

MUSEUM ASSOCIATES

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

MUSEUM ASSOCIATES
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

CONTENTS

	Page
Independent Auditor's Report	1
Statement of Financial Position.....	3
Statement of Activities	5
Statement of Cash Flows.....	7
Notes to Financial Statements	8

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Museum Associates

Report on the Financial Statements

We have audited the accompanying financial statements of Museum Associates (the Museum), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Museum Associates

Report on Summarized Comparative Information

We have previously audited the Museum's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

September 25, 2015
Los Angeles, California

MUSEUM ASSOCIATES

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With Summarized Totals at June 30, 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 1,730,668	\$ 4,928,076
Accounts receivable - current portion	924,948	31,209,978
Accrued revenue	2,033,050	4,524,525
Pledges receivable - current portion, net	23,948,338	20,199,884
Inventories	894,255	884,660
Prepaid expenses and other current assets	137,291	148,247
	<hr/>	<hr/>
Total current assets	29,668,550	61,895,370
Noncurrent assets		
Investments	323,560,291	281,885,755
Accounts receivable - long-term portion	4,555,207	-
Pledges receivable - long-term portion, net	67,426,240	67,885,573
Receivables under trust agreement, net	218,106	242,117
Property and equipment, net	289,556,284	297,724,668
Revenue bond trust accounts	390,225	371,209
Revenue bond issuance costs, net	13,796,476	14,407,390
	<hr/>	<hr/>
Total noncurrent assets	699,502,829	662,516,712
	<hr/>	<hr/>
Total assets	<u>\$ 729,171,379</u>	<u>\$ 724,412,082</u>

The accompanying notes are an integral part of these financial statements

MUSEUM ASSOCIATES

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With Summarized Totals at June 30, 2014

LIABILITIES AND NET ASSETS	2015	2014
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,710,520	\$ 8,588,029
Deferred lease revenue - current portion	1,397,539	969,701
Deferred revenue - current portion	439,596	1,247,362
Notes payable - current portion	1,137,462	825,000
Split-interest agreement liabilities	231,511	212,361
Total current liabilities	10,916,628	11,842,453
Noncurrent liabilities		
Revenue bonds	343,000,000	343,000,000
Deferred lease revenue - long term portion	38,628,810	34,469,287
Deferred revenue - long term portion	750,000	1,125,000
Notes payable - long term portion	1,100,000	-
Interest rate swap	69,125,720	59,740,112
Split-interest agreement liabilities	1,233,307	1,181,248
Underfunded pension liabilities	3,492,855	2,200,513
Total noncurrent liabilities	457,330,692	441,716,160
Total liabilities	468,247,320	453,558,613
Commitment and Contingencies (Note 13)		
Net assets		
Unrestricted		
Board-designated, funds functioning as endowment	65,323,511	64,669,616
Donor-restricted endowment fund losses, net	(1,333,228)	(1,264,353)
Other	33,748,284	45,225,174
Temporarily restricted		
Funds functioning as endowment	39,734,416	40,068,567
Other	101,392,829	100,106,386
Permanently restricted – endowment funds	22,058,247	22,048,079
Total net assets	260,924,059	270,853,469
Total liabilities and net assets	\$ 729,171,379	\$ 724,412,082

