



**ARMAND HAMMER MUSEUM OF ART  
AND CULTURAL CENTER, INC.**

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

**ARMAND HAMMER MUSEUM OF ART  
AND CULTURAL CENTER, INC.**

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KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

## **Independent Auditors' Report**

The Board of Directors  
Armand Hammer Museum of Art and Cultural Center, Inc.:

We have audited the accompanying financial statements of the Armand Hammer Museum of Art and Cultural Center, Inc. (the Museum), a Delaware not-for-profit corporation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Armand Hammer Museum of Art and Cultural Center, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Report on Summarized Comparative Information*

We have previously audited the Museum's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 5, 2020. In our opinion, the



summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Los Angeles, California  
February 23, 2021

**ARMAND HAMMER MUSEUM OF ART  
AND CULTURAL CENTER, INC.**

Statement of Financial Position

June 30, 2020

(With summarized financial information as of June 30, 2019)

Assets	2020		Total	2019 Total
	Without donor imposed restrictions	With donor imposed restrictions		
Assets:				
Cash and cash equivalents (note 4)	\$ 14,241,701	14,412,641	28,654,342	21,871,649
Accounts and interest receivable	108,533	—	108,533	86,266
Contributions receivable, net (note 3)	149,602	44,444,999	44,594,601	59,238,490
Inventories	203,700	—	203,700	217,261
Prepaid expenses and other	135,444	—	135,444	298,804
Long-term investments (notes 4, 7 and 8)	72,226,195	51,942,923	124,169,118	126,103,168
Property and equipment, net (note 5)	88,505,640	—	88,505,640	79,807,831
Total assets	<u>\$ 175,570,815</u>	<u>110,800,563</u>	<u>286,371,378</u>	<u>287,623,469</u>
<b>Liabilities and Net Assets</b>				
Accounts and other payables	\$ 790,451	—	790,451	3,312,842
Accrued liabilities	2,023,600	—	2,023,600	331,557
Paycheck Protection Program (PPP) Loan	2,301,000	—	2,301,000	—
Line of credit from related party (note 9)	9,100,000	—	9,100,000	9,100,000
Due to related parties (note 9)	2,755,389	—	2,755,389	3,535,623
Total liabilities	16,970,440	—	16,970,440	16,280,022
Net assets	<u>158,600,375</u>	<u>110,800,563</u>	<u>269,400,938</u>	<u>271,343,447</u>
Total liabilities and net assets	<u>\$ 175,570,815</u>	<u>110,800,563</u>	<u>286,371,378</u>	<u>287,623,469</u>

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART  
AND CULTURAL CENTER, INC.**

Statement of Activities

Year ended June 30, 2020

(With summarized financial information as of June 30, 2019)

	<b>2020</b>			<b>2019</b>
	<b>Without donor imposed restrictions</b>	<b>With donor imposed restrictions</b>	<b>Total</b>	<b>Total</b>
Revenues and support:				
Admission and membership fees	\$ 393,793	—	393,793	401,389
Bookstore sales and Café sales, net	240,864	—	240,864	411,727
Contributions	2,713,571	13,933,277	16,646,848	24,669,766
Contributions from related parties (note 9)	5,564,731	900,000	6,464,731	3,979,802
Income (loss) from investments	67,130	(62,463)	4,667	3,739,306
Other income	1,027,555	—	1,027,555	1,114,320
Special events:				
Revenue	2,771,596	—	2,771,596	2,912,269
Less costs of direct benefits to donors	(601,796)	—	(601,796)	(585,240)
Net revenue from special events	2,169,800	—	2,169,800	2,327,029
Total revenues and support	12,177,444	14,770,814	26,948,258	36,643,339
Net assets released from restrictions	23,653,111	(23,653,111)	—	—
Total revenues and other support	35,830,555	(8,882,297)	26,948,258	36,643,339
Expenses:				
Program services:				
Exhibitions overhead and collections	11,676,867	—	11,676,867	11,313,031
Exhibitions	4,761,765	—	4,761,765	5,549,401
Education	4,418,091	—	4,418,091	5,109,850
Art acquisition	2,662,335	—	2,662,335	1,944,852
Total program services	23,519,058	—	23,519,058	23,917,134
Support services:				
Management and general	2,444,413	—	2,444,413	2,644,942
Fundraising	2,927,296	—	2,927,296	3,212,426
Total support services	5,371,709	—	5,371,709	5,857,368
Total expenses	28,890,767	—	28,890,767	29,774,502
Change in net assets	6,939,788	(8,882,297)	(1,942,509)	6,868,837
Net assets, beginning of year	151,660,587	119,682,860	271,343,447	264,474,610
Net assets, end of year	\$ 158,600,375	110,800,563	269,400,938	271,343,447

