



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

Financial Statements

June 30, 2021

(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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Los Angeles, California

March 30, 2022

**ARMAND HAMMER MUSEUM OF ART
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Statement of Financial Position

June 30, 2021

(With comparative financial information as of June 30, 2020)

Assets	2021	2020
Cash and cash equivalents	\$ 28,939,155	28,654,342
Accounts and interest receivable	58,391	108,533
Contributions receivable, net (note 3)	36,656,827	49,689,159
Inventories	182,708	203,700
Prepaid expenses and other	1,298,833	135,443
Long-term investments (notes 4 and 8)	157,940,068	124,169,118
Property and equipment, net (note 5)	96,241,543	88,505,640
Total assets	<u>\$ 321,317,525</u>	<u>291,465,935</u>
Liabilities and Net Assets		
Accounts and other payables	\$ 3,029,899	790,451
Accrued liabilities	138,115	2,023,600
SBA Paycheck Protection Program (PPP) Loan	—	2,301,000
Line of credit from related party (note 9)	9,100,000	9,100,000
Unearned income	15,425	—
Due to related parties (note 9)	1,686,306	2,755,389
Total liabilities	<u>13,969,745</u>	<u>16,970,440</u>
Net assets		
Without donor restrictions	189,154,042	158,600,375
With donor restrictions (note 10)	118,193,738	115,895,120
Total net assets	<u>307,347,780</u>	<u>274,495,495</u>
Total liabilities and net assets	<u>\$ 321,317,525</u>	<u>291,465,935</u>

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART
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Statement of Activities

Year ended June 30, 2021

(With summarized financial information as of June 30, 2020)

	2021			2020 Total
	Without restrictions	With restrictions	Total	
Revenues and support:				
Admission and membership fees	\$ 336,468	—	336,468	393,793
Bookstore sales and Café sales, net	160,877	—	160,877	240,864
Contributions	2,679,131	7,575,385	10,254,516	16,646,848
Contributions from related parties	3,772,162	900,000	4,672,162	6,464,731
Income from investments	24,303,379	16,645,882	40,949,261	4,667
Other income	65,743	—	65,743	1,027,555
Special events:				
Revenue	747,414	—	747,414	2,771,596
Less costs of direct benefits to donors	(37,238)	—	(37,238)	(601,796)
Net revenue from special events	710,176	—	710,176	2,169,800
Total revenues and support	32,027,936	25,121,267	57,149,203	26,948,258
Net assets released from restrictions	22,822,649	(22,822,649)	—	—
Total revenues and other support	54,850,585	2,298,618	57,149,203	26,948,258
Expenses:				
Program services:				
Exhibitions overhead and collections	10,419,377	—	10,419,377	11,676,867
Exhibitions	3,392,681	—	3,392,681	4,761,765
Education	3,883,031	—	3,883,031	4,418,091
Art acquisition	1,834,414	—	1,834,414	2,662,335
Total program services	19,529,503	—	19,529,503	23,519,058
Support services:				
Management and general	2,285,776	—	2,285,776	2,444,413
Fundraising	2,481,639	—	2,481,639	2,927,296
Total support services	4,767,415	—	4,767,415	5,371,709
Total expenses	24,296,918	—	24,296,918	28,890,767
Change in net assets	30,553,667	2,298,618	32,852,285	(1,942,509)
Net assets, beginning of year	158,600,375	115,895,120	274,495,495	276,438,004
Net assets, end of year	\$ 189,154,042	118,193,738	307,347,780	274,495,495

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART
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Statement of Cash Flows

Year ended June 30, 2021

(with comparative financial information as of June 30, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 32,852,285	(1,942,509)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,248,110	3,393,545
Net unrealized and realized gains on investments	(39,981,855)	(125,913)
Forgiveness of loan	(2,301,000)	—
Change in operating assets and liabilities:		
Accounts and interest receivable	50,142	(22,267)
Contributions receivable	13,032,332	14,532,761
Inventories	20,992	13,561
Prepaid expenses	(1,163,390)	163,361
Accounts and other payables	3,514,611	(2,522,391)
Accrued liabilities	(1,897,014)	1,692,043
Due to related parties	(1,069,083)	(780,235)
Unearned income	15,425	—
Net cash provided by operating activities	6,321,555	14,401,956
Cash flows from investing activities:		
Purchases of property and equipment with capital contributions	(12,247,645)	(12,091,355)
Purchases of investments	(500,000)	(4,722,214)
Proceeds from sale of investments	6,710,903	6,893,305
Net cash used in investing activities	(6,036,742)	(9,920,264)
Cash flows from financing activities:		
Proceeds from notes payable	—	2,301,000
Net cash provided by financing activities	—	2,301,000
Net increase in cash and cash equivalents	284,813	6,782,692
Cash and cash equivalents, beginning of year	28,654,342	21,871,650
Cash and cash equivalents, end of year	\$ 28,939,155	28,654,342
Noncash investing activities:		
Liabilities accrued for property and equipment	\$ 11,531	1,275,163
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ —	472,452

See accompanying notes to financial statements.

