

**MUSEUM ASSOCIATES AND AFFILIATE  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINED FINANCIAL STATEMENT  
FOR THE YEAR ENDED  
JUNE 30, 2011**

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

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June 30, 2011**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of Museum Associates and Affiliate  
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 and affiliate (not-for-profit corporations) 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, 2011. 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 affiliate and the Department of Museum of Art, County of Los Angeles, for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying combining statement of activities is of Museum Associates and affiliate and the Department of Museum of Art, County of Los Angeles only and does not represent the full audited consolidated financial statements of Museum Associates and affiliate nor the full audited financial statements of the County of Los Angeles, and its related funds, functions and departments. The full audited consolidated financial statements of Museum Associates and affiliate have been issued to its Board of Trustees.

This report is intended solely for the information and use of the Board of Trustees of Museum Associates and affiliate, management and others within the Museum, the Department of Museum of Art, County of Los Angeles, and the County of Los Angeles, and is not intended to be and should not be used by anyone other than these specified parties.



SingerLewak LLP

Los Angeles, California  
October 12, 2011

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011**

	Museum Associates				Dept. of Museum of Art, County of Los Angeles		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Eliminations	Combined
<b>Revenues and support</b>							
Revenues							
Membership dues	\$ 6,704,800	\$ 851,560	\$ -	\$ 7,556,360	\$ -	\$ -	\$ 7,556,360
Admissions	2,932,983	-	-	2,932,983	-	-	2,932,983
Investment income, net	795,384	841,000	-	1,636,384	-	-	1,636,384
Net realized and unrealized gain on investments	23,035,063	5,477,829	-	28,512,892	-	-	28,512,892
Unrealized gain on interest rate swap	8,882,264	-	-	8,882,264	-	-	8,882,264
Appropriation from the County	-	-	-	-	33,905,748	-	33,905,748
County operating contract	27,683,000	-	-	27,683,000	-	(27,683,000)	-
Auxiliary activities	2,429,328	804,088	-	3,233,416	-	-	3,233,416
Other	2,554,082	118,819	-	2,672,901	-	-	2,672,901
Total revenues	<u>75,016,904</u>	<u>8,093,296</u>	<u>-</u>	<u>83,110,200</u>	<u>33,905,748</u>	<u>(27,683,000)</u>	<u>89,332,948</u>
Support							
Gifts	5,145,921	21,143,669	8,254	26,297,844	-	-	26,297,844
Government grants	5,000,000	484,127	-	5,484,127	-	-	5,484,127
Fundraising events, net	867,615	1,428,716	-	2,296,331	-	-	2,296,331
Total support	<u>11,013,536</u>	<u>23,056,512</u>	<u>8,254</u>	<u>34,078,302</u>	<u>-</u>	<u>-</u>	<u>34,078,302</u>
Net assets released from restrictions							
Satisfaction of program restrictions	24,702,012	(24,702,012)	-	-	-	-	-
Expiration of time restrictions and other transfers	17,825,006	(17,825,006)	-	-	-	-	-
Other transfers between net assets and release from donor restrictions	-	-	-	-	-	-	-
Total net assets released from restrictions	<u>42,527,018</u>	<u>(42,527,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>128,557,458</u>	<u>(11,377,210)</u>	<u>8,254</u>	<u>117,188,502</u>	<u>33,905,748</u>	<u>(27,683,000)</u>	<u>123,411,250</u>

The accompanying notes are an integral part of this combined financial statement.