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART  
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Statement of Cash Flows

Year ended June 30, 2020

(with comparative financial information as of June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,942,509)	6,868,837
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,397,740	3,008,516
Net unrealized and realized (gains) losses on investments	(352,305)	759,651
Loss on disposal of fixed assets	4,194	259,356
Change in operating assets and liabilities:		
Accounts and interest receivable	(22,267)	19,690
Contributions receivable	14,643,889	13,025,758
Inventories	13,561	(8,213)
Prepaid expenses and other	163,360	(226,881)
Accounts and other payables	(1,998,832)	2,702,709
Accrued liabilities	416,881	(417,906)
Due to related parties	(780,234)	2,141,090
Unearned income	—	(540,000)
Net cash provided by operating activities	<u>13,543,478</u>	<u>27,592,607</u>
Cash flows from investing activities:		
Purchases of property and equipment with capital contributions	(11,348,141)	(11,457,444)
Purchases of investments	(4,722,214)	(6,131,645)
Proceeds from sale of investments	<u>7,008,569</u>	<u>4,002,240</u>
Net cash used in investing activities	<u>(9,061,786)</u>	<u>(13,586,849)</u>
Cash flows from financing activities:		
Proceeds from PPP Loan	<u>2,301,000</u>	—
Net cash provided by financing activities	<u>2,301,000</u>	—
Net increase in cash and cash equivalents	6,782,692	14,005,758
Cash and cash equivalents, beginning of year	<u>21,871,649</u>	<u>7,865,891</u>
Cash and cash equivalents, end of year	<u>\$ 28,654,342</u>	<u>21,871,649</u>
Noncash investing activities:		
Liabilities accrued for purchase of property and equipment	\$ 1,275,162	523,559
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 472,452	32

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART  
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Notes to Financial Statements

June 30, 2020

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The Armand Hammer Museum of Art and Cultural Center, Inc. (the Museum), a Delaware not-for-profit corporation, was incorporated on May 2, 1989 and began operations on November 25, 1990. Founded by Dr. Armand Hammer, former Chairman of Occidental Petroleum Corporation (Occidental), the Museum was built adjacent to the Occidental international headquarters in Westwood, California. At that time, the Museum featured galleries for Dr. Hammer's collections old master paintings and drawings, and a collection of works on paper by Honore Daumier and his contemporaries as well as galleries for traveling exhibitions. Dr. Hammer passed away in December 1990.

In March 1994, the Museum signed a 99-year operating agreement with The Regents of the University of California, Los Angeles (the University) to manage the Museum. The following year, the University relocated its collections and the staff of the Wight Art Gallery and the Grunwald Center for the Graphic Arts to the Museum. The Museum also assumed responsibility for the Franklin D. Murphy Sculpture Garden, located at the north end of the University campus.

The Museum was formed exclusively for educational and charitable purposes in the United States by operating a public art museum and cultural center, including a research center and library for the study of the arts.

**(b) Basis of Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Museum reports information regarding its financial position and activities according to two classes of net assets: net assets with donor imposed restrictions and net assets without donor imposed restrictions.

