MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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YEAR ENDED JUNE 30, 2012

CONTENTS

Green
Hasson
Janks

10990 Wilshire Boulevard
16th Floor
Los Angeles, CA 90024

310.873.1600 T
310.873.6600 F
www.greenhassonjanks.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Museum Associates and Affiliate

We have audited the accompanying consolidated statement of financial position of Museum Associates and Affiliate (not-for-profit corporations) (collectively, the Museum) as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2011 consolidated financial statements, which were audited by other auditors and whose report dated October 12, 2011 expressed an unqualified opinion on those consolidated financial statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

October 3, 2012
Los Angeles, California

MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2012
With Summarized Totals at June 30, 2011

ASSETS	2012	2011
Current assets		
Cash and cash equivalents	$ 9,754,004	$ 15,288,830
Accounts receivable and accrued revenue	9,266,332	2,513,997
Pledges receivable – current portion, net	29,551,946	27,450,120
Inventories, net	891,324	1,614,031
Prepaid expenses and other current assets	110,272	581,395
Total current assets	49,573,878	47,448,373
Noncurrent assets		
Investments	229,369,387	231,001,487
Pledges receivable – long-term portion, net	50,634,461	67,451,117
Receivables under trust agreement, net	138,970	148,534
Property and equipment, net	312,961,110	320,648,827
Revenue bond trust accounts	2,155,051	48,596,038
Revenue bond issuance costs, net	15,629,218	16,240,132
Total noncurrent assets	610,888,197	684,086,135
Total assets	$ 660,462,075	$ 731,534,508

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

MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2012
With Summarized Totals at June 30, 2011

LIABILITIES AND NET ASSETS	2012	2011
Current liabilities		
Accounts payable and accrued liabilities	$ 7,769,783	$ 5,827,674
Deferred revenue	5,111,625	2,084,772
Note payable – current portion	62,500	3,000,000
Capital lease obligation – current portion	256,978	244,665
Split-interest agreement liabilities	139,097	124,097
Total current liabilities	13,339,983	11,281,208
Noncurrent liabilities		
Revenue bonds	343,000,000	383,000,000
Interest rate swap	88,148,360	35,954,259
Note payable – long-term portion	62,500	-
Capital lease obligation – long-term portion	43,047	300,025
Split-interest agreement liabilities	862,041	807,678
Underfunded pension liabilities	1,268,031	-
Total noncurrent liabilities	433,383,979	420,061,962
Total liabilities	446,723,962	431,343,170
Contingencies (Note 12)		
Net assets		
Unrestricted		
Board-designated, funds functioning as endowment	55,169,572	58,944,275
Donor-restricted endowment fund losses, net	(2,173,462)	(1,576,160)
Other	15,867,744	79,808,916
Temporarily restricted		
Funds functioning as endowment	35,804,687	38,519,711
Other	87,067,122	102,507,077
Permanently restricted – endowment funds	22,002,450	21,987,519
Total net assets	213,738,113	300,191,338
Total liabilities and net assets	$ 660,462,075	$ 731,534,508

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

MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Summarized Totals for the Year Ended June 30, 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Revenues and support					
Revenues					
Membership dues	$ 7,085,026	$ 782,799	$ -	$ 7,867,825	$ 7,556,360
Admissions	6,726,429	-	-	6,726,429	2,932,983
Investment income, net	338,791	802,367	-	1,141,158	1,636,384
Net realized and unrealized gain (loss) on investments	(1,904,742)	(621,065)	-	(2,525,807)	28,512,892
Unrealized gain (loss) on interest rate swap	(52,194,101)	-	-	(52,194,101)	8,882,264
County operating contract	21,584,000	-	-	21,584,000	27,683,000
Auxiliary activities	4,000,768	665,988	-	4,666,756	3,233,416
Other	6,916,937	442,498	-	7,359,435	2,672,901
Total revenues	(7,446,892)	2,072,587	-	(5,374,305)	83,110,200
Support					
Gifts	6,478,655	22,797,575	14,931	29,291,161	26,297,844
Government grants	-	650,220	-	650,220	5,484,127
Fundraising events, net	1,358,158	1,452,479	-	2,810,637	2,296,331
Total support	7,836,813	24,900,274	14,931	32,752,018	34,078,302
Net assets released from restrictions					
Satisfaction of program restrictions	23,366,921	(23,366,921)	-	-	-
Expiration of time restrictions and other transfers	21,875,275	(21,875,275)	-	-	-
Total net assets released from restrictions	45,242,196	(45,242,196)	-	-	-
Total revenues and support	45,632,117	(18,269,335)	14,931	27,377,713	117,188,502