**MUSEUM ASSOCIATES  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011**

	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	\$ 14,293,320	\$ -	\$ -	\$ 14,293,320	\$ 819,528	\$ -	\$ 15,112,848
Operating contract to Museum Associates	-	-	-	-	27,683,000	(27,683,000)	-
Curatorial	7,788,778	-	-	7,788,778	1,348,181	-	9,136,959
Education and public programs	4,732,194	-	-	4,732,194	112,470	-	4,844,664
Marketing and communication	5,965,304	-	-	5,965,304	-	-	5,965,304
Operations and public services	13,685,649	-	-	13,685,649	3,024,579	-	16,710,228
Property and deferred maintenance	434,008	-	-	434,008	-	-	434,008
Provision for doubtful pledges and bad debt expense	4,200,000	-	-	4,200,000	-	-	4,200,000
Depreciation expense	7,507,317	-	-	7,507,317	-	-	7,507,317
Revenue bond interest expense and fees	15,407,126	-	-	15,407,126	-	-	15,407,126
Revenue bond cost of issuance amortization	999,404	-	-	999,404	-	-	999,404
Auxiliary activities	3,115,365	-	-	3,115,365	-	-	3,115,365
General and administrative	8,468,109	-	-	8,468,109	917,990	-	9,386,099
Development	2,762,806	-	-	2,762,806	-	-	2,762,806
Total expenses	89,359,380	-	-	89,359,380	33,905,748	(27,683,000)	95,582,128
<b>Change in net assets before change related to collection items</b>	39,198,078	(11,377,210)	8,254	27,829,122	-	-	27,829,122
Collection items purchased	(18,302,074)	-	-	(18,302,074)	-	-	(18,302,074)
Collection items sold	-	490,895	-	490,895	-	-	490,895
<b>Change in net assets after change related to collection items</b>	<b>\$ 20,896,004</b>	<b>\$ (10,886,315)</b>	<b>\$ 8,254</b>	<b>\$ 10,017,943</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,017,943</b>

The accompanying notes are an integral part of this combined financial statement.

**MUSEUM ASSOCIATES AND AFFILIATE  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2011**

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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, the Museum finances the construction of new facilities, mounts exhibitions and conducts other educational programs to enhance public knowledge of the arts through the operation of the Los Angeles County Museum of Art (“LACMA”).

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

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 some resources out of the County General Fund to Associates primarily in the form of cash and personnel. Such amounts are reflected as “Appropriation from the County” in the combining statement of activities. Under a contract between the Los Angeles County Board of Supervisors and Associates, the Department and 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 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.

**MUSEUM ASSOCIATES AND AFFILIATE  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2011**

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

Basis of Presentation (Continued)

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.

Revenues and Support

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

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

Investments

The Museum's investments consist of long-only equities, fixed income securities, absolute return funds, and other partnership interests and other funds. The Museum's 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 temporarily restricted, except where the instructions of the donor specify otherwise.

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

**MUSEUM ASSOCIATES AND AFFILIATE  
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COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2011**

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

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 years.

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

Capitalized Interest

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

Art Collection

In conformity with the practice followed by many museums, art objects purchased by or donated to the Museum are not capitalized in the combined 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 \$18,302,074 during the year ended June 30, 2011. The Museum received donated art objects valued at approximately \$8,016,410 during the year ended June 30, 2011.

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

Financing Costs

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



**MUSEUM ASSOCIATES AND AFFILIATE  
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NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2011**

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

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 combined financial statement, as it is not susceptible to objective measurement or valuation.

Income Taxes

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

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

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

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2007 – 2011
State	2006 – 2011

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 combined financial statement of the Museum as of June 30, 2011.

**MUSEUM ASSOCIATES AND AFFILIATE  
AND THE DEPARTMENT OF MUSEUM OF ART,  
COUNTY OF LOS ANGELES  
NOTES TO COMBINING STATEMENT OF ACTIVITIES  
June 30, 2011**

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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 months and expiring through 2015. Total rental expense on operating leases was approximately \$163,000 for the year ended June 30, 2011. Future minimum lease payments are as follows:

<u>For the Year Ending June 30,</u>	
2012	\$ 83,000
2013	16,000
2014	16,000
2015	<u>12,000</u>
<b>Total</b>	<b><u>\$ 127,000</u></b>

Subsequent Events

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

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

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