Net assets with donor imposed restrictions are those whose use by the Museum has been limited by donors to a specific time period and purpose, or are required to be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor imposed restrictions are reclassified as net assets without donor imposed restrictions and reported in the statement of activities as the net assets released from restrictions.

**(c) Contribution Revenue and Receivables**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value on the date the promise is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows on the date of the unconditional promise. Amortization of the discount is included in contribution revenue. The discount rates used ranged from 0.2% to 7.0% at June 30, 2020. Conditional promises to give are not included as support until the conditions are substantially met.



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Contributions receivable are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is an estimate, giving consideration to anticipated future cash receipts (after allowance is made for uncollectible pledges) and discounting such amounts at a risk-adjusted fair value rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy as described in note 2. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, which are used to fund current obligations. Cash and cash equivalents that are invested for long term purposes are not reported as cash equivalents on the financial statements as they do not meet the Museum's definition of cash and cash equivalents. Cash and cash equivalents are reported at cost, which approximated their fair values at June 30, 2020 because of the terms and relatively short maturities of these financial instruments. The estimated fair values involve observable inputs and are considered to be Level 1 in the fair value hierarchy as described in note 2.

**(e) Investments**

The Museum records its investments at fair value as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*. Investments are stated at fair value with unrealized and realized gains and losses included in the statement of activities. Interest income is recorded when earned. Investment purchases and sales are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date.

The Museum applies the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds of funds. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

The Museum has approximately \$124.2 million of its funds invested in the UCLA Foundation's Endowed Investment Pool, which is reported at net asset value as of June 30, 2020. The Endowed Investment Pool is a unitized fund whereby the Museum participates in investment returns and income on an equivalent prorated basis with all participants in the pool. For these investments, the Museum has concluded that the net asset value reported by the underlying fund is a practical expedient to estimating fair value. The amounts reported at net asset value at June 30, 2020 are redeemable with the fund at net asset value under the original terms of the investment agreement with the UCLA Foundation subject to the restrictions discussed in note 4. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Museum's interests in the funds.

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**(f) Art Collections**

The Museum's collections are not recognized as assets on the statement of financial position. U.S. generally accepted accounting principles permit such treatment if the contributed works of art are held for public exhibition and education rather than financial gain, the collection is protected, kept unencumbered, cared for and preserved, and the contributed artwork is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. For insurance purposes, the value of a significant portion of the art collections is appraised every five years (note 6). Purchases of collection items are recorded as decreases in net assets without donor imposed restrictions in the year in which the items are acquired. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class.

**(g) Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from 3 to 30 years or the shorter of the useful life or lease term for leasehold improvements. Expenditures for improvements that extend the useful life are capitalized, all other expenditures are expensed when incurred. Asset costs and accumulated depreciation for property sold or otherwise disposed of are removed from the accounting records, and any resulting gain or loss is included in the statement of activities. Construction in progress (CIP) includes all direct costs, including labor, for capital campaign job phases that are not yet completed. Once completed, the CIP will be reclassified to leasehold improvement, capitalized, and depreciated.

The Museum evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If such an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**(h) Functional Expenses**

The financial statements report certain categories of expenses that are attributable to one or more program functions of the Museum. Museum expenses that are directly attributed to a functional expense category on an invoice by invoice basis are directly reported to the appropriate functional expense category. Museum expenses that are not directly related to a functional expense category require allocation on a reasonable basis that is consistently applied. The Museum has applied an allocation basis to costs included in the salaries and benefits, professional services, advertising and promotions, office expense, information technology, occupancy, travel, depreciation and amortization, insurance, and equipment rental and maintenance, catering and beverages, and other expenses. The

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Notes to Financial Statements

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allocation is primarily based on a direct functional cost basis and square footage. The following table presents expenses by both nature and function for the fiscal year ended June 30, 2020:

	Program services				Support services			Total support services	Total
	Exhibition overhead and collections	Exhibitions	Education	Art acquisition	Total program services	Management and general	Fundraising		
Salaries and benefits	\$ 6,752,508	1,514,973	2,292,637	—	10,560,118	1,476,675	1,981,517	3,458,192	14,018,310
Professional services	484,827	44,970	42,100	—	571,897	202,298	65,813	268,111	840,008
Advertising and promotions	72,931	72,905	87,485	—	233,321	16,444	43,743	60,187	293,508
Office expense	266,005	85,085	178,236	—	529,326	61,021	106,252	167,273	696,599
Information technology	170,727	63,194	144,653	—	378,574	55,241	36,601	91,842	470,416
Occupancy	358,987	339,964	681,045	—	1,379,996	169,924	174,921	344,845	1,724,841
Travel	67,294	22,760	194,320	—	284,374	7,881	13,455	21,336	305,710
Interest expense	—	—	—	—	—	219,993	—	219,993	219,993
Depreciation and amortization	2,860,838	132,808	262,418	—	3,256,064	76,071	65,605	141,676	3,397,740
Insurance	22,702	24,836	47,494	—	95,032	99,261	11,874	111,135	206,167
Equip rental and maintenance	28,750	17,734	52,942	—	99,426	8,160	65,598	73,758	173,184
Catering and beverage	3,260	831	10,405	—	14,496	1,272	216,963	218,235	232,731
Program-related expenses	—	2,436,471	2,038	—	2,438,509	—	907	907	2,439,416
Other expenses	588,038	5,234	422,318	—	1,015,590	50,172	144,047	194,219	1,209,809
Art acquisitions	—	—	—	2,662,335	2,662,335	—	—	—	2,662,335
Total expenses	\$ 11,676,867	4,761,765	4,418,091	2,662,335	23,519,058	2,444,413	2,927,296	5,371,709	28,890,767

**(i) Income Taxes**

The Museum is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Museum is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

**(j) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(k) Comparative Totals for 2019**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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Notes to Financial Statements

June 30, 2020

**(l) Concentration of Credit Risk**

At June 30, 2020, the Museum had \$144.6 million of its investments and cash and cash equivalents held and managed by the UCLA Foundation.

**(m) New Accounting Pronouncements**

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires restricted cash and restricted cash equivalents to be included in the total cash and cash equivalents within the statement of cash flows and requires disclosure about the nature of restrictions on cash and cash equivalents. Additionally, where cash and cash equivalents are presented in more than one line on the balance sheet, the amounts and corresponding line items are disclosed and reconciled to the total cash and cash equivalents shown in the statement of cash flows. The Museum has adopted this accounting guidance statement on a modified basis for the year ended June 30, 2020. The adoption of this accounting guidance did not have a material effect on the financial statements.

In January 2018, the FASB issued ASU No. 2018-08, *Contributions Received and Made*, to clarify and improve the scope and accounting guidance for contributions received and made. The update provides guidance on what is an exchange transaction and what is a contribution. If a transaction is determined to be a contribution, it has to be determined if it is conditional or unconditional. A conditional transaction is an agreement, which includes both a 'barrier' that must be overcome and either a 'right of asset return' or 'release of promise to give.' Ambiguous donor stipulations are presumed to be conditional if not clearly unconditional. Barrier indicators are measurable performance requirements before entitlement to assets or stipulations related to the purpose of the agreement or limiting recipient discretion in conducting an activity. This statement is effective for the year ending June 30, 2020 for contributions received and the year ended June 30, 2021 for grants made. The Museum has adopted the guidance with respect to contributions received, which did not result in a material change to these financial statements.

**(n) Current Environment**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may adversely affect operations and financial condition, including contributions received and financial markets impacting investment valuation and interest rates, among other things.

Commencing March 13, 2020, the Museum responded to local regulations by closing the museum to visitors and initiating a full remote work arrangement for all employees. The arrangements have had no negative impact on the ability of the Museum to manage operations.

