

# **MUSEUM ASSOCIATES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

**MUSEUM ASSOCIATES**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**

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WE ARE AN INDEPENDENT MEMBER OF  
THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK

**AUDIT  
AND  
ASSURANCE**

## 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, 2021, and the related statements of activities, functional expenses 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

October 14, 2021  
Los Angeles, California

## MUSEUM ASSOCIATES

### STATEMENT OF FINANCIAL POSITION

June 30, 2021

With Summarized Totals at June 30, 2020

<b>ASSETS</b>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 221,993,752	\$ 26,949,582
Accounts receivable	1,197,417	2,353,512
Accrued revenue	2,276,619	5,503,678
Prepaid interest and fees	9,753,133	-
Pledges receivable, net	160,153,276	157,988,285
Investments	598,475,841	488,822,420
Receivables under trust agreements, net	312,593	132,021
Other assets	509,257	509,860
Right-of-use lease assets, net	50,309,793	54,625,244
Property and equipment, net	421,519,478	313,410,656
Collections	-	-
<b>Total assets</b>	<b><u>\$ 1,466,501,159</u></b>	<b><u>\$ 1,050,295,258</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	\$ 12,732,042	\$ 13,823,255
Deferred lease revenue	31,641,115	33,038,654
Right-of-use lease liabilities	59,987,172	62,635,693
Deferred other revenue	311,009	396,174
Notes payable	6,897,000	9,443,271
Split-interest agreement liabilities	1,419,020	1,505,628
County obligation	252,400,000	-
Unamortized County obligation interest premium	<u>42,925,572</u>	<u>-</u>
County obligation, net of unamortized interest premium	295,325,572	-
Revenue bonds	343,000,000	343,000,000
Unamortized bond issuance costs	<u>(10,130,991)</u>	<u>(10,741,906)</u>
Revenue bonds, net of unamortized bond issuance costs	332,869,009	332,258,094
Interest rate swap	78,447,548	104,408,619
Underfunded pension liabilities	<u>2,178,557</u>	<u>13,611,407</u>
<b>Total liabilities</b>	821,808,044	571,120,795
Without donor restrictions:		
Board-designated endowment funds	94,199,159	69,610,935
Other	223,674,077	78,154,044
With donor restrictions:		
Donor-designated endowments	25,696,255	25,662,636
Funds functioning as endowments	55,776,047	39,659,997
Other	<u>245,347,577</u>	<u>266,086,851</u>
<b>Total net assets</b>	<b><u>644,693,115</u></b>	<b><u>479,174,463</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 1,466,501,159</u></b>	<b><u>\$ 1,050,295,258</u></b>

The accompanying notes are an integral part of these financial statements

**MUSEUM ASSOCIATES**

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2021

With Summarized Totals for the Year Ended June 30, 2020

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Revenues and support</b>				
Revenues				
Membership dues	\$ 3,195,856	\$ 210,300	\$ 3,406,156	\$ 4,035,978
Admissions	1,716,630	-	1,716,630	3,010,981
Investment return, net	114,655,892	19,824,660	134,480,552	13,833,297
Unrealized gain (loss) on interest rate swap	25,961,071	-	25,961,071	(31,058,478)
County operating contract	30,884,598	-	30,884,598	28,035,000
Auxiliary activities	1,448,145	3,948	1,452,093	1,157,985
Other	7,617,118	512,061	8,129,179	9,430,404
<b>Total revenues</b>	<b>185,479,310</b>	<b>20,550,969</b>	<b>206,030,279</b>	<b>28,445,167</b>
Support				
Gifts	7,842,281	37,051,792	44,894,073	94,316,135
Government grants	2,311,992	267,085	2,579,077	5,737,412
Fundraising events, net	656,244	1,020,338	1,676,582	2,692,486
<b>Total support</b>	<b>10,810,517</b>	<b>38,339,215</b>	<b>49,149,732</b>	<b>102,746,033</b>
Net assets released from restrictions				
Satisfaction of program restrictions	10,907,723	(10,907,723)	-	-
Expiration of time restrictions and other transfers	53,335,130	(53,335,130)	-	-
<b>Total net assets released from restrictions</b>	<b>64,242,853</b>	<b>(64,242,853)</b>	<b>-</b>	<b>-</b>
<b>Total revenues and support</b>	<b>260,532,680</b>	<b>(5,352,669)</b>	<b>255,180,011</b>	<b>131,191,200</b>
<b>Expenses</b>				
Program activities	71,688,168	-	71,688,168	99,320,976
Supporting activities	13,461,276	-	13,461,276	19,413,313
<b>Total expenses</b>	<b>85,149,444</b>	<b>-</b>	<b>85,149,444</b>	<b>118,734,289</b>
<b>Change in net assets before change related to collection items and transfers to County</b>	<b>175,383,236</b>	<b>(5,352,669)</b>	<b>170,030,567</b>	<b>12,456,911</b>
Collection items purchased	(5,274,979)	-	(5,274,979)	(7,306,728)
Collection items sold	-	763,064	763,064	66,964
Transfers to County	-	-	-	(5,396,975)
<b>Change in net assets after change related to collection items and transfers to County</b>	<b>170,108,257</b>	<b>(4,589,605)</b>	<b>165,518,652</b>	<b>(179,828)</b>
<b>Net assets, beginning of year</b>	<b>147,764,979</b>	<b>331,409,484</b>	<b>479,174,463</b>	<b>479,354,291</b>
<b>Net assets, end of year</b>	<b>\$ 317,873,236</b>	<b>\$ 326,819,879</b>	<b>\$ 644,693,115</b>	<b>\$ 479,174,463</b>

