

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

COMBINING FINANCIAL STATEMENT

YEAR ENDED JUNE 30, 2017

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

COMBINING FINANCIAL STATEMENT

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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

We have audited the accompanying combining statement of activities of Museum Associates and the Department of Museum of Art, County of Los Angeles, which collectively are the Los Angeles County Museum of Art (the Museum), for the year ended June 30, 2017, and the related notes to the combining financial statement.

Management's Responsibility for the Combining Financial Statement

Management is responsible for the preparation and fair presentation of this combining financial statement 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 this combining 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 combining financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statement, 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 combining financial statement 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 combining financial statement.

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 combining financial statement referred to above presents fairly, in all material respects, the results of operations of the Museum for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

October 4, 2017
Los Angeles, California

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

COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Museum Associates				Department of Museum of Art, County of Los Angeles		Eliminations	Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted			
Revenues and support								
Revenues								
Membership dues	\$ 7,409,437	\$ 257,650	\$ -	\$ 7,667,087	\$ -	\$ -	\$ -	\$ 7,667,087
Admissions	9,756,284	-	-	9,756,284	-	-	-	9,756,284
Investment income and gains, net	28,609,519	5,818,726	-	34,428,245	-	-	-	34,428,245
Unrealized gain on interest rate swap	29,514,872	-	-	29,514,872	-	-	-	29,514,872
Appropriation from the County	-	-	-	-	29,267,603	-	-	29,267,603
County operating contract	23,925,000	-	-	23,925,000	-	(23,925,000)	-	-
Auxiliary activities	2,578,857	47,913	-	2,626,770	-	-	-	2,626,770
Other	8,250,823	558,240	-	8,809,063	-	-	-	8,809,063
Total revenues	110,044,792	6,682,529	-	116,727,321	29,267,603	(23,925,000)	-	122,069,924
Support								
Gifts	7,113,026	60,981,794	172,335	68,267,155	-	-	-	68,267,155
Government grants	-	366,167	-	366,167	-	-	-	366,167
Fundraising events, net	595,186	1,693,182	-	2,288,368	-	-	-	2,288,368
Total support	7,708,212	63,041,143	172,335	70,921,690	-	-	-	70,921,690
Net assets released from restrictions								
Satisfaction of program restrictions	38,039,294	(38,039,294)	-	-	-	-	-	-
Expiration of time restrictions and other transfers	26,172,912	(26,172,912)	-	-	-	-	-	-
Total net assets released from restrictions	64,212,206	(64,212,206)	-	-	-	-	-	-
Total revenues and support	181,965,210	5,511,466	172,335	187,649,011	29,267,603	(23,925,000)	-	192,991,614

The accompanying notes are an integral part of this combining financial statement

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

COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Museum Associates			Total	Department of Museum of Art, County of Los Angeles		Eliminations	Combined
	Unrestricted	Temporarily Restricted	Permanently Restricted		Unrestricted			
Expenses								
Program-related expenses								
Exhibitions and collections management	\$ 16,644,269	\$ -	\$ -	\$ 16,644,269	\$ 712,625	\$ -	\$ -	\$ 17,356,894
County operating contract	-	-	-	-	23,925,000	(23,925,000)	-	-
Curatorial	8,599,435	-	-	8,599,435	1,360,604	-	-	9,960,039
Education and public programs	6,522,262	-	-	6,522,262	122,919	-	-	6,645,181
Marketing and communication	5,255,077	-	-	5,255,077	-	-	-	5,255,077
Operations and public services	16,077,328	-	-	16,077,328	2,303,209	-	-	18,380,537
Property and deferred maintenance	16,878,979	-	-	16,878,979	-	-	-	16,878,979
Depreciation expense	7,838,479	-	-	7,838,479	-	-	-	7,838,479
Revenue bond interest expense and fees	13,698,136	-	-	13,698,136	-	-	-	13,698,136
Revenue bond cost of issuance amortization	610,914	-	-	610,914	-	-	-	610,914
Auxiliary activities	2,668,008	-	-	2,668,008	-	-	-	2,668,008
General and administrative	10,044,705	-	-	10,044,705	843,246	-	-	10,887,951
Development	5,663,857	-	-	5,663,857	-	-	-	5,663,857
	<u>110,501,449</u>	<u>-</u>	<u>-</u>	<u>110,501,449</u>	<u>29,267,603</u>	<u>(23,925,000)</u>	<u>-</u>	<u>115,844,052</u>
Change in net assets before change related to collection items	71,463,761	5,511,466	172,335	77,147,562	-	-	-	77,147,562
Collection items purchased	(28,118,628)	-	-	(28,118,628)	-	-	-	(28,118,628)
Collection items sold	-	225,518	-	225,518	-	-	-	225,518
Change in net assets after change related to collection items	<u>\$ 43,345,133</u>	<u>\$ 5,736,984</u>	<u>\$ 172,335</u>	<u>\$ 49,254,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,254,452</u>

The accompanying notes are an integral part of this combining financial statement

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2017**

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).

LACMA is the premier encyclopedic art museum in the Western United States. LACMA's collection of more than 132,000 artworks from around the world spans the history of art, from ancient to contemporary times. Through its varied collections, LACMA is both a resource to and a reflection of the many cultural communities and heritages in Southern California and throughout the world.

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's General Fund to Museum Associates primarily in the form of cash and personnel. Such amounts are reflected as "Appropriation from the County" in the combining financial statement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying combining financial statement 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.

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

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) INVESTMENTS

The Museum's investments consist of long-only equities, fixed income securities, absolute return funds, 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 financial statement.

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.

(c) PROPERTY AND EQUIPMENT

Costs of constructing facilities located on land owned by 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 that are 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.

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

(d) 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 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 unrestricted net assets in the year in which the items are acquired. Contributed collection items are excluded from the combining financial statement.

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) ART COLLECTION (continued)

Proceeds from deaccessions or insurance recoveries are reflected as increases in temporarily restricted net assets. Deaccession proceeds are required by Museum policy to be applied to the acquisition of works of art for the permanent collection. Deaccession proceeds totaled \$225,518 during the year ended June 30, 2017. The Museum purchased collection items in the amount of \$28,118,628 during the year ended June 30, 2017. The Museum received donated art objects valued for insurance purposes at an estimated amount of \$36,370,975 during the year ended June 30, 2017.

(e) 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, other than those costs related to line of credit arrangements, 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.

(f) REVENUES AND SUPPORT

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

Revenues from fundraising events are net of expenses of \$2,916,875 for the year ended June 30, 2017.

(g) 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 this combining financial statement, as it is not susceptible to objective measurement or valuation.

(h) INCOME TAXES

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

**MUSEUM ASSOCIATES AND THE DEPARTMENT
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**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) INCOME TAXES (continued)

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, 2017 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.

(i) USE OF ESTIMATES

The preparation of the combining financial statement 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 disclose contingent assets and liabilities at the date of the combining financial statement. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) SUBSEQUENT EVENTS

The Museum has evaluated events and transactions occurring subsequent to the combining financial statement dated June 30, 2017 for items that should potentially be recognized or disclosed in the combining financial statement. The evaluation was conducted through October 4, 2017, the date the combining financial statement was available to be issued.

NOTE 3 - CONTINGENCIES

In the normal course of business, the Museum may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the combining financial statement of the Museum as of June 30, 2017.