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

MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Summarized Totals for the Year Ended June 30, 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Expenses					
Program-related expenses					
Exhibitions and collections management	$ 16,884,085	$ -	$ -	$ 16,884,085	$ 14,293,320
Curatorial	7,969,500	-	-	7,969,500	7,788,778
Education and public programs	5,309,390	-	-	5,309,390	4,732,194
Marketing and communication	5,855,380	-	-	5,855,380	5,965,304
Operations and public services	13,777,523	-	-	13,777,523	13,685,649
Property and deferred maintenance	602,075	-	-	602,075	434,008
Depreciation expense	7,889,870	-	-	7,889,870	7,507,317
Revenue bond interest expense and fees	13,723,496	-	-	13,723,496	15,407,126
Revenue bond cost of issuance amortization	610,914	-	-	610,914	999,404
Auxiliary activities	4,574,076	-	-	4,574,076	3,115,365
Provision for doubtful pledges and bad debt expense	-	-	-	-	4,200,000
General and administrative	8,856,348	-	-	8,856,348	8,468,109
Development	3,731,157	-	-	3,731,157	2,762,806
Total expenses	89,783,814	-	-	89,783,814	89,359,380
Change in net assets before change related to collection items	(44,151,697)	(18,269,335)	14,931	(62,406,101)	27,829,122
Collection items purchased	(24,161,480)	-	-	(24,161,480)	(18,302,074)
Collection items sold	-	114,356	-	114,356	490,895
Change in net assets after change related to collection items	(68,313,177)	(18,154,979)	14,931	(86,453,225)	10,017,943
Net assets, beginning of year	137,177,031	141,026,788	21,987,519	300,191,338	290,173,395
Net assets, end of year	$ 68,863,854	$ 122,871,809	$ 22,002,450	$ 213,738,113	$ 300,191,338

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

MUSEUM ASSOCIATES AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
With Summarized Totals for the Year Ended June 30, 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (86,453,225)	$ 10,017,943
Adjustments to reconcile change in net assets to cash provided by operating activities		
Net realized and unrealized (gain) loss on investments	2,525,807	(28,512,892)
Unrealized (gain) loss on interest rate swap	52,194,101	(8,882,264)
Provision for doubtful pledges	-	4,200,000
Depreciation expense	7,889,870	7,507,317
Revenue bond cost of issuance amortization	610,914	999,404
Collection items purchased	24,161,480	18,302,074
Collection items sold	(114,356)	(490,895)
Contributions restricted for endowment	(14,931)	(8,254)
Change in operating assets and liabilities		
Accounts receivable and accrued revenue	(6,752,335)	(681,298)
Pledges receivable, net	14,714,830	14,602,133
Inventories, net	722,707	(408,655)
Prepaid expenses and other current assets	471,123	775,285
Receivables under trust agreements, net	9,564	(16,584)
Accounts payable and accrued liabilities	(7,891)	(5,855,325)
Deferred revenue	3,026,853	360,466
Underfunded pension liabilities	1,268,031	(672,456)
Net cash provided by operating activities	14,252,542	11,235,999
Cash flows from investing activities		
Net purchases of investments	(893,707)	(2,943,973)
Purchase of property and equipment	(202,153)	(13,987,225)
Collection items purchased	(22,211,480)	(18,302,074)
Proceeds from collection items sold	114,356	490,895
Net cash used in investing activities	(23,192,984)	(34,742,377)
Cash flows from financing activities		
Repayment of revenue bonds	(40,000,000)	-
Decrease in revenue bond trust accounts	46,440,987	16,096,349
Revenue bond cost of issuance	-	(968,471)
Repayment of notes payable	(3,062,500)	(8,500,000)
Increase in note payable	187,500	4,000,000
Payments on capital lease obligation	(244,665)	(257,678)
Increase(decrease) in split-interest agreements liability	69,363	(185,778)
Contributions restricted for endowment	14,931	8,254
Net cash provided by financing activities	3,405,616	10,192,676
Net decrease in cash and cash equivalents	(5,534,826)	(13,313,702)
Cash and cash equivalents, beginning of year	15,288,830	28,602,532
Cash and cash equivalents, end of year	$ 9,754,004	$ 15,288,830