The accompanying notes are an integral part of these financial statements

**MUSEUM ASSOCIATES**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2021

With Summarized Totals for the Year Ended June 30, 2020

	2021										2020
	Salaries, Wages, and Employee Benefits	Professional Fees and Services	Equipment, Information, and Digital Systems	Occupancy	Shipping, Insurance, Participation Fees and Travel	Printing, Advertising, Materials and Supplies	Other Expenses	Depreciation and Amortization	Revenue Bond Interest and Fees	Total	Total
<b>Program activities</b>											
Exhibitions and collections management	\$ 6,124,717	\$ 1,941,508	\$ 179,743	\$ 3,996,911	\$ 2,624,439	\$ 687,574	\$ 56,774	\$ -	\$ -	\$ 15,611,666	\$ 20,979,257
Curatorial	4,370,877	155,728	539	32,774	29,710	90,806	1,049,536	-	-	5,729,970	9,357,525
Education and public programs	2,822,296	739,243	91,060	21,130	7,081	459,137	151,437	-	-	4,291,384	6,498,285
Marketing and communications	1,902,237	406,517	97,825	8,760	113,718	256,406	136,937	-	-	2,922,400	5,548,241
Operation and public services	2,388,535	6,807,417	218,261	4,950,846	356,712	196,086	52,720	-	-	14,970,577	16,478,198
Properties and deferred maintenance	318,851	1,885,006	62,737	43,198	106,861	9,054	13,425	9,165,276	15,310,660	26,915,068	39,114,954
Auxiliary activities	355,507	2,913	-	2,223	107,562	14,949	763,949	-	-	1,247,103	1,344,516
<b>Total program activities</b>	<b>18,283,020</b>	<b>11,938,332</b>	<b>650,165</b>	<b>9,055,842</b>	<b>3,346,083</b>	<b>1,714,012</b>	<b>2,224,778</b>	<b>9,165,276</b>	<b>15,310,660</b>	<b>71,688,168</b>	<b>99,320,976</b>
<b>Supporting activities</b>											
General and administrative	5,088,160	2,559,934	836,170	384,164	7,624	226,451	752,453	-	-	9,854,956	13,084,340
Development	2,932,121	330,653	11,062	19,556	36,895	119,355	156,678	-	-	3,606,320	6,328,973
<b>Total supporting activities</b>	<b>8,020,281</b>	<b>2,890,587</b>	<b>847,232</b>	<b>403,720</b>	<b>44,519</b>	<b>345,806</b>	<b>909,131</b>	<b>-</b>	<b>-</b>	<b>13,461,276</b>	<b>19,413,313</b>
<b>Total 2021 expenses</b>	<b>\$ 26,303,301</b>	<b>\$ 14,828,919</b>	<b>\$ 1,497,397</b>	<b>\$ 9,459,562</b>	<b>\$ 3,390,602</b>	<b>\$ 2,059,818</b>	<b>\$ 3,133,909</b>	<b>\$ 9,165,276</b>	<b>\$ 15,310,660</b>	<b>\$ 85,149,444</b>	
<i>Total 2020 expenses</i>	<u>\$ 47,057,622</u>	<u>\$ 23,891,992</u>	<u>\$ 3,516,356</u>	<u>\$ 7,040,971</u>	<u>\$ 8,210,899</u>	<u>\$ 3,181,995</u>	<u>\$ 4,847,957</u>	<u>\$ 8,848,688</u>	<u>\$ 12,137,809</u>		<u>\$ 118,734,289</u>

