

**MUSEUM ASSOCIATES AND
THE DEPARTMENT OF MUSEUM
OF ART, COUNTY OF LOS ANGELES**
COMBINING FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2020

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

COMBINING FINANCIAL STATEMENT

YEAR ENDED JUNE 30, 2020

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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

Report on the Combining Financial Statement

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, 2020, 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, 2020 in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees of Museum Associates
and to the Chief Executive Officer of the County of Los Angeles
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Emphasis of Matter

As discussed in Note 5 to the combining financial statement, the recent COVID-19 pandemic in the United States and worldwide has resulted in reduced economic activity and market declines. As the extent and duration of the future impact to the Museum is uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

Green Hasson & Janks LLP

October 6, 2020
Los Angeles, California

**MUSEUM ASSOCIATES AND THE DEPARTMENT
OF MUSEUM OF ART, COUNTY OF LOS ANGELES**
COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	Museum Associates			Department of Museum of Art, County of Los Angeles		Combined
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations	
Revenues and support						
Revenues						
Membership dues	\$ 3,821,128	\$ 214,850	\$ 4,035,978	\$ -	\$ -	\$ 4,035,978
Admissions	3,010,981	-	3,010,981	-	-	3,010,981
Investment return, net	11,112,771	2,720,526	13,833,297	-	-	13,833,297
Unrealized loss on interest rate swap	(31,058,478)	-	(31,058,478)	-	-	(31,058,478)
Appropriation from the County	-	-	-	31,964,546	-	31,964,546
County operating contract	28,035,000	-	28,035,000	-	(28,035,000)	-
Auxiliary activities	1,156,756	1,229	1,157,985	-	-	1,157,985
Other	8,767,703	662,701	9,430,404	-	-	9,430,404
Total revenues	24,845,861	3,599,306	28,445,167	31,964,546	(28,035,000)	32,374,713
Support						
Gifts	20,348,761	73,967,374	94,316,135	-	-	94,316,135
Government grants	5,373,781	363,631	5,737,412	-	-	5,737,412
Fundraising events, net	2,019,264	673,222	2,692,486	-	-	2,692,486
Total support	27,741,806	75,004,227	102,746,033	-	-	102,746,033
Net assets released from restrictions						
Satisfaction of program restrictions	14,844,864	(14,844,864)	-	-	-	-
Expiration of time restrictions and other transfers	83,148,472	(83,148,472)	-	-	-	-
Total net assets released from restrictions	97,993,336	(97,993,336)	-	-	-	-
Total revenues and support	150,581,003	(19,389,803)	131,191,200	31,964,546	(28,035,000)	135,120,746

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, 2020

	Museum Associates			Department of Museum of Art, County of Los Angeles		Combined
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations	
Expenses						
Program activities						
Exhibitions and collections management	\$ 20,979,257	\$ -	\$ 20,979,257	\$ 643,073	\$ -	\$ 21,622,330
County operating contract	-	-	-	28,035,000	(28,035,000)	-
Curatorial	9,357,525	-	9,357,525	1,398,173	-	10,755,698
Education and public programs	6,498,285	-	6,498,285	-	-	6,498,285
Marketing and communications	5,548,241	-	5,548,241	-	-	5,548,241
Operation and public services	16,478,198	-	16,478,198	991,733	-	17,469,931
Properties and deferred maintenance	39,114,954	-	39,114,954	-	-	39,114,954
Auxiliary activities	1,344,516	-	1,344,516	-	-	1,344,516
General and administrative	13,084,340	-	13,084,340	896,567	-	13,980,907
Development	6,328,973	-	6,328,973	-	-	6,328,973
Total expenses	118,734,289	-	118,734,289	31,964,546	(28,035,000)	122,663,835
Change in net assets before change related to collection items and transfers to County	31,846,714	(19,389,803)	12,456,911	-	-	12,456,911
Collection items purchased	(7,306,728)	-	(7,306,728)	-	-	(7,306,728)
Collection items sold	-	66,964	66,964	-	-	66,964
Transfers to County	(5,396,975)	-	(5,396,975)	-	-	(5,396,975)
Change in net assets after change related to collection items and transfers to County	<u>\$ 19,143,011</u>	<u>\$ (19,322,839)</u>	<u>\$ (179,828)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (179,828)</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, 2020**

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, 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 approximately 142,500 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 two classes of net assets: without donor restrictions and with donor restrictions. These net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable and accrued revenue are recorded when billed or accrued and represent claims against or commitments of third parties that will be settled in cash. The carrying value of receivables represents their estimated net realizable value. If events or changes in circumstances indicate that specific receivable balances could become impaired an allowance is recorded. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2020, the Museum evaluated the collectability of its accounts receivable and accrued revenue and determined that no allowance was necessary.

(c) PLEDGES RECEIVABLE

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period promised. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until such time as the conditions on which they depend have been substantially met. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the time of the contribution. The Museum has established a general reserve considered to be adequate but not excessive in relation to the outstanding pledge balances.

(d) 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 investments required by donor stipulations to be held in perpetuity is recorded as with donor restrictions, except where the instructions of the donor specify otherwise.