Supplemental disclosure of noncash investing activities

At June 30, 2012, the Museum had $1,950,000 included in accounts payable and accrued liabilities for the purchase of art. At June 30, 2011, the Museum had $842,810 included in accounts payable and accrued liabilities for the purchase of property and equipment. During the years ended June 30, 2012 and 2011, the Museum paid $13,723,496 and $8,862,115, respectively, in interest expenses and related fees.

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

NOTE 1 - GENERAL

Museum Associates (the Museum) is a California nonprofit corporation whose mission is to serve the public through the collection, conservation, exhibition and interpretation of significant works of art from a broad range of cultures and historical periods, and through the translation of these collections into meaningful educational, aesthetic, intellectual and cultural experiences for the widest array of audiences. To that end, the Museum finances the construction of new facilities, mounts exhibitions and conducts other educational programs to enhance public knowledge of the arts through the operation of the Los Angeles County Museum of Art (LACMA).

The Museum is the premier encyclopedic art museum in the Western United States. The Museum's collection of more than 100,000 artworks from around the world spans the history of art, from ancient to contemporary times, including especially strong collections of Asian, Latin American, European, and American art. 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 consolidated statement of financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Museum Associates and its affiliate, the Foundation for the Advancement of Mesoamerican Studies, Inc. (FAMSI). All material intercompany transactions and balances have been eliminated in consolidation. Museum Associates and FAMSI are collectively referred to in these consolidated financial statements as the Museum.

(b) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PRESENTATION (continued)

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.

(c) CASH AND CASH EQUIVALENTS

For purposes of the consolidated 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.

(d) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of debtor, the age of outstanding receivables, and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2012, the Museum evaluated the collectability of its accounts receivable and determined that no allowance is necessary.

(e) PLEDGES RECEIVABLE

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 an appropriate market interest rate at the date of the contribution. The Museum has established a general reserve based on an estimated percentage of the pledge balance.

(f) INVENTORIES

Inventories consist of Museum Shop goods and are stated at the lower of weighted-average cost or market. At June 30, 2012, gross inventories included on the consolidated statement of financial position amounted to $1,091,324, net of obsolescence reserves of $200,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) INVESTMENTS

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

The Museum's long-only equity investments and fixed income securities are generally publicly traded on national securities exchanges and have readily available quoted market values. The Museum's other partnership interests and other funds, and portions of its absolute return fund investments, are carried at estimated fair value. The Museum establishes fair value of these nonmarketable investments through (a) observable trading activity reported at net asset value, or (b) a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities. Because of the inherent uncertainty of valuation of nonmarketable investments, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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

Dividend and interest income are accrued when earned. Such amounts are presented net of related investment expenses, which were $881,897 for the year ended June 30, 2012. Dividend and interest income and investment income earned from investments in all net asset classifications is allocated based on the individual investment asset as a percentage of total investment assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

(h) RECEIVABLES UNDER TRUST AGREEMENT AND SPLIT-INTEREST AGREEMENT LIABILITIES

The Museum has been named as the beneficiary of a trust agreement for which a third party has been named as the trustee. Assets contributed by the donor under this trust agreement are recognized at the present value of the estimated future distributions to be received. The interest rate used in determining the present value was the Museum's appropriate market rate of return at the date of the gift. Amortization of the discount and changes in actuarial assumptions are included in "Other" in the consolidated statement of activities. The present value of the total future amounts to be received was $138,970 at June 30, 2012.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) RECEIVABLES UNDER TRUST AGREEMENT AND SPLIT-INTEREST AGREEMENT LIABILITIES (continued)

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 value at establishment was $1,972,842. The present value of these split-interest liabilities was $1,001,138 at June 30, 2012. The Museum has established a segregated reserve fund of $1,078,293 at June 30, 2012 which exceeds the present value of the liabilities.