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Notes to Financial Statements

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(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 0.24% to 7% at June 30, 2021. Conditional promises to give are not included as revenue until the conditions are substantially met.

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

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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, 2021 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 \$157.9 million of its funds invested in the UCLA Foundation's Endowed Investment Pool, which is reported at net asset value as of June 30, 2021. 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, 2021 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.

(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

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policy that requires the proceeds from sales of collection items to be used to acquire other items for collections or the direct care of the collection. The Museum's policy does not allow the proceeds from the sales of collection items to be used for the direct care of the collection. For insurance purposes, the value of a significant portion of the art collections is appraised every five years. 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 greater than \$5,000 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 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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allocation is primarily based on the Museum's cost study and building square footage. The following table presents expenses by both nature and function for the fiscal year ended June 30, 2021:

	Program services				Total program services	Support services		Total support services	Total
	Exhibition overhead and collections	Exhibitions	Education	Art acquisition		Management and general	Fundraising		
Salaries and benefits	\$ 5,876,334	1,167,255	1,964,049	—	9,007,638	1,347,907	1,874,948	3,222,855	12,230,493
Professional services	340,224	71,500	84,930	—	496,654	144,955	42,226	187,181	683,835
Advertising and promotions	81,300	81,300	101,372	—	263,972	16,260	48,780	65,040	329,012
Office expense	327,176	49,338	105,815	—	482,329	30,355	52,283	82,638	564,967
Information technology	127,174	47,806	84,507	—	259,487	42,308	61,475	103,783	363,270
Occupancy	503,126	496,541	993,105	—	1,992,772	247,342	254,333	501,675	2,494,447
Travel	13,206	7,132	4,819	—	25,157	1,455	3,664	5,119	30,276
Interest expense	20	—	—	—	20	223,164	—	223,164	223,184
Depreciation and amortization	2,706,664	134,472	265,800	—	3,106,936	75,510	65,664	141,174	3,248,110
Insurance	25,133	25,133	50,266	—	100,532	110,592	12,566	123,158	223,690
Equip rental and maintenance	44,373	16,900	7,274	—	68,547	1,818	1,818	3,636	72,183
Catering and beverage	2,293	2,302	4,883	—	9,478	2,293	5,098	7,391	16,869
Other expenses	372,354	1,293,002	216,211	—	1,881,567	41,817	58,784	100,601	1,982,168
Art acquisitions	—	—	—	1,834,414	1,834,414	—	—	—	1,834,414
Total expenses	\$ 10,419,377	3,392,681	3,883,031	1,834,414	19,529,503	2,285,776	2,481,639	4,767,415	24,296,918

(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 2020

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, 2020, from which the summarized information was derived.

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Notes to Financial Statements

June 30, 2021

The financial statements for the year ended June 30, 2020 include an immaterial revision to the statement of financial position, statement of activities and note 3. This revision resulted in an increase from previously reported amounts of Contributions Receivable and Net Assets, beginning of year of \$5,094,558.

(l) Concentration of Credit Risk

At June 30, 2021, the Museum had \$178.9 million of its investments and cash and cash equivalents held and managed by the UCLA Foundation.

(m) New Accounting Pronouncements

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, 2021 for contributions received and the year ended June 30, 2022 for grants made. The Museum has adopted the guidance with respect to contributions made, which did not result in a material change to these financial statements.

In March 2019, the FASB issued ASU No. 2019-08, *Not-for-Profit Entities*, to clarify and improve the scope and accounting guidance for collections. The update modifies the definition of the term collections to allow for the proceeds from the sale of collection items to be used for the direct care of the collection. The statement is effective for the fiscal year ending June 30, 2021. The Museum has adopted the guidance related to collections, which did not result in a material change to these financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The statement is effective for the fiscal year ending June 30, 2021. The Museum has adopted the guidance with respect to revenue from contracts with customers, which did not result in a material change to these financial statements.

