>	<b><u>\$106,777,939</u></b>

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**NOTE 10 – ENDOWMENT (Continued)**

For the year ended June 30, 2009, the Museum’s endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	<u>Total</u>
		<u>Donor-restricted</u>	<u>Managed as Endowment</u>		
Balance, beginning of year	<u>\$ 61,627,172</u>	<u>\$ 20,605,041</u>	<u>\$ 33,696,018</u>	<u>\$ 32,132,062</u>	<u>\$148,060,293</u>
Investment return					
Investment income, net	1,388,944	569,503	485,779	-	2,444,226
Net realized and unrealized depreciation	<u>(27,801,621)</u>	<u>(11,783,716)</u>	<u>(11,385,227)</u>	-	<u>(50,970,564)</u>
Total investment return	(26,412,677)	(11,214,213)	(10,899,448)	-	(48,526,338)
Contributions	-	-	-	37,200	37,200
Other changes					
Transfers of Board-designated endowment funds	2,578,844	(712,337)	(616,886)	(1,249,621)	-
Donor-released from restrictions	9,343,288	-	656,712	(10,000,000)	-
Reclassification of underwater endowment funds	<u>(3,037,941)</u>	<u>3,037,941</u>	-	-	-
<b>Total endowment funds</b>	<b><u>\$ 44,098,686</u></b>	<b><u>\$ 11,716,432</u></b>	<b><u>\$ 22,836,396</u></b>	<b><u>\$ 20,919,641</u></b>	<b><u>\$ 99,571,155</u></b>

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 12 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.

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**NOTE 10 – 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 11 – 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 \$1,200,000 and \$1,450,000 during the years ended June 30, 2010 and 2009, 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.

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)

Net periodic benefit costs for the years ended June 30:

	2010	2009
Service cost	\$ 869,137	\$ 925,632
Interest cost	543,624	499,178
Expected return on plan assets	(655,331)	(753,387)
Amortization of prior service cost	34,779	34,779
Amortization of actuarial (gains) losses	92,291	-
Amortization of net (gains) losses	44,360	51,510
<b>Net periodic benefit cost</b>	<b>\$ 928,860</b>	<b>\$ 757,712</b>

Obligation and funded status at June 30:

	2010	2009
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 8,660,956	\$ 7,945,681
Service cost	869,137	925,632
Interest cost	543,624	499,178
Benefits paid	(550,933)	(451,724)
Settlements, curtailments or other events	44,360	51,510
Actuarial (gain) or loss	928,329	(309,321)
Benefit obligation, end of year	10,495,473	8,660,956
Change in plan assets		
Fair value of plan assets, beginning of year	7,928,789	8,752,119
Actual return on plan assets	1,245,161	(1,821,606)
Employer contributions	1,200,000	1,450,000
Settlement or curtailment	(405,121)	(317,621)
Benefits paid	(145,812)	(134,103)
Fair value of plan assets, end of year	9,823,017	7,928,789
<b>Funded status</b>	<b>\$ (672,456)</b>	<b>\$ (732,167)</b>

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)

The following represents pension costs directly charged to net assets at June 30:

	<u>2010</u>	<u>2009</u>
Accumulated net adjustment to net assets, beginning of year	<u>\$(2,711,882)</u>	<u>\$ (480,989)</u>
Current year change		
Actuarial loss during the year	(246,208)	(2,265,672)
Amortization of prior service cost	<u>34,779</u>	<u>34,779</u>
Total current-year change	<u>(211,429)</u>	<u>(2,230,893)</u>
<b>Accumulated net adjustment to net assets, end of year</b>	<b><u>\$(2,923,311)</u></b>	<b><u>\$(2,711,882)</u></b>

The accumulated benefit obligation for the plan was \$10,495,473 and \$8,660,956 at June 30, 2010 and 2009, respectively.

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

	<u>2010</u>	<u>2009</u>
Discount rate	5.8%	6.3%
Expected return on plan assets	7.8%	8.0%
Rate of compensation increase	5.0%	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.