The accompanying notes are an integral part of these financial statements

## MUSEUM ASSOCIATES

### STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

With Summarized Totals for the Year Ended June 30, 2020

	2021	2020
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 165,518,652	\$ (179,828)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Net realized and unrealized gains on investments	(134,480,552)	(13,833,297)
Unrealized (gain) loss on interest rate swap	(25,961,071)	31,058,478
Pledge provision increase	2,510,182	-
Gain on sale of property and equipment	(2,091,145)	-
Depreciation expense	8,554,361	8,237,774
Amortization of right-of-use asset	4,315,451	2,134,335
County obligation premium amortization	(679,428)	-
Revenue bond cost of issuance amortization	610,915	610,914
Collection items purchased	5,274,979	7,306,728
Collection items sold	(763,064)	(66,964)
Contributions restricted for endowment	(33,619)	(294,779)
Change in operating assets and liabilities		
Accounts receivable	1,156,095	7,330,075
Accrued revenue	3,227,059	(3,382,334)
Prepaid interest and fees	(9,753,133)	-
Pledges receivable, net	(4,675,173)	3,917,940
Receivables under trust agreements, net	(180,572)	176,183
Other assets	603	111,877
Accounts payable and accrued liabilities	(1,091,213)	(1,375,461)
Deferred lease revenue	(1,397,539)	(1,397,539)
Right-of-use lease liabilities	(2,648,521)	(1,360,203)
Deferred other revenue	(85,165)	(61,897)
Underfunded pension liabilities	(11,432,850)	3,986,343
Net cash provided by (used in) operating activities	(4,104,748)	42,918,345
<b>Cash flows from investing activities</b>		
Net (purchases) sales of investments	24,827,131	(94,534,488)
Purchases of property and equipment	(123,236,813)	(50,884,955)
Proceeds from sales of property and equipment	8,664,775	-
Collection items purchased	(5,274,979)	(7,306,728)
Collection items sold	763,064	66,964
Net cash used in investing activities	(94,256,822)	(152,659,207)
<b>Cash flows from financing activities</b>		
Proceeds from County obligation	300,000,000	-
Payments on County obligation	(3,995,000)	-
Increase (decrease) in notes payable	(2,546,271)	9,134,693
Decrease in split-interest agreement liabilities	(86,608)	(102,463)
Contributions restricted for endowment	33,619	294,779
Net cash provided by financing activities	293,405,740	9,327,009
Net increase (decrease) in cash and cash equivalents	195,044,170	(100,413,853)
<b>Cash and cash equivalents, beginning of year</b>	26,949,582	127,363,435
<b>Cash and cash equivalents, end of year</b>	\$ 221,993,752	\$ 26,949,582

The accompanying notes are an integral part of these financial statements



## MUSEUM ASSOCIATES

### STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

With Summarized Totals for the Year Ended June 30, 2020

	<u>2021</u>		<u>2020</u>
<b>Supplemental disclosure of noncash activities:</b>			
Noncash adjustments as a result of implementation of ASU 2016-02, Leases			
Right-of-use lease assets, net	\$	-	\$ 57,632,058
Right-of-use lease liabilities		-	64,868,375
Derecognition of lease incentive allowance		-	6,878,764
Derecognition of deferred lease liabilities		-	357,553

**Supplemental disclosure of cash flow information:**

During the year ended June 30, 2021, the Museum paid \$29,854,027 in interest expense and related fees.

The accompanying notes are an integral part of these financial statements

# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### 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 approximately 142,500 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.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions. The Board of Trustees has designated, from net assets without donor restrictions, net assets for funds functioning as an endowment.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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. Cash and cash equivalents includes \$198,474,680 of funds contractually restricted for certain building project costs pursuant to a County obligation agreement (Refer to Note 8).

**(c) ACCOUNTS RECEIVABLE AND ACCRUED REVENUE**

Accounts receivable and accrued revenue 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, 2021, the Museum evaluated the collectability of its accounts receivable and accrued revenue 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. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until the conditions on which they depend have been met. 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) 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.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **INVESTMENTS** (continued)

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 the 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. Dividends, interest income and investment income earned from investments in all net asset classifications are allocated based on the individual investment asset as a percentage of total investment assets. Income from investments required by donor stipulations to be held in perpetuity is recorded as with donor restrictions, except where the instructions of the donor specify otherwise.

(f) **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. The present value of the total future amounts to be received was \$312,593 at June 30, 2021.

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 \$1,419,020 at June 30, 2021. The Museum has established a segregated reserve fund of \$2,194,827 at June 30, 2021, which exceeds the present value of the liabilities.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(g) PROPERTY AND EQUIPMENT**

Costs of constructing facilities located on land owned by the County of Los Angeles (the County) are capitalized at cost and transferred to the County either at the end of construction or in accordance with agreements with the County.

Costs of constructing facilities located on land owned by the Museum are capitalized at cost and depreciated using the straight-line method over an estimated life of forty years. Costs of constructing leasehold improvements at leased facilities are capitalized at cost and amortized using straight-line over the term of the lease.

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

**(h) 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, 2021.

**(i) 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 catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in net assets without donor restrictions 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 net assets with donor restrictions. Deaccession proceeds are required by Museum policy to be applied to the acquisition of works of art for the permanent collection and for the direct care of the collection. Direct care includes expenditures that provide a direct benefit to the collection by enhancing its life, usefulness, or quality and excludes expenditures for routine maintenance of the collection.

# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) **ART COLLECTION** (continued)

Deaccession proceeds totaled \$763,064 during the year ended June 30, 2021. The Museum purchased collection items in the amount of \$5,274,979 during the year ended June 30, 2021. The Museum received donated art objects valued for insurance purposes at an estimated amount of \$23,000,000 during the year ended June 30, 2021.

(j) **DEFERRED LEASE REVENUE**

Lease revenue associated with long-term lease 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.

(k) **DEBT ISSUANCE COSTS**

Debt issuance costs are amortized by use of the straight-line method over the anticipated life of the related debt. Debt issuance costs are netted against the long term portion of the corresponding liability as reflected in the statement of financial position. The amortization of these costs is included in revenue bond cost of issuance amortization expense.

(l) **PAYCHECK PROTECTION PROGRAM LOAN**

Management has elected to account for the forgivable loan received under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act as a debt instrument and to accrue interest on the outstanding loan balance. Additional interest at a market rate (due to the stated interest rate of the PPP loan being below market) is not imputed, as transactions where interest rates are prescribed by governmental agencies are excluded from the scope of the accounting guidance on imputing interest. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the Museum has been 'legally released' or (2) the Museum repays the loan to the lender (Refer to Note 7).

(m) **REVENUES AND SUPPORT**

Contributed revenue includes annual membership dues, gifts, government grants, and revenues from fundraising events. Annual memberships are recognized as revenue when such income is received. Memberships, which are nonrefundable and nonreciprocal in nature, directly support the Museum's mission and the benefits to members are available immediately upon joining. Grant revenues determined to be contributions are recognized when their conditions are met either by expenditures being incurred or benchmarks being met. All grants are nonreciprocal in nature with the primary beneficiary being the general public.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) **REVENUES AND SUPPORT** (continued)

Revenues from fundraising events are net of expenses of \$66,230 for the year ended June 30, 2021.

Revenue from contracts with customers includes admissions and auxiliary activities revenue. Admissions, which are nonrefundable in nature, are comprised of an exchange element that is satisfied immediately upon the time of entrance. Revenue from contract performance obligations are satisfied and the revenue is recognized when the income is received. As all revenue is recognized immediately, there is no deferral of revenues. There are no significant associated contract receivables or contract liabilities for revenue from contracts with customers as of June 30, 2021.

(n) **CONTRIBUTED SERVICES**

A substantial number of unpaid volunteers, including council members, have made significant contributions of their time to support 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.

(o) **INCOME TAXES**

The Museum is a California nonprofit 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.

In accordance with Accounting Standards Codification Topic No. 740, "*Uncertainty in Income Taxes*", 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.

During the year ended June 30, 2021 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 and to date has not recorded any uncertain tax positions.

# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) 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, 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the year ended June 30, 2020.

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, accounts payable and accrued liabilities, notes payable, County obligation, revenue bonds, split-interest agreement liabilities, and interest rate swap.



# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) 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, County obligation and revenue bonds approximates the carrying value of these liabilities as these bear interest commensurate with their risks. Investments 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 other investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company, they are valued, as a practical expedient, utilizing the net asset valuations provided by their respective investment manager or general partner.

#### ***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, 2021 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, 2021

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(q) 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, 2021, 86% 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, by utilizing the expertise and processes of an outside investment consultant, and oversight by the Museum's Finance Committee.

**(r) FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the Museum's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain indirect expenses attributable to more than one functional category or major program are allocated using a method that best measures the relative degree of benefit, such as proportionate compensation expense amounts, as well as other methods.

**(s) 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.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(t) 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, 2020, from which the summarized information was derived.

**(u) NEW ACCOUNTING PRONOUNCEMENTS**

In March 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. Under this standard, the definition of a collection has been expanded to allow for proceeds on the sale of collection items to be used for the acquisition of new collection items, the direct care of existing collections, or both. The Museum modified its policy as allowable under the ASU to also include the direct care of its collections during the year ended June 30, 2021.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. For the Museum, the ASU will be effective for the year ending June 30, 2022.

**(v) SUBSEQUENT EVENTS**

The Museum has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2021 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 14, 2021, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred except as described in Note 16.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 3 - ACCOUNTS RECEIVABLE

At June 30, 2021, the Museum had \$1,197,417 in accounts receivable consisting of various contractual balances due.

In November 2014, the Museum granted a ninety-six-month easement agreement, with an option to extend for an additional twelve month period, to the County of Los Angeles Metropolitan Transportation Authority of land the Museum owns for the staging of construction of a subway extension. Accounts receivable on the statement of financial position includes \$816,388 related to this agreement which is due within a year. At June 30, 2021, deferred lease revenue related to this agreement was \$1,106,759.

