

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINING FINANCIAL STATEMENT  
FOR THE YEAR ENDED  
JUNE 30, 2009**

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

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June 30, 2009**

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying combining statement of activities of Museum Associates (a California Nonprofit Corporation) and the Department of Museum of Art, County of Los Angeles (a department of the County of Los Angeles), which collectively are the Los Angeles County Museum of Art (the "Museum"), for the year ended June 30, 2009. This financial statement is the responsibility of the Museum's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of operations of Museum Associates and the Department of Museum of Art, County of Los Angeles for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combining statement of activities is of Museum Associates and the Department of Museum of Art, County of Los Angeles only and does not represent the full audited financial statements of Museum Associates. The full audited financial statements of Museum Associates have been issued to its Board of Trustees.



SingerLewak LLP

Los Angeles, California  
October 6, 2009

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009**

	Museum Associates			Total	Dept. of Museum of Art, County of Los Angeles		Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted	Eliminations	
<b>Revenues and support</b>							
Revenues							
Membership dues	\$ 6,613,079	\$ 1,740,961	\$ -	\$ 8,354,040	\$ -	\$ -	\$ 8,354,040
Admissions	1,909,247	-	-	1,909,247	-	-	1,909,247
Investment income, net	2,185,494	1,574,942	-	3,760,436	-	-	3,760,436
Net realized and unrealized loss on investments	(45,151,822)	(17,338,005)	-	(62,489,827)	-	-	(62,489,827)
Unrealized loss on interest rate swaps	(18,346,628)	-	-	(18,346,628)	-	-	(18,346,628)
Appropriation from the County	-	-	-	-	22,321,056	-	22,321,056
County operating contract	16,829,000	-	-	16,829,000	-	(16,829,000)	-
Auxiliary activities	1,533,802	1,181,301	-	2,715,103	-	-	2,715,103
Other	2,293,141	(116,130)	-	2,177,011	-	-	2,177,011
<b>Total revenues</b>	<b>(32,134,687)</b>	<b>(12,956,931)</b>	<b>-</b>	<b>(45,091,618)</b>	<b>22,321,056</b>	<b>(16,829,000)</b>	<b>(39,599,562)</b>
Support							
Gifts	9,369,115	19,567,326	37,200	28,973,641	-	-	28,973,641
Government grants	5,000,000	338,176	-	5,338,176	-	-	5,338,176
Fundraising events, net	-	111,065	-	111,065	-	-	111,065
<b>Total support</b>	<b>14,369,115</b>	<b>20,016,567</b>	<b>37,200</b>	<b>34,422,882</b>	<b>-</b>	<b>-</b>	<b>34,422,882</b>
Net assets released from restrictions							
Satisfaction of program restrictions	37,403,341	(37,403,341)	-	-	-	-	-
Expiration of time restrictions	15,178,529	(15,178,529)	-	-	-	-	-
Release from donor restrictions	11,249,621	-	(11,249,621)	-	-	-	-
<b>Total net assets released from restrictions</b>	<b>63,831,491</b>	<b>(52,581,870)</b>	<b>(11,249,621)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and support</b>	<b>46,065,919</b>	<b>(45,522,234)</b>	<b>(11,212,421)</b>	<b>(10,668,736)</b>	<b>22,321,056</b>	<b>(16,829,000)</b>	<b>(5,176,680)</b>