The accompanying notes are an integral part of these financial statements

MUSEUM ASSOCIATES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015				2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues and support					
Revenues					
Membership dues	\$ 6,881,580	\$ 365,656	\$ -	\$ 7,247,236	\$ 7,365,879
Admissions	4,885,669	-	-	4,885,669	4,694,425
Investment income, net	(766,838)	663,103	-	(103,735)	306,024
Net realized and unrealized gain on investments	11,110,737	2,292,030	-	13,402,767	29,425,886
Unrealized loss on interest rate swap	(9,385,608)	-	-	(9,385,608)	(4,103,232)
County operating contract	22,928,874	-	-	22,928,874	23,172,000
Auxiliary activities	2,375,459	45,548	-	2,421,007	2,471,185
Other	9,234,333	259,073	-	9,493,406	9,467,423
Total revenues	47,264,206	3,625,410	-	50,889,616	72,799,590
Support					
Gifts	7,557,118	40,198,681	10,168	47,765,967	54,375,801
Government grants	-	254,784	-	254,784	5,410,257
Fundraising events, net	1,854,095	2,229,154	-	4,083,249	5,524,461
Total support	9,411,213	42,682,619	10,168	52,104,000	65,310,519
Net assets released from restrictions					
Satisfaction of program restrictions	26,070,158	(26,070,158)	-	-	-
Expiration of time restrictions and other transfers	20,712,657	(20,712,657)	-	-	-
Total net assets released from restrictions	46,782,815	(46,782,815)	-	-	-
Total revenues and support	103,458,234	(474,786)	10,168	102,993,616	138,110,109

The accompanying notes are an integral part of these financial statements

MUSEUM ASSOCIATES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Expenses					
Program-related expenses					
Exhibitions and collections management	\$ 16,444,011	\$ -	\$ -	\$ 16,444,011	\$ 13,637,803
Curatorial	9,494,040	-	-	9,494,040	9,191,170
Education and public programs	6,339,650	-	-	6,339,650	6,069,068
Marketing and communication	5,512,576	-	-	5,512,576	6,280,246
Operations and public services	14,820,540	-	-	14,820,540	14,954,688
Property and deferred maintenance	5,255,863	-	-	5,255,863	7,580,820
Depreciation expense	8,030,476	-	-	8,030,476	7,982,937
Revenue bond interest expense and fees	12,836,611	-	-	12,836,611	14,932,824
Revenue bond cost of issuance amortization	610,914	-	-	610,914	615,197
Auxiliary activities	2,600,462	-	-	2,600,462	2,426,952
General and administrative	10,222,128	-	-	10,222,128	9,938,370
Development	5,322,893	-	-	5,322,893	5,192,660
Total expenses	<u>97,490,164</u>	-	-	<u>97,490,164</u>	<u>98,802,735</u>
Change in net assets before change related to collection items	5,968,070	(474,786)	10,168	5,503,452	39,307,374
Collection items purchased	(16,859,940)	-	-	(16,859,940)	(12,175,652)
Collection items sold	-	1,427,078	-	1,427,078	1,905,658
Change in net assets after change related to collection items	(10,891,870)	952,292	10,168	(9,929,410)	29,037,380
Net assets, beginning of year	<u>108,630,437</u>	<u>140,174,953</u>	<u>22,048,079</u>	<u>270,853,469</u>	<u>241,816,089</u>
Net assets, end of year	<u>\$ 97,738,567</u>	<u>\$ 141,127,245</u>	<u>\$ 22,058,247</u>	<u>\$ 260,924,059</u>	<u>\$ 270,853,469</u>