In order to provide additional liquidity, the Museum applied for a Paycheck Protection Plan (PPP) loan from the Small Business Administration (SBA), as provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. On April 8, 2020 the Museum was approved for a \$2,301,000 PPP loan through the SBA. The loan was used for payroll, lease, and utility payments eligible under the loan program. At June 30, 2020, the PPP is recorded as a Paycheck Protection Program (PPP) loan on the accompanying financial statements. As of the date that these financial statements are available to

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be issued, the Museum has not filed for loan forgiveness as provided for under the CARES Act, but fully intends to request forgiveness of the SBA loan.

While the investments reported within these financial statements are reported in accordance with the Museum's valuation policy as of June 30, 2020, subsequent macroeconomic factors may result in changes to those valuations for future periods and those changes may be material. The prospective financial impact on the Museum cannot be quantified at this time, the pandemic may have a material adverse effect on the future financial position. The Museum continues to monitor the course of the pandemic and is prepared to take additional measures to address future challenges that may come.

**(2) Fair Value**

In accordance with ASC Topic 820, fair value is defined as the price that the entity would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC Topic 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical asset that the Museum has the ability to access at the measurement date
- Level 2 – Other significant observable inputs (other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data. Level 2 includes government and corporate bonds due to variations in the pricing of such securities from various factors including current interest rates, spreads, and various trade activity that impact the quoted prices for such holdings.)
- Level 3 – Significant unobservable inputs (including the entity's own assumptions in determining the fair value)

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. The Museum's fair value measurements maximize the use of observable inputs. Unobservable inputs are inputs that reflect the reporting entity's own observations about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. Although the Museum uses its best judgment in determining the fair value of financial instruments, there are inherent limitations in any methodology. Therefore, the values presented herein are not necessarily indicative of the amount the Museum could realize in a current transaction. Future confirming events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon liquidation of the investments.

The Museum did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

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Notes to Financial Statements

June 30, 2020

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

**(3) Contributions Receivable**

Contributions receivable as of June 30, 2020 are expected to be received as follows:

Amounts due in:	
Less than one year	\$ 15,831,955
One to five years	21,281,098
More than five years	<u>61,134,898</u>
	98,247,951
Less discount to reflect contributions at present value	<u>(53,653,350)</u>
Total	<u><u>\$ 44,594,601</u></u>

During the fiscal year ended June 30, 1994, the Museum received a written unconditional promise of annual support from the University of at least \$900,000, plus cost-of-living adjustments for the next 99 years under the operating agreement discussed in note 1(a). The Museum has recorded a contribution receivable relating to this promise at the present value of the expected fair value of the assets or services to be received totaling \$12,763,499 at June 30, 2020. The remaining contribution receivables are mainly restricted gifts for capital campaign construction purposes and gifts restricted for exhibitions and programs. See further discussion in note 9 to the financial statements.

**(4) Investments**

At June 30, 2020, the Museum had long-term investments totaling \$124.2 million and cash and cash equivalents of \$20.4 million invested in the UCLA Foundation Endowed Investment Pool and the Short-Term Investment Pool, respectively.

The Endowed Investment Pool investment is valued based on net asset value as discussed in note 1(e). The pool includes the following categories of investments at June 30, 2020: 42.0% public equity, 28.8% independent return, 11.8% private equity or venture, and 10.4% real assets, with the remaining 7.0% held in cash.

The Short-Term Investment Pool contains highly liquid investments held by UCLA Foundation with original maturities of three months or less and is accordingly reported as cash equivalents on the accompanying financial statements.

Under the Museum's investment agreement with the UCLA Foundation, the funds held in the Endowed Investment Pool are subject to an initial lockup period. The funds may not be redeemed for a period of one year from the date of the investment. Following any lockup period, the Museum may redeem in each calendar quarter up to 25% of the total number of units issued to the Museum, in addition to any other

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redemptions, provided that the Museum gives written notice to the UCLA Foundation at least 90 days prior to the designated redemption date.