(i) PROPERTY AND EQUIPMENT

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

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.

(j) 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, 2012.

(k) 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 consolidated statement of financial position. The Museum's art collection is made up of art objects that are held for exhibition and various other program activities. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are excluded from the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) ART COLLECTION (continued)

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 $24,161,480 during the year ended June 30, 2012. The Museum received donated art objects valued at $16,952,720 during the year ended June 30, 2012.

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

(l) FINANCING COSTS

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

(m) REVENUES AND SUPPORT

Annual membership dues and admissions 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.

(n) CONTRIBUTED SERVICES

A substantial number of unpaid volunteers, including council members, have made significant contributions of their time to develop the Museum's programs. The value of this contributed time is not reflected in these consolidated financial statements, as it is not susceptible to objective measurement or valuation.

(o) INCOME TAXES

The Museum and its affiliate are California and Florida not-for-profit corporations, respectively, and are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) and they are also exempt from state franchise taxes.

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 fiscal year ended June 30, 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the fiscal year ended June 30, 2011.

Financial instruments included in the Museum's consolidated statement of financial position include cash and cash equivalents, accounts receivable and accrued revenue, pledges receivable, investments, receivables under trust agreement, revenue bond trust accounts, accounts payable and accrued liabilities, note payable, capital lease obligation, split-interest agreement liabilities, and interest rate swap.

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 note payable and capital lease obligation approximates the carrying value of these liabilities as these bear interest commensurate with their risks. Investments, revenue bond trust accounts, and derivative financial instruments (i.e., interest rate swaps) are reflected at estimated fair value as described below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments and Revenue Bond Trust Accounts
The basis of fair value for the Museum's investments and revenue bond trust accounts differs depending on the investment type. For certain investments, market value is based on quoted market prices. These are classified within Level 1 of the valuation hierarchy. For certain investments, the market value is based on net asset value or market values of similar observable or underlying assets; these are classified within Level 2 of the fair value hierarchy. Some investments are based on unobservable inputs such as net asset value, cash flows, discount rates and alternative investments which are supported by little or no market activity; these are classified within Level 3 of the fair value hierarchy.

Interest Rate Swap
Concurrent with the issuance and sale of the Series 2008 Bonds (see Note 6) and in order to manage exposure to interest rate fluctuations, the Museum entered into an interest rate swap agreement with Citibank, which was later novated to Wells Fargo, the counterparty.

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, 2012 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.

(q) CONCENTRATION OF CREDIT RISK

Credit risk is the failure of another party to perform in accordance with the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) CONCENTRATION OF CREDIT RISK (continued)

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, 2012, 83% 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 consolidated statement of financial position. The Museum attempts to limit its credit risk associated with investments through diversification and by utilizing the expertise and processes of an outside investment consultant.

(r) USE OF ESTIMATES

The preparation of consolidated 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.

(s) COMPARATIVE TOTALS

The consolidated 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 consolidated financial statements for the year ended June 30, 2011 from which the summarized information was derived.

(t) SUBSEQUENT EVENTS

The Museum has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of June 30, 2012 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through October 3, 2012, the date these consolidated financial statements were available to be issued.

The merger of the Museum's affiliate FAMSI was completed effective September 30, 2012.

NOTE 3 - PLEDGES RECEIVABLE

At June 30, 2012, the Museum had the following pledges receivable:

Due within one year	$ 31,451,946
Allowance for doubtful pledges	(1,900,000)
Pledges receivable-current portion, net	29,551,946
Due between one and five years	47,122,186
Due after five years	18,442,793
Present value discount of approximately 2 to 5%	(10,830,518)
Allowance for doubtful pledges	(4,100,000)
Pledges receivable-long-term portion, net	50,634,461
Total pledges receivable, net	$ 80,186,407

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Museum's investments consist of operating reserves and funds functioning as endowment and funds which have been restricted by the donor as endowment. The Museum's investments are managed as a single diversified portfolio governed by the Museum's investment policy, which sets asset allocation ranges to achieve portfolio diversification and also a minimum percentage of liquid assets. The Museum establishes the fair value of Level 1 investments based on quoted market prices. The Museum establishes Level 2 investments through observation of trading activity reported at net asset value or market values of similar observable or underlying assets. The Museum establishes Level 3 investments through a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities.