The accompanying notes are an integral part of these financial statements

MUSEUM ASSOCIATES

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

With Summarized Totals for the Year Ended June 30, 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (9,929,410)	\$ 29,037,380
Adjustments to reconcile change in net assets to cash provided by operating activities		
Net realized and unrealized gain on investments	(13,402,767)	(29,425,886)
Unrealized loss on interest rate swap	9,385,608	4,103,232
Loss on sale of property	311,880	-
Pledge provision increase	1,000,000	-
Depreciation expense	8,030,476	7,982,937
Revenue bond cost of issuance amortization	610,914	615,197
Collection items purchased	16,859,940	12,175,652
Collection items sold	(1,427,078)	(1,905,658)
Contributions restricted for endowment	(10,168)	(34,865)
Change in operating assets and liabilities		
Accounts receivable and accrued revenue	28,221,298	(10,318,840)
Pledges receivable, net	(4,289,121)	(18,202,843)
Inventories	(9,595)	(93,319)
Prepaid expenses and other current assets	10,956	5,135
Receivables under trust agreements, net	24,011	28,023
Accounts payable and accrued liabilities	(877,509)	688,840
Deferred lease revenue	4,587,361	-
Deferred revenue	(1,182,766)	9,570,273
Underfunded pension liabilities	1,292,342	191,112
Net cash provided by operating activities	39,206,372	4,416,370
Cash flows from investing activities		
Net sales (purchases) of investments	(28,271,769)	5,858,331
Net sales (purchases) of property and equipment	(173,972)	(538,695)
Collection items purchased	(16,859,940)	(12,175,652)
Collection items sold	1,427,078	1,905,658
Net cash used in investing activities	(43,878,603)	(4,950,358)
Cash flows from financing activities		
Increase in revenue bond trust accounts	(19,016)	(162,733)
Payments on notes payable	(1,329,163)	(62,500)
Increase in notes payable	2,741,625	825,000
Payments on capital lease obligation	-	(43,047)
Increase in split-interest agreement liabilities	71,209	278,420
Contributions restricted for endowment	10,168	34,865
Net cash provided by financing activities	1,474,823	870,005
Net (decrease) increase in cash and cash equivalents	(3,197,408)	336,017
Cash and cash equivalents, beginning of year	4,928,076	4,592,059
Cash and cash equivalents, end of year	\$ 1,730,668	\$ 4,928,076

Supplemental disclosure of noncash investing activities

During the years ended June 30, 2015 and 2014, the Museum paid \$13,438,230 and \$14,901,020, respectively, in interest expenses and related fees.

The accompanying notes are an integral part of these financial statements

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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).

The Museum is the premier encyclopedic art museum in the Western United States. The Museum's collection of more than 129,000 artworks from around the world spans the history of art, from ancient to contemporary times. Through its varied collections, the Museum is both a resource to and a reflection of the many cultural communities and heritages in Southern California and throughout the world.

In conformity with its art collection policy, the collection items acquired by the Museum are not capitalized in its statement of financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 the statement of activities 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.

(b) 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against or commitments of third parties that will be settled in cash. The carrying value of receivables represents their estimated net realizable value. If events or changes in circumstances indicate that specific receivable balances could become impaired an allowance is recorded. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2015, the Museum evaluated the collectability of its accounts receivable and determined that no allowance was necessary.

(d) PLEDGES RECEIVABLE

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period promised. 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 time of the contribution. The Museum has established a general reserve considered to be adequate but not excessive in relation to the outstanding pledge balances.

(e) INVENTORIES

Inventories consist of Museum Shop goods and are stated at the lower of weighted-average cost or market.

(f) INVESTMENTS

The Museum's investments are reflected on the statement of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities. The Museum's investments consist of long-only equities, fixed income securities, absolute return funds, partnership interests and other funds.

The Museum's long-only equity investments and fixed income securities are generally publicly traded on national securities exchanges and have readily available quoted market values. The Museum's other partnership interests and other funds, and portions of its absolute return fund investments, are carried at estimated fair value. The Museum 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) **INVESTMENTS** (continued)

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 attributable to dividends, interest income and realized and unrealized gains on investments, which were \$831,124 for the year ended June 30, 2015. 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.

(g) **RECEIVABLES UNDER TRUST AGREEMENTS AND
SPLIT-INTEREST AGREEMENT LIABILITIES**

The Museum has been named as the beneficiary of two trust agreements for which a third party has been named as the trustee. Assets contributed by the donor under these trust agreements 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 statement of activities. The present value of the total future amounts to be received was \$218,106 at June 30, 2015.

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 and the discount rates applicable in the years in which the agreements were entered into. The present value of these split-interest liabilities was \$1,464,818 at June 30, 2015. The Museum has established a segregated reserve fund of \$2,048,784 at June 30, 2015 which exceeds the present value of the liabilities.

(h) **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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROPERTY AND EQUIPMENT (continued)

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

(i) LONG-LIVED ASSETS

The Museum reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended June 30, 2015.