#### NOTE 4 - PLEDGES RECEIVABLE

At June 30, 2021, the Museum had the following pledges receivable:

Pledges Receivable - Due within One Year	\$ 40,330,908
Due Between One and Five Years	61,189,467
Due after Five Years	77,685,186
Present Value Discount of Approximately 0 to 5%	(12,052,285)
Allowance for Doubtful Pledges	<u>(7,000,000)</u>
<b><i>TOTAL PLEDGES RECEIVABLE, NET</i></b>	<b><u>\$ 160,153,276</u></b>

#### 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 in two portfolios. The endowment and reserves portfolio is governed by its investment policy, which sets asset allocation ranges to achieve portfolio diversification and also a minimum percentage of liquid assets. The liquid construction fund portfolio is managed to provide liquidity for the Museum's short-term construction needs while earning a reasonable return and is governed by its investment policy.

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, if any, 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. For other investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company, they are valued, as a practical expedient, utilizing the net asset valuations provided by their respective investment manager or general partner.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS June 30, 2021

#### NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

At June 30, 2021, the Museum's investments and related liabilities were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
<b>INVESTMENTS:</b>					
Cash and Cash Equivalents	\$ 5,962,089	\$ -	\$ -	\$ -	\$ 5,962,089
Long-Only Equity	101,973,157	-	-	46,533,097	148,506,254
Fixed Income	23,840,961	127,634,368	-	-	151,475,329
Absolute Return	-	-	-	119,271,526	119,271,526
Other Partnerships and Other Funds	9,772,836	-	-	163,487,807	173,260,643
<b>TOTAL INVESTMENTS</b>	<b>141,549,043</b>	<b>127,634,368</b>	<b>-</b>	<b>329,292,430</b>	<b>598,475,841</b>
<b>LIABILITIES:</b>					
Split-Interest Agreement Liabilities	-	(1,419,020)	-	-	(1,419,020)
<b>NET</b>	<b>\$ 141,549,043</b>	<b>\$ 126,215,348</b>	<b>\$ -</b>	<b>\$ 329,292,430</b>	<b>\$ 597,056,821</b>

The following table summarizes the redemption frequency and notice period for the Museum's investments using NAV as practical expedient at June 30, 2021:

	Fair Value	Redemption Frequency	Redemption Notice Period
Long-Only Equity	\$ 46,533,097	Monthly	10 - 30 Days
Absolute Return	119,271,526	Monthly to Illiquid	30 - 90 Days Unless Illiquid
Other Partnerships and Other Funds	163,487,807	Triennial to Illiquid	180 Days to Illiquid
<b>TOTAL</b>	<b>\$ 329,292,430</b>		

Total unfunded commitments at June 30, 2021 amounted to \$81,268,000.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 consisted of the following:

Land	\$ 32,177,991
Buildings and Improvements	302,088,709
Equipment and Other Property	12,039,237
Construction in Progress	171,323,451
Leasehold Improvements	<u>11,814,615</u>
<b>TOTAL</b>	529,444,003
Less: Accumulated Depreciation	<u>(107,924,525)</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>\$ 421,519,478</u>

Depreciation expense amounted to \$8,554,361 for the year ended June 30, 2021, and is included in depreciation and amortization in the statement of functional expenses.

Construction in progress is related to the construction of the Museum's new building for its permanent collection - the David Geffen Galleries, which is scheduled to be completed in 2024.

#### NOTE 7 - NOTES PAYABLE

Notes payable at June 30, 2021 consists of the following:

In April 2020, the Museum received a PPP loan in the amount of \$6,722,000. The PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of two years, is unsecured and guaranteed by the SBA. Interest accrues on the loan beginning with the initial disbursement; however, payments of principal and interest are deferred until the lender's determination of the amount of forgiveness applied for by the borrower is approved by the SBA. If the Museum does not apply for forgiveness within 10 months after the last day of the covered period (defined, at the Museum's election, as either 8 weeks or 24 weeks), such payments will be due that month. The PPP loan may be prepaid by the Museum at any time prior to the maturity date of April 5, 2024 with no prepayment penalties. The Museum applied for forgiveness of the PPP loan in the current year with respect to the eligible expenses incurred during the covered period.

In addition, notes payable at June 30, 2021 also includes one installment payment obligation for the purchase of artwork. The obligations are unsecured, interest free and due within a year.

**MUSEUM ASSOCIATES**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2021

**NOTE 8 - COUNTY OBLIGATION AND UNAMORTIZED INTEREST PREMIUM**

On November 3, 2020 the Museum entered into a funding agreement with the County of Los Angeles (the County) whereby the County loaned the Museum \$300,000,000 to help fund the Museum's *Building for the Permanent Collection* project from proceeds of lease revenue bonds that the County issued. Under the agreement the Museum is responsible for the repayment of all debt service related to the \$300,000,000 to the County, all debt service is to be paid to the County in June each fiscal year for the debt service due in the following fiscal year and the repayment obligation is subordinate to all Museum existing indebtedness.