As of June 30, 2012, the Museum's investments and related liabilities were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Long-only equity	$ 49,676,640	$ 3,880,053	$ -	$ 53,556,693
Fixed income	19,602,964	21,554,230	3,918,379	45,075,573
Absolute return	7,232,694	103,322,135	4,342,736	114,897,565
Other partnerships and other funds	1,078,293	-	14,761,263	15,839,556
Total investments	77,590,591	128,756,418	23,022,378	229,369,387
Liabilities				
Split-interest agreement liabilities	-	(1,001,138)	-	(1,001,138)
Net	$ 77,590,591	$127,755,280	$23,022,378	$228,368,249

NOTE 4 - INVESTMENTS (continued)

For the year ended June 30, 2012, the changes in fair value of the Museum's Level 3 investments are as follows:

Balance, beginning of year	$15,990,259
Purchases	7,844,859
Sales	(2,227,479)
Realized and unrealized gains, net	1,414,739
Balance, end of year	$23,022,378

During the year ended June 30, 2012, the net change in unrealized gain for Level 3 investments still held at June 30, 2012 amounted to $1,246,424, which is reflected as part of net realized and unrealized loss on investments on the statement of activities.

The Museum recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. The transfers between Level 2 and 3 investments related to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended June 30, 2012.

The Museum's investments in Level 2 and 3 funds are valued using the fair value practical expedient of net asset value. The following table summarizes the redemption frequency and notice period for the Museum's Level 2 and 3 investments at fair value as of June 30, 2012:

	Fair Value	Redemption Frequency	Redemption Notice Period
Long-only equity	$ 3,880,053	Monthly	30 Days
Fixed income	25,472,609	Monthly to Illiquid	15 - 60 Days, Unless Illiquid
Absolute return	107,664,871	Monthly to Illiquid	30 - 90 Days, Unless Illiquid
Other partnerships and other funds	14,761,263	Illiquid	Illiquid
Total	$151,778,796		

Total unfunded commitments at June 30, 2012 amounted to approximately $19,500,000.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 consisted of the following:

Land	$ 36,143,953
Buildings and improvements	303,277,925
Equipment and other property	9,656,217
Total	349,078,095
Less: accumulated depreciation	(36,116,985)
Property and equipment, net	$312,961,110

Depreciation expense amounted to $7,889,870 for the year ended June 30, 2012.

NOTE 6 - REVENUE BONDS AND INTEREST RATE SWAPS

(a) REVENUE BONDS

On September 10, 2008, pursuant to an Indenture (the Indenture) by and between the California Statewide Communities Development Authority (the Issuer) and US Bank (the Trustee), the Museum refinanced the prior bonds issued in 2004 (Series A, B and C) and 2007 (Series A, B, C and D) with $383,000,000 of tax-exempt Variable Rate Demand Obligations (the 2008 Bonds). The 2008 Bonds were issued in $100,000 denominations with a variable interest rate that is reset, depending on the series, either weekly or daily.

The 2008 Bonds were issued in five series: Series 2008A was issued for $100,000,000, Series 2008B was issued for $100,000,000, Series 2008C was issued for $95,000,000, Series 2008D was issued for $60,000,000 and Series 2008E was issued for $28,000,000.

The Issuer lent the proceeds of the 2008 Bonds to the Museum pursuant to a loan agreement (the Loan Agreement) by and between the Issuer and the Museum. Such proceeds received by the Museum were used to (i) redeem all of the Museum's 2004 and 2007 bonds, (ii) finance capitalized interest on the 2008 Bonds, and (iii) finance costs of issuance of the 2008 Bonds.

The 2008 Bonds were supported by a letter of credit from a consortium of banks fronted by Wells Fargo. The letter of credit had an initial three-year term, and was set to expire in September 2011. In May 2011, the Museum renewed and restructured the letter of credit arrangement. In conjunction with this renewal, the Series 2008C and Series 2008E bonds, totaling $123,000,000, were directly purchased by Wells Fargo and the Series D bonds, totaling $60,000,000, were directly purchased by US Bank.