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

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009**

	Museum Associates			Dept. of Museum of Art, County of Los Angeles			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Eliminations	Combined
<b>Expenses</b>							
Program-related expenses							
Exhibitions and collections management	\$ 11,546,475	\$ -	\$ -	\$ 11,546,475	\$ 798,344	\$ -	\$ 12,344,819
Operating contract to Museum Associates	-	-	-	-	16,829,000	(16,829,000)	-
Curatorial	7,245,333	-	-	7,245,333	1,316,041	-	8,561,374
Education and public programs	4,115,843	-	-	4,115,843	111,049	-	4,226,892
Marketing and communication	5,443,218	-	-	5,443,218	-	-	5,443,218
Operations and public services	12,059,986	-	-	12,059,986	2,347,174	-	14,407,160
Property and deferred maintenance	1,623,610	-	-	1,623,610	-	-	1,623,610
Provision for doubtful pledges	100,000	-	-	100,000	-	-	100,000
Depreciation expense	4,749,916	-	-	4,749,916	-	-	4,749,916
Revenue bond interest expense and fees	7,435,505	-	-	7,435,505	-	-	7,435,505
Revenue bond cost of issuance amortization	598,533	-	-	598,533	-	-	598,533
Auxiliary activities	3,091,012	-	-	3,091,012	-	-	3,091,012
General and administrative	7,871,132	-	-	7,871,132	919,448	-	8,790,580
Development	2,770,570	-	-	2,770,570	-	-	2,770,570
Total expenses	<u>68,651,133</u>	<u>-</u>	<u>-</u>	<u>68,651,133</u>	<u>22,321,056</u>	<u>(16,829,000)</u>	<u>74,143,189</u>
<b>Change in net assets before change related to collection items</b>	(22,585,214)	(45,522,234)	(11,212,421)	(79,319,869)	-	-	(79,319,869)
Collection items purchased	(26,883,469)	-	-	(26,883,469)	-	-	(26,883,469)
Collection items sold	-	4,160,831	-	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>	(49,468,683)	(41,361,403)	(11,212,421)	(102,042,507)	-	-	(102,042,507)
Increase in deferred actuarial loss and amortization of prior service cost	(2,230,893)	-	-	(2,230,893)	-	-	(2,230,893)
<b>Change in net assets</b>	<u><b>\$ (51,699,576)</b></u>	<u><b>\$ (41,361,403)</b></u>	<u><b>\$ (11,212,421)</b></u>	<u><b>\$ (104,273,400)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ (104,273,400)</b></u>

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

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2009**

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**NOTE 1 – GENERAL**

Museum Associates is a California nonprofit corporation whose mission is to serve the public through the collection, conservation, exhibition and interpretation of significant works of art from a broad range of cultures and historical periods, and through the translation of these collections into meaningful educational, aesthetic, intellectual and cultural experiences for the widest array of audiences. To that end, Museum Associates 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 Department of Museum of Art, County of Los Angeles (the “Department”), is a department of the County of Los Angeles (the “County”). The Department, through the County, owns some of the buildings of LACMA and provides resources to Museum Associates primarily in the form of cash and personnel. Under a contract between the Los Angeles County Board of Supervisors and Museum Associates, the Department and Museum Associates (collectively, the “Museum”) combine efforts and resources to operate LACMA.

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

Principles of Combination

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

Basis of Presentation

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

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

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

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
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NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2009**

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

Revenues and Support

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

Contributions, including endowment gifts and pledges, as well as any other 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 the risk-free 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.

Investments

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

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

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

Property and Equipment

Costs of renovating and constructing facilities located on land owned by the County are expensed, as title to these facilities is either vested in the County or transferred to the County at the close of the construction period, which is relatively short. Facilities that are not located on land owned by the County are capitalized at cost and depreciated using the straight-line method over an estimated life of forty (40) years.

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2009**

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

Property and Equipment (Continued)

Equipment and other property purchased are recorded at cost; items that are donated are recorded at fair value at the date of donation, plus related acquisition costs. Equipment and other property are depreciated using the straight-line method over the estimated useful life of five (5) 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 combining statement of activities.

Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. Deaccession proceeds are required by Museum policy to be applied to the acquisition of works of art for the permanent collection. The Museum purchased collection items in the amount of \$26,883,469 during the year ended June 30, 2009. The Museum received donated art objects valued at approximately \$15,856,000 during the year ended June 30, 2009.

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

Financing Costs

Financing costs are capitalized at cost and amortized using the 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 this financial statement, as it is not susceptible to objective measurement or valuation.



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June 30, 2009**

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

Income Taxes

Museum Associates 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. The Department is part of the County and is exempt from Federal income and state franchise taxes.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance related to de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. During the year ended June 30, 2009, the Museum performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the combining statement of activities or which may have an affect on its tax-exempt status.

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.

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, 2009.

**MUSEUM ASSOCIATES  
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NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2009**

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

Commitments and Contingencies

The Museum has certain equipment under noncancelable operating leases with terms up to sixty-nine (69) months and expiring through 2015. Total rental expense on operating leases was approximately \$390,000 for the year ended June 30, 2009. Future minimum lease payments are as follows:

For the Year <u>Ending June 30.</u>	
2010	\$ 388,000
2011	108,000
2012	16,000
2013	16,000
2014	16,000
Thereafter	<u>12,000</u>
<b>Total</b>	<b><u>\$ 556,000</u></b>