(j) 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. 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 \$16,859,940 during the year ended June 30, 2015. The Museum received donated art objects valued at \$17,215,324 during the year ended June 30, 2015.

(k) FINANCING COSTS

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

(l) REVENUES AND SUPPORT

Annual membership dues and admissions are recognized as revenue when such income is received. Grant revenues are recognized when their conditions are met either by expenditures being incurred or benchmarks being met.

Revenues from fundraising events are net of expenses of \$4,446,209 for the year ended June 30, 2015.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) INCOME TAXES

The Museum is a California not-for-profit corporation and is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) and is also exempt from state franchise taxes.

(o) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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 and in general is defined as follows:

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 year ended June 30, 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the year ended June 30, 2014.

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, split-interest agreement liabilities, and interest rate swap.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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 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

The basis of fair value for the Museum's investments 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 has an interest rate swap agreement, in order to manage exposure to interest rate fluctuations.

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, 2015 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) CONCENTRATION OF CREDIT RISK

Credit risk is the failure of another party to perform in accordance with 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. 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, 2015, 79% 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 statement 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.

(q) 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.

(r) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2014 from which the summarized information was derived.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 - ACCOUNTS RECEIVABLE

At June 30, 2015, the Museum had \$5,480,155 in accounts receivable.

In November 2014, the Museum entered into a ninety-six month easement agreement of land for the design and construction of a subway extension. Accounts receivable - current portion and accounts receivable - long term portion on the statement of financial position includes \$683,712 and \$4,555,207, respectively, related to this agreement. At June 30, 2015, deferred lease revenue - current portion and deferred lease revenue - long term portion related to the agreement was \$737,840 and \$4,795,957, respectively.

NOTE 4 - PLEDGES RECEIVABLE

At June 30, 2015, the Museum had the following pledges receivable:

Pledges Receivable - Current Portion	<u>\$ 23,948,338</u>
Due Between One and Five Years	42,703,527
Due after Five Years	43,174,032
Present Value Discount of Approximately 0 to 5%	(13,451,319)
Allowance for Doubtful Pledges	<u>(5,000,000)</u>
<i>PLEDGES RECEIVABLE - LONG-TERM PORTION (NET)</i>	<u>67,426,240</u>
<i>TOTAL PLEDGES RECEIVABLE (NET)</i>	<u>\$ 91,374,578</u>

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Museum's investments consist of operating reserves and 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 to achieve portfolio diversification and also a minimum percentage of liquid assets. The Museum establishes the fair value of Level 1 investments based on quoted market prices. The Museum establishes Level 2 investments through observation of trading activity reported at net asset value or market values of similar observable or underlying assets. The Museum 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

As of June 30, 2015, the Museum's investments and related liabilities were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
INVESTMENTS:				
Cash and Cash Equivalents	\$ 8,395,651	\$ -	\$ -	\$ 8,395,651
Long-Only Equity	114,629,499	20,046,522	-	134,676,021
Fixed Income	1,150,383	-	-	1,150,383
Absolute Return	-	121,619,367	789,752	122,409,119
Other Partnerships and Other Funds	-	-	56,929,117	56,929,117
TOTAL INVESTMENTS	124,175,533	141,665,889	57,718,869	323,560,291
LIABILITIES:				
Split-interest Agreement Liabilities	-	(1,464,818)	-	(1,464,818)
NET	\$ 124,175,533	\$ 140,201,071	\$ 57,718,869	\$ 322,095,473

For the year ended June 30, 2015, the changes in fair value of the Museum's Level 3 investments are as follows:

Balance - Beginning of Year	\$ 40,005,044
Purchases	21,700,043
Sales	(12,361,311)
Unrealized Gains (Net)	8,375,093
BALANCE - END OF YEAR	\$ 57,718,869

The Museum recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers from Level 2 to Level 3 during the year ended June 30, 2015.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The Museum's investments in Level 2 and 3 funds are valued using the fair value practical expedient of net asset value. The following table summarizes the redemption frequency and notice period for the Museum's Level 2 and 3 investments at fair value as of June 30, 2015:

	Fair Value	Redemption Frequency	Redemption Notice Period
Long-Only Equity	\$ 20,046,522	Monthly	30 - 60 Days
Absolute Return	122,409,119	Monthly to Illiquid	30 - 90 Days Unless Illiquid
Other Partnerships and Other Funds	<u>56,929,117</u>	Illiquid	Illiquid
TOTAL	<u>\$ 199,384,758</u>		

Total unfunded commitments at June 30, 2015 amounted to \$34,226,854.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 consisted of the following:

Land	\$ 35,747,913
Buildings and Improvements	303,277,925
Equipment and Other Property	<u>10,566,857</u>
TOTAL	349,592,695
Less: Accumulated Depreciation	<u>(60,036,411)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 289,556,284</u>

Depreciation expense amounted to \$8,030,476 for the year ended June 30, 2015.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - REVENUE BONDS AND INTEREST RATE SWAP

(a) REVENUE BONDS

As of June 30, 2015, the Museum had revenue bonds outstanding totaling \$343,000,000. The bonds consist of four series, including floating rate notes (FRN's) and direct purchase bonds (DP) in the following amounts and with terms as indicated:

Series	Par	Mode	Spread	Index (1)	Term	Tender Date
2013A	78,000,000	FRN	1.75%	70%	5 years	Aug 1, 2018
2013B	115,000,000	DP	1.05%	67%	4 years	Aug 1, 2017
2013C	100,000,000	DP	1.05%	67%	4 years	Aug 1, 2017
2013D	50,000,000	DP	1.05%	67%	4 years	Aug 1, 2017

(1) % of one-month LIBOR

Under the terms of the Loan Agreement, the Museum is subject to a 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 0.73 more than one time during the term of the direct purchase agreements, it is an event of default. As of June 30, 2015, the UNA ratio was 1.0.

As of June 30, 2015, the bonds' mandatory redemption requirements are as follows:

Redemption Date December 1,	
2030	\$ 15,990,000
2031	24,185,000
2032	24,425,000
2033	55,680,000
2034	55,680,000
2035	55,680,000
2036	55,680,000
2037	55,680,000
Total	\$ 343,000,000

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - REVENUE BONDS AND INTEREST RATE SWAP (continued)

(b) INTEREST RATE SWAP

The Museum has an interest rate swap agreement with a bank, with an aggregate notional amount of \$256,315,000 and termination date of December 1, 2037. Under the terms of this agreement, the Museum agrees to pay the bank a synthetic fixed amount of interest, 3.632% per annum, and will receive 59.5% of one-month LIBOR (0.18650% at June 30, 2015) plus 0.3%. The Museum can terminate this agreement at any time, but the bank may terminate the agreement only if certain adverse conditions occur.

As of June 30, 2015, the fair value of the interest rate swap liability was \$69,125,720. The aggregate unrealized loss reflecting the change in the swap value for the year ended June 30, 2015 was \$9,385,608.

(c) REVENUE BOND ISSUANCE COSTS

The Museum amortizes its revenue bond issuance costs using the straight-line method over the term of the related debt. At June 30, 2015, the aggregate capitalized costs on the bonds were \$20,202,226, net of \$6,405,750 of accumulated amortization, and are included under revenue bond issuance costs, net on the statement of financial position. The Museum recognized \$610,914 in amortization costs on the capitalized bond issuance costs for the year ended June 30, 2015, and such costs are included under revenue bond cost of issuance amortization on the statement of activities.

NOTE 8 - DEFERRED LEASE REVENUE

At June 30, 2015, the Museum had \$40,026,349 in deferred lease revenue associated with three long-term agreements. The agreements related to the lease of a building and land for the development of a motion picture and sciences museum, the related easement of adjacent land for construction of the motion picture and sciences museum and an unrelated easement of other land for the design and construction of a subway extension. Lease revenue associated with the long-term agreements is recognized over the terms of the agreements with the unrecognized portions being reflected as deferred lease revenue on the statement of financial position.