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)

The Museum’s year-end plan weighted-average asset allocations by category were as follows:

	<u>Target</u>	<u>2010</u>	<u>2009*</u>
Long-only equities	26.0%	25.0%	56.6%
Fixed income	28.0%	27.8%	36.8%
Long/short equities	36.0%	34.4%	0.0%
Alternatives	10.0%	9.8%	0.0%
Cash	0.0%	3.2%	6.6%

*\*Target allocation was different than it currently is.*

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 \$1,350,000 to the defined benefit Plan for the fiscal year ending June 30, 2011.

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

For the Year	
<u>Ending June 30,</u>	
2011	\$ 271,230
2012	286,737
2013	346,909
2014	453,859
2015	498,490
2016 to 2021	<u>5,335,611</u>
<b>Total</b>	<b><u>\$ 7,192,836</u></b>

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)

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:

- 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 provide 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, 2010, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	-	1,010,023	-	1,010,023
Long/short equity (a)	-	2,834,895	631,763	3,466,658
High-yield and liquid credit (b)	-	848,899	-	848,899
Alternatives (c)	-	-	992,493	992,493
<b>Total</b>	<b><u>\$ 3,504,944</u></b>	<b><u>\$ 4,693,817</u></b>	<b><u>\$ 1,624,256</u></b>	<b><u>\$ 9,823,017</u></b>

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)

- (a) 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.
- (b) This category includes investments primarily in high-yield bonds, but with manager discretion to invest in other segments of target company's capital structure.
- (c) This category includes investments in distressed debt, opportunistic credit and bank assets.

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

	<u>Long/Short Equity</u>	<u>Alternatives</u>	<u>Total</u>
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	<u>600,000</u>	<u>850,000</u>	<u>1,450,000</u>
<b>Ending balance, June 30, 2010</b>	<b><u>\$ 631,763</u></b>	<b><u>\$ 992,493</u></b>	<b><u>\$ 1,624,256</u></b>

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, 2010 and 2009, amounted to approximately \$468,000 and \$457,000, respectively.

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.

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**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

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. The deferred compensation liability accrued as of June 30, 2010 was \$800,000 and is reflected in the “Accounts payable and accrued liabilities” in the statements of financial position.

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 is payable if the employee is 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 is being expensed over the three-year vesting period in the amount of \$150,000 annually. As of June 30, 2010, all vested and accrued amounts under this plan have been paid.

**NOTE 12 – 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, 2010.

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**NOTE 12 – 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 \$368,000 and \$390,000 for the years ended June 30, 2010 and 2009, respectively. Future minimum lease payments are as follows:

<u>For the Year</u> <u>Ending June 30,</u>	
2011	\$ 108,000
2012	16,000
2013	16,000
2014	16,000
2015	<u>12,000</u>
<b>Total</b>	<b><u>\$ 168,000</u></b>

Capital Lease

The Museum financed the purchase of certain equipment 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 is as follows:

<u>For the Year</u> <u>Ending June 30,</u>	
2011	\$ 258,676
2012	258,676
2013	258,676
2014	<u>26,340</u>
Balance, June 30, 2010	802,368
Less current portion	<u>258,676</u>
<b>Long-term portion</b>	<b><u>\$ 543,692</u></b>

At June 30, 2010, there was a capital lease obligation of \$1,086,707 recorded as software in progress. As of and for the year ended June 30, 2010, there was no related depreciation expense and accumulated depreciation recognized as the software has not been placed in service.

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**NOTE 13 – SUBSEQUENT EVENTS**

The subsequent events have been evaluated through October 21, 2010, which is the date the financial statements were issued.

Employment Agreement

On July 1, 2010, the Museum entered into a new employment agreement with its Director for a term of six years ending on June 30, 2016.

FAMSI Acquisition

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. 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.

As of the date of these financial statements, the Museum’s management is currently assessing the impact of this transaction on its fiscal 2011 financial statements in accordance with the provisions of ASC Topic No. 958-805, “Not-for-Profit Entities: Mergers and Acquisitions,” which is effective for the Museum during the year ending June 30, 2011.