Under the repayment terms of the \$300,000,000 obligation, the principal amount was \$256,395,000 and the unamortized interest premium was \$43,605,000. Interest on the County obligation is fixed at 2.72%. At June 30, 2021, the principal balance outstanding and the unamortized interest premium balance were \$252,400,000 and \$42,925,572, respectively. Interest expense of \$6,976,595, inclusive of amortized interest premium of \$679,428, was capitalized during the year in construction in progress.

As of June 30, 2021, the County obligation's mandatory principal repayments are as follows:

**Repayment Date June**

2022	\$	4,200,000
2023		4,415,000
2024		4,645,000
2025		4,880,000
2026		5,130,000
Thereafter		<u>229,130,000</u>
<b>TOTAL</b>	\$	<u>252,400,000</u>

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 9 - REVENUE BONDS AND INTEREST RATE SWAP

##### (a) REVENUE BONDS

As of June 30, 2021, the Museum had revenue bonds outstanding totaling \$343,000,000. The bonds consist of five series, including direct purchase bonds and floating and fixed rate notes in the following amounts and with terms as indicated:

Series	Par	Mode	Spread	Index	Tender Date
2013B	\$ 18,665,000	DP	1.20%	80% (1)	June 7, 2024
2013C	16,235,000	DP	1.20%	80% (1)	June 7, 2024
2013D	8,100,000	DP	1.20%	80% (1)	June 7, 2024
2021A	228,500,000	PB	n/a	(2)	June 1, 2028
2021B	71,500,000	FRN	0.70%	(3)	June 1, 2026

(1) % of one-month LIBOR

(2) Fixed rate at 1.20%

(3) SIFMA

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, 2021, the UNA ratio was 1.27.

As of June 30, 2021, the bonds' mandatory redemption requirements are as follows:

Redemption Date	
December 1,	
2030	\$ 11,900,000
2031	13,510,000
2032	13,840,000
2033	18,980,000
2034	19,345,000
Thereafter	<u>265,425,000</u>
<b>TOTAL</b>	<u><u>\$ 343,000,000</u></u>



## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 9 - 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 (0.1% at June 30, 2021) 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.

At June 30, 2021, the fair value of the interest rate swap liability was \$78,447,548. The aggregate unrealized gain reflecting the change in the swap value for the year ended June 30, 2021 was \$25,961,071.

##### (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, 2021, the aggregate capitalized costs on the bonds were \$20,202,226, net of \$10,071,235 of accumulated amortization, and are included under revenue bonds, net, on the statement of financial position. The Museum recognized \$610,915 in amortization costs on the capitalized bond issuance costs for the year ended June 30, 2021 and such costs are included in depreciation and amortization in the statement of functional expenses.

#### NOTE 10 - NET ASSETS

Net assets without and with donor restrictions at June 30, 2021 were available for the following purposes:

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Endowments and Funds</b>			
<b>Functioning as Endowments:</b>			
Operating Support	\$ 91,179,363	\$ 712,337	\$ 91,891,700
Restricted Operating Support	-	68,371,130	68,371,130
Art Acquisitions	3,019,796	12,388,835	15,408,631
<b>TOTAL ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS</b>	94,199,159	81,472,302	175,671,461
Other Funds	223,674,077	245,347,577	469,021,654
<b>TOTAL</b>	<b>\$ 317,873,236</b>	<b>\$ 326,819,879</b>	<b>\$ 644,693,115</b>

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS June 30, 2021

#### NOTE 10 - NET ASSETS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2021:

Release of Program Restrictions	\$	10,907,723
Release of Time Restrictions		25,568,552
Other Transfers		20,542,588
Appropriation in Accordance with Endowment Spending Policy		7,223,990
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b>\$</b>	<b>64,242,853</b>

#### NOTE 11 - ENDOWMENT FUNDS

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

At June 30, 2021, the Museum's endowment net asset composition by type of fund was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	\$ 94,199,159	\$ -	\$ 94,199,159
Funds Functioning as Endowments	-	55,776,047	55,776,047
Donor-Designated Endowments	-	25,696,255	25,696,255
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 94,199,159</b>	<b>\$ 81,472,302</b>	<b>\$175,671,461</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. Deficiencies of this nature that are reported in net assets with donor restrictions were \$98,902 as of June 30, 2021. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of contributions required to be held in perpetuity and continued appropriations for certain programs, which were deemed prudent by the Board of Trustees.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 11 - ENDOWMENT FUNDS (continued)

For the year ended June 30, 2021, the Museum's endowment net assets changed as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance - Beginning of Year	\$ 69,610,935	\$ 65,322,633	\$ 134,933,568
Investment Return, Net	27,924,813	19,492,016	47,416,829
Contributions	511,435	33,619	545,054
Transfers to Programs	(3,848,024)	(3,375,966)	(7,223,990)
<b><i>BALANCE - END OF YEAR</i></b>	<b><i>\$ 94,199,159</i></b>	<b><i>\$ 81,472,302</i></b>	<b><i>\$ 175,671,461</i></b>

Investment return related to the Museum's endowments required to be held in perpetuity is recorded as revenue with donor restrictions 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.