NOTE 9 - NOTES PAYABLE

Notes payable at June 30, 2015 is related to five installment payment obligations for purchases of artwork. The obligations are unsecured and interest free. All obligations reflected as notes payable - long term portion on the statement of financial position are due by December 31, 2016.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 10 - NET ASSETS

Unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2015 were available for the following purposes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and Funds				
Functioning as Endowment:				
Operating Support	\$ 63,196,787	\$ -	\$ 712,337	\$ 63,909,124
Restricted Operating Support	-	35,103,667	15,133,795	50,237,462
Art Acquisitions	2,126,724	4,630,749	6,212,115	12,969,588
Donor Restricted Endowment Fund Losses	(1,333,228)	-	-	(1,333,228)
TOTAL ENDOWMENT AND FUNDS FUNCTIONING AS ENDOWMENT	63,990,283	39,734,416	22,058,247	125,782,946
Other Funds:				
Programs	171,659,553	97,994,015	-	269,653,568
Art Acquisitions	37,173	3,398,814	-	3,435,987
Property and Equipment	(137,948,442)	-	-	(137,948,442)
TOTAL OTHER FUNDS	33,748,284	101,392,829	-	135,141,113
TOTAL	\$ 97,738,567	\$ 141,127,245	\$ 22,058,247	\$ 260,924,059

NOTE 11 - 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.

At June 30, 2015, the Museum's endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Endowment Funds	\$ 65,323,511	\$ -	\$ -	\$ 65,323,511
Temporarily Restricted Funds Managed as Endowment Funds	-	39,734,416	-	39,734,416
Donor Restricted Endowment Funds	(1,333,228)	-	22,058,247	20,725,019
TOTAL ENDOWMENT FUNDS	\$ 63,990,283	\$ 39,734,416	\$ 22,058,247	\$ 125,782,946

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 - 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. Deficiencies of this nature that are reported in unrestricted net assets were \$1,333,228 as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of permanently restricted contributions and continued appropriations for certain programs, which was deemed prudent by the Board of Trustees.

For the year ended June 30, 2015, the Museum's endowment net assets changed as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance - Beginning of Year	\$ 63,405,263	\$ 40,068,567	\$ 22,048,079	\$125,521,909
Investment Income and Realized and Unrealized Appreciation (Net)	4,243,498	2,132,019	-	6,375,517
TOTAL	67,648,761	42,200,586	22,048,079	131,897,426
Contributions	-	-	10,168	10,168
Transfers to Programs	(3,727,353)	(2,397,295)	-	(6,124,648)
Reclassification of Underwater Funds	68,875	(68,875)	-	-
BALANCE - END OF YEAR	\$ 63,990,283	\$ 39,734,416	\$ 22,058,247	\$125,782,946

Investment income related to the Museum's permanently restricted endowments is recorded as temporarily restricted revenue unless otherwise directed by the donor's 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 - 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 custodians 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 12 - EMPLOYEE BENEFIT PLANS

The Museum sponsors four employee benefit plans as described below:

(a) 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. 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. A plan amendment was adopted that updated accrued benefits for active participants as of June 30, 2012 to use compensation for the plan year ended December 31, 2007 for prior credited service; this increased benefit obligation by \$1,440,326, amortizable over 13.88 years. Contributions to the Plan were \$1,500,000 during the year ended June 30, 2015.