**(5) Property and Equipment**

At June 30, 2020, property and equipment comprised the following:

Building under lease	\$ 53,800,000
Leasehold improvements	45,744,645
Construction in progress	9,209,437
Furniture and fixtures	750,060
Equipment	<u>1,434,194</u>
	110,938,336
Less accumulated depreciation	<u>(22,432,696)</u>
Total	<u><u>\$ 88,505,640</u></u>

Depreciation and amortization totaled \$3,397,740 for the year ended June 30, 2020. Accumulated amortization of the building under lease (discussed in note 9a), totaled \$2,581,313 at June 30, 2020. Amortization expense totaled \$543,434 for the year ended June 30, 2020.

As a part of the 2015 lease (note 9a), the Museum gained an additional 40,000 square feet of programming, exhibition, and office space. The Museum has embarked on a comprehensive, multi-year construction project to renovate and expand and expects to fully activate the facility by 2024. The project will elevate and expand the physical space to match the scope of the Museum's exhibitions, programs, and collections.

**(6) Art Collections**

The Museum's permanent collections consist of: The Armand Hammer Collection (Old Master, Impressionist and Post-Impressionist paintings); The Armand Hammer Daumier and Contemporaries Collection (paintings, sculptures, and lithographs by the French 19th century caricaturist Honore Daumier and the work of his contemporaries); and the Hammer Contemporary Collection (international contemporary art since 1965, with an emphasis on works on paper and Los Angeles artists). Throughout the year, the Museum displays a substantial portion of The Armand Hammer Collection, as well as a rotation of selections from The Armand Hammer Daumier and Contemporaries Collection and the Hammer Contemporary Collection. The collections are subject to a policy which requires proceeds from their sales to be used to acquire other items for collections. There were no significant sales of art related to these collections during the fiscal year ended June 30, 2020.

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Notes to Financial Statements

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**(7) Endowment**

The Museum's endowment consists of six individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designed by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Endowment net asset composition by type of funds as of June 30, 2020 is as follows:

	<b>Without donor imposed restrictions</b>	<b>With donor imposed restrictions</b>	<b>Total</b>
Donor-restricted endowments	\$ —	11,064,967	11,064,967
Board-designated endowments	72,226,195	40,877,956	113,104,151
Total	\$ 72,226,195	51,942,923	124,169,118

Changes in endowment net assets for the fiscal year ended June 30, 2020 are as follows:

	<b>Without donor imposed restrictions</b>	<b>With donor imposed restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 76,332,583	49,770,585	126,103,168
Investment return:			
Investment income	555,733	370,705	926,438
Realized and unrealized losses, net	145,124	91,918	237,042
Management fees	(886,725)	(590,610)	(1,477,335)
Total investment return	(185,868)	(127,987)	(313,855)
Additions	—	4,722,214	4,722,214
Appropriation of endowment assets for expenditure	(3,920,520)	(2,421,889)	(6,342,409)
Endowment net assets, end of year	\$ 72,226,195	51,942,923	124,169,118

*Spending Policy*

The Museum's board of directors approves the investment policy guidelines and a payout rate annually.



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**(8) Investments Restricted for Museum Purposes**

The fair value of the investments restricted for Museum purposes held in the UCLA Foundation Endowed Investment Pool totaled \$40,877,956 as of June 30, 2020. The Museum's board of directors approves the investment policy guidelines and a payout rate annually. Investment principal is restricted for the acquisition of works of art for its collections. All or any part of the investment income (including the appreciation in fair market value) may be used for the acquisition of works of art or used to fund exhibitions and other programs and also may be used for such other purposes as determined by the unanimous action of the board of directors. For the year ended June 30, 2020, the restricted investments had interest and dividend income of \$307,810 and net realized and unrealized gain of \$81,260.

**(9) Related-Party Transactions**

**(a) *The 2015 Lease***

On October 23, 2015, Occidental and the Museum entered into a lease agreement providing the Museum with free rent for expanded exhibition, office, and parking space in the Occidental building for a 99-year term (the 2015 Lease). The fair value of the free rent was determined by an independent appraiser to be \$53.8 million and is reflected as building under lease in property and equipment (note 5). Subsequent to this agreement, UCLA purchased the building and assumed the lease agreement with the Museum. For the year ended June 30, 2020, the Museum paid \$1,725,423 in operating expenses related to the 2015 Lease.