NOTE 6 - REVENUE BONDS AND INTEREST RATE SWAPS (continued)

(a) REVENUE BONDS (continued)

The Series 2008A and Series 2008B bonds, totaling $200,000,000, will remain variable rate demand obligations and remarketed on a weekly basis. These bonds are supported by a letter of credit from a consortium of banks fronted by Union Bank.

Terms of both the renewed letter of credit and the direct purchase agreements are parallel; both have terms of four years and expire in May 2015. Fees are charged at a rate of 1.50% on the letter of credit and direct purchase arrangements, with an increase possible if LACMA's credit rating is downgraded. As of June 30, 2012 there were no amounts borrowed or outstanding on the letter of credit.

Under the terms of the Loan Agreement, the Museum is subject to a certain 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 0.75 more than one time during the term of the letter of credit and direct purchase agreements, it is an event of default. As of June 30, 2012, the UNA ratio was 0.78.

As of June 30, 2012, unspent bond proceeds held in trust with the Trustee of $2,155,051, consisted of cash and cash equivalents, United States Treasury securities and corporate bonds, which are classified under Level 1 and Level 2 of the valuation hierarchy.

In March 2012 the Museum redeemed $40,000,000 of its unspent bond proceeds and applied the principal reduction on a pro-rata basis to the five series of 2008 Bonds. After the redemption the revised principal debt balances were: Series 2008A $89,555,000, Series 2008B $89,555,000, Series 2008C $85,080,000, Series 2008D $53,735,000 and Series 2008E $25,075,000.

As of June 30, 2012, outstanding amounts due on the 2008 Bonds were $343,000,000. The carrying amounts of the bonds approximate fair value. As of June 30, 2012, the 2008 Bonds' mandatory bond redemption requirements have been summarized as follows:

Redemption Date December 1,	
2030	$ 16,470,000
2031	35,965,000
2032	36,450,000
2033	54,265,000
2034	76,350,000
2035	39,810,000
2036	41,180,000
2037	42,510,000
Total	$343,000,000

NOTE 6 - REVENUE BONDS AND INTEREST RATE SWAPS (continued)

(b) INTEREST RATE SWAPS

In September 2008, the Museum recast five existing swap agreements on prior bonds (2004 and 2007 Bonds) with Citibank and consolidated them into one swap agreement with the same aggregate notional amount of $256,315,000 and a termination date of December 1, 2037. Under the recast swap agreement, the Museum agreed to pay Citibank a synthetic fixed amount of interest, 3.552% per month, and received 59.5% of one-month LIBOR plus 0.3%.

On May 6, 2011, in conjunction with the May 2011 letter of credit renewal, Citibank novated the interest rate swap agreement with the Museum to Wells Fargo. Under the terms of the novated interest rate swap agreement with Wells Fargo, the aggregate notional amount of $256,315,000 and the termination date of December 1, 2037 remain unchanged. In addition, the Museum agrees to pay Wells Fargo a synthetic fixed amount of interest, 3.592% per month, and will receive 59.5% of one-month LIBOR (0.246% at June 30, 2012) plus 0.3%. The Museum can terminate this agreement at any time, but Wells Fargo may terminate the agreement only if certain adverse conditions occur.

As of June 30, 2012, the fair value of the interest rate swap liability was $88,148,360. The aggregate unrealized loss reflecting the change in the swap value for the year ended June 30, 2012 was $52,194,101.

(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, 2012, the aggregate capitalized costs on the 2004, 2007 and 2008 Bonds were $20,202,226, net of $4,573,008 of accumulated amortization, and are included under Revenue bond issuance costs, net on the consolidated statement of financial position. The Museum recognized $610,914 in amortization costs on the capitalized bond issuance costs for the year ended June 30, 2012, and such costs are included under Revenue bond cost of issuance amortization on the consolidated statement of activities.

NOTE 7 - NOTE PAYABLE

Note Payable at June 30, 2012 related to an obligation for the purchase of artwork totaling $125,000. The note is unsecured and interest free. Remaining payments of $62,500 are due in the years ending June 30, 2013 and 2014, respectively.