As delegated authority by the full Board, the Finance Committee of the Board has adopted investment policies that govern the management and oversight of the endowment funds and other Museum investments. The policies set forth the objectives for the investment portfolios 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 portfolios. The policies are 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 portfolios. Other objectives for the endowment and reserves portfolio are to maintain or enhance the real purchasing power of the portfolio 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. Other objectives for the Liquid Construction Fund portfolio are to maintain or enhance the real value of the construction fund while minimizing any risk to principal over a reasonable time period while providing liquidity to cover construction costs as needed.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### 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. Employees are vested in the plan after five years 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. Contributions to the Plan were \$2,400,000 during the year ended June 30, 2021.

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.

Net periodic pension cost for the year ended June 30, 2021:

Service Cost	\$ 2,951,236
Interest Cost	1,351,478
Expected Return on Plan Assets	(2,103,220)
Amortization of Prior Service Cost	303,900
Amortization of Actuarial Losses	<u>1,029,567</u>
<b>NET PERIODIC PENSION COST</b>	<b><u>\$ 3,532,961</u></b>

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

##### (a) DEFINED BENEFIT PLAN (continued)

Obligation and funded status at June 30, 2021, with summarized totals at June 30, 2020:

	2021	2020
<b>Change in Benefit Obligation:</b>		
Benefit Obligation - Beginning of Year	\$ 49,529,999	\$ 40,293,952
Service Cost	2,951,236	2,312,523
Interest Cost	1,351,478	1,395,855
Actuarial (Gain) Loss	(2,920,031)	6,835,210
Lump Sum Benefits Paid	(2,368,756)	-
Periodic Benefits Paid	(493,360)	(1,307,541)
<b><i>BENEFIT OBLIGATION - END OF YEAR</i></b>	<b>48,050,566</b>	<b>49,529,999</b>
<b>Change in Plan Assets:</b>		
Fair Value of Plan Assets - Beginning of Year	35,918,592	30,668,888
Actual Return on Plan Assets	10,415,533	1,457,245
Employer Contributions	2,400,000	5,100,000
Lump Sum Benefits Paid	(2,368,756)	-
Periodic Benefits Paid	(493,360)	(1,307,541)
<b><i>FAIR VALUE OF PLAN ASSETS - END OF YEAR</i></b>	<b>45,872,009</b>	<b>35,918,592</b>
<b><i>FUNDED STATUS</i></b>	<b>\$ (2,178,557)</b>	<b>\$ (13,611,407)</b>

The funded status at June 30, 2021 is reflected under underfunded pension liabilities in the statement of financial position.

Weighted-average assumptions used to determine benefit obligations were as follows at June 30, 2021:

Discount rate	2.99%
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.

# MUSEUM ASSOCIATES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

#### (a) DEFINED BENEFIT PLAN (continued)

Actuarial (gain) loss is sensitive to changes in the discount rate applicable to the Plan such that when the rate decreases, the reduction of Plan obligations rises and vice-versa.

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 make a \$2,400,000 contribution to the Plan for the year ending June 30, 2022.

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

#### Years Ending June 30

2022	\$	11,206,306
2023		1,161,343
2024		2,591,842
2025		1,479,439
2026		4,998,862
2027 to 2031		10,261,076

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 6% - 8% as measured as an average annual return over a seven to ten-year period. This is in order to attain or exceed the actuarial target rate of return (currently 6.50%) for the plan and measurement of net periodic benefit cost. 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.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

##### (a) DEFINED BENEFIT PLAN (continued)

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.

At June 30, 2021, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash	\$ 171,465	\$ -	\$ -	\$ -	\$ 171,465
Fixed Income	6,593,218	-	-	-	6,593,218
Long-Only Equity	10,400,575	-	-	5,827,261	16,227,836
Alternatives	-	-	-	22,879,490	22,879,490
<b>TOTAL</b>	<b>\$ 17,165,258</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,706,751</b>	<b>\$ 45,872,009</b>

Total unfunded commitments at June 30, 2021 amounted to \$8,268,000.

##### (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, 2021 were \$655,720.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

(c) **DEFERRED COMPENSATION PLAN**

The Museum offers a deferred compensation plan for its highly compensated employees. Highly compensated employees 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**

The Museum and the Director and Chief Executive Officer have entered into an employment agreement through June 30, 2023 that extends automatically for an additional three-year term through June 30, 2026. Under the terms of the agreement, deferred compensation in the amount of \$2,000,000 is payable at June 30, 2026 subject to certain conditions being met. Deferred compensation under the agreement is accrued annually in the amount of \$200,000 over the ten-year term. At June 30, 2021, deferred compensation related to the agreement was \$1,000,000 and is included in accounts payable and accrued liabilities in the statement of financial position.