**(b) *Contributions***

For the year ended June 30, 2020, the University paid \$6,464,731 of expenses on behalf of the Museum, including the annual support from the University, nonobligatory contributions, and cost of living adjustments (note 3). Such contributions were reflected as contributions from related parties in the statement of activities for the year ended June 30, 2020.

**(c) *Due to the University***

The Museum reimburses the University for certain expenses, such as salaries and benefits, and pays the University for Museum building expenses. At June 30, 2020, \$2,755,389 was due to the University for these expenses and reported as due to related parties in the accompanying financial statements.

**(d) *Line of Credit***

The Museum entered into a line of credit agreement with the University on October 2, 2017 that provides for borrowings up to \$15,000,000, which originally expired on October 2, 2020. The Museum signed an amendment extending the maturity date to October 2, 2022. Any outstanding line of credit balance bears interest at 2.50% (as of the effective date of the agreement, subject to annual reset). The line of credit is secured by collateral of 150% of the maximum amount available under the line of credit, of \$22.5 million of the Museum's investment portfolio held by the UCLA Foundation. For the year ended June 30, 2020, the Museum accrued \$215,969 of interest expense related to the line of credit which is reported as a component of accrued liabilities in the accompanying financial statements. As of June 30, 2020, outstanding borrowings under the line of credit amounted to \$9,100,000.

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**(10) Net Assets**

Description of amounts classified as net assets with donor imposed restrictions as of June 30, 2020 are as follows:

The portion of endowment funds subject to donor-restricted stipulation	\$ 8,731,467
The portion of the endowment funds restricted for museum purposes	40,877,956
The portion of endowment funds that is required to be retained permanently by explicit donor stipulation	2,333,500
Contributions received restricted for specific purpose	14,412,641
Contributions receivable restricted for specific purpose or timing of use	44,444,999
	<u>\$ 110,800,563</u>

**(11) Liquidity and Availability**

Financial assets available for general expenditures that are without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 28,654,342
Accounts and interest receivable	108,533
Contribution receivable	15,831,955
Long-term investments	<u>124,169,118</u>
Financial assets at year -end	168,763,948
Less those unavailable for general expenditure within on year due to:	
Restricted by donor with time or purpose restriction	(36,294,905)
Restricted for Museum purposes	(40,877,956)
Board designated amounts for capital projects	<u>(8,383,330)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 83,207,757</u>

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As part of the Museum's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due and to maintain a prudent reserve equal to three times the Museums monthly average expenses. As described in note 4, the Museum manages its liquidity primarily through ongoing assessments of the nature, redemption period, concentration of the investments within the portfolio, and the lock up periods imposed by the UCLA Foundation. The assessment includes an analysis of how much of the investment portfolio (in concert with the UCLA Foundation) could be converted to cash within one year. At June 30, 2020, the Museum has determined that \$72,226,196 of investments could be converted to cash within one year.

As described in note 7, the Museum's investments are a mix of board-designated endowments and donor-restricted endowments. The portions of the endowment that are donor-restricted are not available for general expenditures and, accordingly, not considered available financial assets. Spending from the board-designated endowment is determined annually by the Museum's board of directors. Prior to start of the 2021 fiscal year, the board of directors have designated \$6,600,000 in annual endowment spending for general, programming, and art acquisitions expenditures. Although the Museum does not intend to spend from its board-designated endowment other than the amounts appropriated for general, programming, and art acquisitions expenditures as part of its annual budget approval process, amounts from its board-designated endowment could be made available, through board action, if necessary. Accordingly, the board-designated endowment has been reported as financial assets available for general use.

**(12) Subsequent Events**

The Museum has evaluated subsequent events through the date that the financial statements were available to be issued, February 23, 2021, for potential recognition or disclosure in the financial statements.