NOTE 8 - CAPITAL LEASE OBLIGATIONS

The Museum financed the purchase of certain software through a capital lease obligation with a principal amount of $1,003,213 and quarterly payments of $64,669 expiring through September 2013. The imputed interest is approximately 0.9% per annum. Future minimum annual payments under this capital lease obligation are as follows:

For the Year Ending June 30	
2013	$ 256,978
2014	43,047
Total	300,025
Less: current portion	(256,978)
Noncurrent portion	$ 43,047

The software was placed in service during the year ended June 30, 2012. Related accumulated depreciation and depreciation expense as of and for the year ended June 30, 2012 was $217,341.

NOTE 9 - NET ASSETS

Unrestricted, temporarily restricted and permanently restricted net assets at June 30, 2012 were available for the following purposes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment and funds functioning as endowment				
Operating support	$ 53,299,152	$ -	$ 712,337	$ 54,011,489
Restricted operating support	-	31,573,503	15,079,043	46,652,456
Art acquisition	1,870,420	4,231,184	6,211,070	12,312,674
Donor restricted endowment fund losses	(2,173,462)	-	-	(2,173,462)
Total endowment and funds functioning as endowment	52,996,110	35,804,687	22,002,450	110,803,247
Other funds				
Programs	113,313,220	83,715,631	-	197,028,851
Art acquisitions	8,684	3,351,491	-	3,360,175
Property and equipment	(97,454,160)	-	-	(97,454,160)
Total other funds	15,867,744	87,067,122	-	102,934,866
Total	$ 68,863,854	$122,871,809	$22,002,450	$213,738,113

NOTE 10 - ENDOWMENT

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

At June 30, 2012, the Museum's endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 55,169,572	$ -	$ -	$ 55,169,572
Temporarily restricted funds managed as endowment funds	-	35,804,687	-	35,804,687
Donor restricted endowment funds	(2,173,462)	-	22,002,450	19,828,988
Total endowment funds	$ 52,996,110	$35,804,687	$22,002,450	$110,803,247

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $2,173,462 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of permanently restricted contributions and continued appropriations for certain programs, which was deemed prudent by the Board of Trustees.

For the year ended June 30, 2012, the Museum's endowment net assets changed as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$57,368,115	$38,519,711	$21,987,519	$117,875,345
Investment return				
Investment loss, net	(4,698,179)	(2,113,593)	-	(6,811,772)
Net realized and unrealized depreciation	(27,683)	(1,198,733)	-	(1,226,416)
Total investment return	(4,725,862)	(3,312,326)	-	(8,038,188)
Contributions	951,159	-	14,931	966,090
Reclassification of underwater endowment funds	(597,302)	597,302	-	-
Balance, end of year	$52,996,110	$35,804,687	$22,002,450	$110,803,247

NOTE 10 - ENDOWMENT (continued)

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

The Museum's endowment spending policy is based on the trailing market value of its endowment. Specifically, it is 5% of the average market value of the endowment at each of the twelve prior quarters as of March 31 in the most recent fiscal year. The spending policy is reviewed by the Finance Committee of the Board of Trustees annually.

As delegated authority by the full Board, the Finance Committee of the Board has adopted an investment policy that governs the management and oversight of the endowment funds and other investments (endowment and reserves). The policy sets forth the objectives for the endowment and reserves of the Museum, the strategies to achieve the objectives, procedures for monitoring and control, and the delineation of responsibilities for the Finance Committee, consultant, investment managers, staff and custodians in relation to the portfolio. The policy is intended to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters that a prudent person would take in the execution of the investment program. Investment assets are managed on a total return basis, with emphasis on both preservation of capital and acceptance of investment risk necessary to achieve favorable performance on a risk-adjusted basis. In addition to parameters of return and risk, the policy establishes minimum liquidity guidelines for the portfolio. Other objectives are to maintain or enhance the real purchasing power of the endowment and reserves after covering its spending rate; to provide sufficient cash to cover debt interest and retirement of debt over the life of the Museum's outstanding debt; to outperform a policy benchmark return, after fees, at a lower level of risk over seven- to ten-year rolling periods; and to diversify investments to reduce the impact of losses in single investments, industries or asset classes.