#### NOTE 13 - LEASE ARRANGEMENTS

(a) **OPERATING LEASES - LESSEE**

The Museum leases office space, art storage facilities, an exhibit fabrication facility and temporary mobile structures under operating leases expiring through September 2034. These lease agreements provide for scheduled increases in base rent and operating expenses, but do not contain any residual value guarantees or material restrictive covenants.

Right-of-use lease assets and corresponding lease liabilities are recognized on the Museum's statement of financial position based on the present value of future lease payments relating to the use of the underlying asset during the remaining lease term. The Museum uses a weighted average discount rate of 1.5% and an overall approximate weighted average remaining lease term of 13 years.

During the year ended June 30, 2021 the Museum recognized \$3,393,017 in lease service costs net of \$922,434 of lease liability interest costs which is included in occupancy expenses in the statement of functional expenses.



## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 13 - LEASE ARRANGEMENTS (continued)

##### (a) OPERATING LEASES - LESSEE (continued)

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at June 30, 2021 are as follows:

Years Ending June 30	
2022	\$ 4,674,961
2023	4,151,548
2024	3,542,778
2025	4,603,096
2026	4,741,597
Thereafter	<u>44,939,118</u>
	66,653,098
Less: Imputed interest	<u>(6,665,926)</u>
<b>Total</b>	<b><u>\$ 59,987,172</u></b>

Operating lease rental expense for the year ended June 30, 2021 was \$5,237,885.

##### (b) OPERATING LEASES - LESSOR

The Museum has several operating lease agreements that relate to the lease of a building and land owned by the Museum for the development by The Academy Foundation of a motion picture arts and sciences museum, the related easement of adjacent land for construction of the motion picture arts and sciences museum and an unrelated easement of other land for the construction of a subway extension (see Note 3). At June 30, 2021, the Museum had \$31,641,115 in deferred lease revenue associated with three long-term agreements, which are classified as operating leases. The underlying assets associated with the lease, which are held within property, plant and equipment, amount to \$4,421,938, net of depreciation.

There are no bargain purchase options, transfer of ownership at the end of the lease term, or variable lease payments included in these agreements. One of the lease agreements contains an option to extend the term of the lease by one year to 2023 for an additional payment of \$840,880.

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 in the statement of financial position. Lease revenue recorded in other revenue in the statement of activities was \$1,397,539 for year ended June 30, 2021.

As of June 30, 2021, future payments for operating leases were \$816,388 due in the year ending June 30, 2022.

## MUSEUM ASSOCIATES

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### NOTE 14 - CONTINGENCIES

In the normal course of business, the Museum may become a party to litigation. Management believes there are no asserted or un-asserted claims or contingencies that would have a significant impact on the financial statements of the Museum as of June 30, 2021.

#### NOTE 15 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Museum's financial assets available within one year of the statement of financial position at June 30, 2021 for general expenditures are as follows:

Financial Assets at June 30, 2021:	
Cash and Cash Equivalents	\$ 221,993,752
Accounts Receivable	1,197,417
Accrued Revenue	2,276,619
Pledges Receivable	160,153,276
Investments	598,475,841
Less Financial Assets Unavailable for General Expenditures within One Year:	
Pledges Receivable Not Due within One Year	(119,822,368)
Illiquid Investments	<u>(136,570,385)</u>
<b>TOTAL FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR</b>	<b>727,704,152</b>
Less Amounts Unavailable for General Expenditures within One Year, Due to:	
Split-Interest Agreement Liabilities Funds	(1,419,020)
Capital Campaign Proceeds Funds	(326,504,260)
County Obligation Proceeds Funds	(198,474,680)
Donor Purpose-Restricted Funds	(149,456,131)
Donor-Restricted Endowment Funds	<u>(25,696,255)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 26,153,806</u></b>

The Museum defines general expenditures as amounts to be spent on regular Museum operations and excludes amounts internally designated for capital construction projects.

The Museum maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Museum's cash flows have variations during the year attributable to exhibition scheduling, vacation and holiday seasons, concentrations of contributions received at calendar and fiscal year-ends and the County operating contract obligation to the Museum being paid in full at the beginning of each fiscal year. Additionally, the Museum has Board designated funds without donor restrictions that, while the Museum does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, if necessary.

## **MUSEUM ASSOCIATES**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2021

#### **NOTE 16 - SUBSEQUENT EVENT**

On July 1, 2021 the entire loan received by the Museum under the PPP provisions of the CARES Act in the amount of \$6,722,000 was forgiven and recognized as government grant income during the year ending June 30, 2022.