The following sets forth the components of net periodic pension 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

Net periodic pension cost for the year ended June 30, 2015:

Service Cost	\$ 1,536,376
Interest Cost	918,514
Expected Return on Plan assets	(1,452,088)
Amortization of Prior Service Cost	128,798
Amortization of Actuarial Losses	209,510
	\$ 1,341,110
	<i>NET PERIODIC PENSION COST</i>

Obligation and funded status at June 30, 2015:

Change in Benefit Obligation:	
Benefit Obligation - Beginning Of Year	\$ 21,356,758
Service Cost	1,536,376
Interest Cost	918,514
Plan Amendment	-
Actuarial Loss	1,427,744
Benefits Paid	(1,351,182)
	23,888,210
	<i>BENEFIT OBLIGATION - END OF YEAR</i>
Change in Plan Assets:	
Fair Value of Plan Assets - Beginning of Year	19,156,245
Actual Return on Plan Assets	1,090,292
Employer Contributions	1,500,000
Benefit Payments	(1,351,182)
	20,395,355
	<i>FAIR VALUE OF PLAN ASSETS - END OF YEAR</i>
	<i>FUNDED STATUS</i>
	<i>\$ 3,492,855</i>

The funded status at June 30, 2015 is reflected under underfunded pension liabilities on the statement of financial position.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The following represents pension costs directly charged to net assets at June 30, 2015:

Accumulated Net Adjustment to Net Assets - Beginning of Year	\$ (4,247,880)
Current Year Change:	
Amortization of Actuarial Loss	305,643
Amortization of Prior Service Cost	128,798
TOTAL CURRENT YEAR CHANGE	434,441
ACCUMULATED NET ADJUSTMENT TO NET ASSETS - END OF YEAR	\$ (3,813,439)

Weighted-average assumptions used to determine benefit obligations were as follows at June 30, 2015:

Discount rate	4.72%
Expected return on plan assets	7.75%
Rate of compensation increase	3.00%

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 a third-party pension actuary.

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 \$1,850,000 to the Plan for the year ending June 30, 2016.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS June 30, 2015

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

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

<u>Years Ending June 30</u>	
2016	\$ 2,950,853
2017	1,524,534
2018	1,507,236
2019	2,822,993
2020	3,109,885
2021 to 2025	<u>10,602,830</u>
Total	<u>\$ 22,518,331</u>

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 7.75%) 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 the MSCI World Index as measured by BETA. The portfolio's total volatility (as measured by Standard Deviation) should be no greater than 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.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

As of June 30, 2015, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash	\$ 156,879	\$ -	\$ -	\$ 156,879
Fixed Income	907,930	-	-	907,930
Long-Only Equity	7,150,030	1,016,843	-	8,166,873
Long/Short Equities	-	4,353,702	-	4,353,702
Alternatives	-	4,325,452	2,484,519	6,809,971
TOTAL	\$8,214,839	\$9,695,997	\$2,484,519	\$20,395,355

For the year ended June 30, 2015, the changes in fair value of the Museum's Level 3 plan assets are as follows:

Balance - Beginning of Year	\$ 2,338,817
Return on Plan Assets, net	145,702
BALANCE - END OF YEAR	\$ 2,484,519

(b) DEFINED CONTRIBUTION PLAN

The Museum 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 4% of annual compensation. Matching contributions during the year ended June 30, 2015 were \$643,762.

(c) 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.

(d) EXECUTIVE DEFERRED COMPENSATION PLAN

Effective July 1, 2010, the Museum and the Director and Chief Executive Officer entered into a six-year employment agreement. Under the terms of the agreement, deferred compensation in the amount of \$500,000 will be expensed in six equal annual installments of approximately \$83,333 each, commencing June 30, 2011 through June 30, 2016.

MUSEUM ASSOCIATES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 13 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Museum leases office space and art storage facilities under operating leases expiring through September 2023.

Lease commitments are as follows:

<u>Years Ending June 30</u>	
2016	\$ 1,813,833
2017	1,910,979
2018	2,010,645
2019	1,789,884
2020	901,764
Thereafter	<u>3,119,970</u>
Total	\$ <u>11,547,075</u>

Rental expense for the year ended June 30, 2015 was \$1,358,509.

(b) CONTINGENCIES

In the normal course of business, the Museum may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Museum as of June 30, 2015.

NOTE 14 - SUBSEQUENT EVENTS

The Museum has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 25, 2015, the date these financial statements were available to be issued.