NOTE 11 - 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, and have not attained age sixty-five. 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 $1,500,000 during the year ended June 30, 2012.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The following sets forth the components of net periodic benefit 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 benefit cost for the years ended June 30, 2012:

Service cost	$ 1,066,458
Interest cost	661,328
Expected return on plan assets	(991,025)
Amortization of prior service cost	34,779
Amortization of actuarial (gains) losses	76,410
Net periodic benefit cost	$ 847,950

Obligation and funded status at June 30, 2012:

Change in benefit obligation	
Benefit obligation, beginning of year	$12,364,969
Service cost	1,066,458
Interest cost	661,328
Actuarial loss	1,062,146
Benefits paid	(367,100)
Benefit obligation, end of year	14,787,801
Change in plan assets	
Fair value of plan assets, beginning of year	12,378,248
Actual return on plan assets	8,622
Employer contributions	1,500,000
Benefit and settlement or curtailment payments	(367,100)
Fair value of plan assets, end of year	13,519,770
Funded status	$ (1,268,031)

The funded status at June 30, 2012 is reflected under underfunded pension liabilities on the consolidated statement of financial position.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The following represents pension costs directly charged to net assets at June 30, 2012:

Accumulated net adjustment to net assets, beginning of year	$ (2,580,098)
Current-year change	
Actuarial loss during the year	(1,968,139)
Amortization of prior service cost	34,779
Total current-year change	(1,933,360)
Accumulated net adjustment to net assets, end of year	$ (4,513,458)

Weighted-average assumptions used to determine benefit obligations were as follows at June 30, 2012:

Discount rate	5.0%
Expected return on plan assets	7.8%
Rate of compensation increase	3.0%

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.

The Museum's year-end plan weighted-average asset allocations by category were as follows:

	Target	2012
Long-only equities	29.0%	30.3%
Fixed income	20.0%	19.5%
Long/short equities	27.0%	27.1%
Alternatives	24.0%	22.7%
Cash	0.0%	0.4%

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.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The Museum expects to contribute $1,500,000 to the Plan for the year ending June 30, 2013.

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

For the Years Ending June 30	
2013	$ 791,914
2014	1,266,448
2015	1,014,888
2016	1,819,242
2017	1,087,340
2018 to 2022	8,395,830
Total	$14,375,662

Investment allocation decisions for plan assets are made in order to achieve the Plan's investment return objectives, consistent with its risk parameters. The investment objectives are to achieve an absolute total return of 8% – 10% as measured as an average annual return over a seven- to ten-year period. This is in order to attain or beat the actuarial target rate of return (currently 8%) for the plan. Its risk parameters include:

- Avoiding failure to provide sufficient capital to meet the Plan's distribution obligations
- Avoiding sustained or meaningful underperformance relative to the Plan's actuarial target rate of return

The risk parameters will be judged with the following criteria: To achieve the targeted rate of return, while at the same time experiencing a level of market/systematic risk no greater than 70% of that of the MSCI World Index as measured by BETA. The portfolio's total volatility (as measured by Standard Deviation) should be no greater than that of 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.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

As of June 30, 2012, the Museum's plan assets were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 50,167	$ -	$ -	$ 50,167
Investment-grade fixed income	2,641,561	-	-	2,641,561
Domestic equity	2,863,025	-	-	2,863,025
International equity	1,237,013	-	-	1,237,013
Long/short equity	-	3,652,309	-	3,652,309
High-yield and liquid credit	-	964,488	-	964,488
Alternatives	-	1,048,872	1,062,335	2,111,207
Total	$6,791,766	$5,665,669	$1,062,335	$13,519,770

For the year ended June 30, 2012, the changes in fair value of the Museum's Level 3 plan assets are as follows:

Balance, beginning of year	$ 1,016,580
Return on plan assets:	
Relating to assets still held at the reporting date	(29,533)
Settlements	75,288
Balance, end of year	$ 1,062,335

(b) DEFINED CONTRIBUTION PLAN

The Museum also 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 salary. Matching contributions during the year ended June 30, 2012 was $477,392.

(c) DEFERRED COMPENSATION PLAN

The Museum offers a deferred compensation plan for its highly compensated employees. Employees compensated in excess of $90,000 annually are eligible to elect to make voluntary contributions (up to the limits set by law) to the plan through payroll deductions in excess of the annual thresholds allowed under the Museum's defined contribution plan.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

(d) EXECUTIVE DEFERRED COMPENSATION PLAN

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

NOTE 12 - 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 consolidated financial statements of the Museum as of June 30, 2012.