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

(e) 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. During the year ended June 30, 2020, the Museum transferred \$5,396,975 of property and equipment to the County.

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) PROPERTY AND EQUIPMENT (continued)

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.

(f) ART COLLECTION

In conformity with the practice followed by many museums, art objects purchased by or donated to the Museum are not capitalized. The Museum's art collection is made up of art objects that are held for exhibition and various other program activities. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Contributed collection items are excluded from the combining financial statement.

Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets with donor restrictions. Deaccession proceeds are required by Museum policy to be applied to the acquisition of works of art for the permanent collection. Deaccession proceeds totaled \$66,964 during the year ended June 30, 2020. The Museum purchased collection items in the amount of \$7,306,728 during the year ended June 30, 2020. The Museum received donated art objects valued for insurance purposes at an estimated amount of \$59,165,169 (unaudited) during the year ended June 30, 2020.

(g) DEFERRED LEASE REVENUE

Lease revenue associated with long-term lease agreements is recognized over the terms of the agreements with the unrecognized portions being reflected as deferred lease revenue liability.

(h) 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.

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) REVENUES AND SUPPORT

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

Revenues from fundraising events are net of expenses of \$2,800,467 for the year ended June 30, 2020.

Revenue from contracts with customers includes admissions revenue. Admissions, which are nonrefundable in nature, are comprised of an exchange element that is satisfied immediately upon the time of entrance. Revenue from contract performance obligations are satisfied and the revenue is recognized when the income is received. As all revenue is recognized immediately, there is no deferral of revenues. There are no associated contract receivables or contract liabilities for revenue from contracts as of June 30, 2020.

(j) 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.

(k) 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.

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, 2020 the Museum performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status and to date has not recorded any uncertain tax positions.

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) FUNCTIONAL ALLOCATION OF EXPENSES

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

(m) 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.

(n) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. The Museum implemented the ASU during the year ending June 30, 2020 using the modified retrospective approach. In order to adopt this ASU, the Museum elected certain practical expedients permitted under the standard's transition guidance. The practical expedients eliminate the need to reassess the lease classification of expired or existing leases, the need to assess whether any expired or existing contracts are or contain leases, the need to separately assess lease and non-lease components, and the need to reassess initial direct costs for any existing leases. The Museum also elected the short-term lease practical expedient, and accordingly, does not record right-of-use lease assets or lease liabilities with terms of less than twelve months. In addition, the Museum utilized a portfolio approach to group leases with similar characteristics. The Museum's adoption of this ASU on July 1, 2019 did not change how lease expense is recorded in the combining statement of activities (Refer to Note 4).

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In March 2019, FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. Under this standard, the definition of a collection has been expanded to allow for proceeds on the sale of collection items to be used for the acquisition of new collection items, the direct care of existing collections, or both. For the Museum, the ASU will be effective for the year ending June 30, 2021. The Museum is currently evaluating the options available under this standard and the related impact to its financial statements.

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

(o) SUBSEQUENT EVENTS

The Museum has evaluated events and transactions occurring subsequent to the combining financial statement dated June 30, 2020 for items that should potentially be recognized or disclosed in the combining financial statement. The evaluation was conducted through October 6, 2020, the date the combining financial statement was available to be issued. No such material events or transactions were noted to have occurred.

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, 2020.

NOTE 4 - LEASE ARRANGEMENTS

(a) OPERATING LEASES - LESSEE

Effective July 1, 2019 the Museum began accounting for leases in accordance with ASU 2016-02, *Leases* (Refer to Note 2(n)). The Museum leases office space, art storage facilities, an exhibit fabrication facility and temporary mobile structures under operating leases expiring through September 2034. These lease agreements provide for scheduled increases in base rent and operating expenses, but do not contain any residual value guarantees or material restrictive covenants.

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

**NOTES TO COMBINING FINANCIAL STATEMENT
June 30, 2020**

NOTE 4 - LEASE ARRANGEMENTS (continued)

(a) OPERATING LEASES - LESSEE (continued)

During the year ended June 30, 2020 the Museum recognized \$2,134,335 in lease service costs net of \$872,479 of lease liability interest costs which is included in occupancy expenses on the combining statement of activities. Operating lease rental expense for the year ended June 30, 2020 was \$3,957,753.

(b) OPERATING LEASES - LESSOR

The Museum has several operating lease agreements that relate to the lease of a building and land owned by the Museum for the development by The Academy Foundation of a motion picture arts and sciences museum, the related easement of adjacent land for construction of the motion picture arts and sciences museum and an unrelated easement of other land for the construction of a subway extension.

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

Lease revenue associated with the long-term agreements is recognized over the terms of the agreements with the unrecognized portions being reflected as deferred lease revenue on the statement of financial position. Lease revenue recorded in other revenue in the statement of activities was \$1,397,539 for year ended June 30, 2020.

NOTE 5 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The recent COVID-19 outbreak in the United States and worldwide has caused business disruption which may negatively impact the Museum's program services delivery and operations, as well as investments portfolio. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. It is therefore likely there will be an impact on the Museum's operating activities and results. However, the related financial impact and duration cannot be reasonably estimated at this time.