In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*, which clarifies guidance by providing enhanced wording to the following subtopics: fair value option disclosures, fair value measurement, investments-debt and equity securities, debt modifications and extinguishments, credit losses, and sales of financial assets. The subtopic amendments have different effective dates. The provisions that are effective for the year ended June 30, 2021, were adopted by the Museum and did not result in a material change. The remaining provisions are effective for the year ended June 30, 2022. The Museum is currently evaluating the effects the adoption of this statement will have on the financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires a lessee to recognize a lease asset and a lease liability for most of its operating leases. Prior to the adoption of the update, operating leases are not recognized by a lessee in its statements of financial position. In general, the new leased asset and liability will approximate the present value of lease payments. The statement is effective for the fiscal year ending June 30, 2023. The Museum is currently evaluating the effects the adoption of this statement will have on the financial statements.

(n) Coronavirus (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. 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 nonessential employees. On April 17, 2021, the Museum reopened to the public. Employees continue to work on a hybrid basis, with some working onsite full-time to some working a full remote work arrangement.

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 expenses eligible under the loan program. At June 30, 2020, the PPP was recorded as a PPP loan payable. On June 11, 2021, the Museum received forgiveness for the loan from the SBA as provided for under the CARES Act, and has been reported as a contribution in the accompanying statement of activities for the year ended June 30, 2021.

(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

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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.

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, 2021 are expected to be received as follows:

Amounts due in:	
Less than one year	\$ 1,504,281
One to five years	21,283,656
More than five years	<u>67,762,416</u>
	90,550,353
Less discount to reflect contributions at present value	<u>(53,893,526)</u>
Total	<u>\$ 36,656,827</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 \$12,756,943 at June 30, 2021. 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.

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Notes to Financial Statements

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(4) Investments

At June 30, 2021, the Museum had long-term investments totaling \$157.9 million, and cash and cash equivalents of \$21.0 million invested in the UCLA Foundation Endowed Investment Pool and the Short-Term Investment Pool, respectively.

The Endowed Investment Pool is valued based on net asset value as discussed in note 1(e). The pool includes the following categories of investments at June 30, 2021: 49.4% global public equity, 19.9% independent return, 15.5% private equity or venture, and 11.1% real assets, with the remaining 4.0% held in cash and 0.2% in portfolio insurance.

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 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, 2021, property and equipment comprised the following:

Building under lease	\$ 53,800,000
Leasehold improvements	61,605,533
Construction in progress	3,467,963
Furniture and fixtures	1,503,312
Equipment	<u>1,545,540</u>
	121,922,348
Less accumulated depreciation	<u>(25,680,805)</u>
Total	\$ <u><u>96,241,543</u></u>

Depreciation and amortization totaled \$3,248,110 for the year ended June 30, 2021. Accumulated amortization of the building under lease (discussed in note 9a), totaled \$2,461,682 at June 30, 2021. Amortization expense totaled \$543,434 for the year ended June 30, 2021.

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, multiyear construction project to renovate and expand and expects to fully activate the facility by 2024. The project is expected to elevate and expand the physical space to match the scope of the Museum's exhibitions, programs, and collections.

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(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, 2021.

(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 ('GAAP'), 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, 2021 is as follows:

	Without donor imposed restrictions	With donor imposed restrictions	Total
Donor-restricted endowments	\$ —	66,043,990	66,043,990
Board-designated endowments	91,896,078	—	91,896,078
Total	\$ 91,896,078	66,043,990	157,940,068

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Changes in endowment net assets for the fiscal year ended June 30, 2021 are as follows:

	Without donor imposed restrictions	With donor imposed restrictions	Total
Endowment net assets, beginning of year	\$ 72,226,195	51,942,923	124,169,118
Investment return:			
Investment income	1,363,108	938,874	2,301,982
Realized and unrealized losses, net	23,810,506	16,368,293	40,178,799
Management fees	<u>(1,004,123)</u>	<u>(690,396)</u>	<u>(1,694,519)</u>
Total investment return	24,169,491	16,616,771	40,786,262
Additions	—	500,000	500,000
Appropriation of endowment assets for expenditure	<u>(4,499,608)</u>	<u>(3,015,704)</u>	<u>(7,515,312)</u>
Endowment net assets, end of year	<u>\$ 91,896,078</u>	<u>66,043,990</u>	<u>157,940,068</u>

Spending Policy

The Museum, with the approval of the Board, currently appropriates for distribution (on a cash basis) each year 5.8% of its endowment fund's value determined by averaging the fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing these appropriations, the Museum considers the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow with inflation. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity.

(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 \$51,784,093 as of June 30, 2021. 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, to fund exhibitions and other programs, and for such other purposes as determined by the unanimous action of the board of directors. For the year ended June 30, 2021, the restricted investments had interest and dividend income of \$755,784, and net realized and unrealized gain of \$13,201,891.

(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 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

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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, 2021, the Museum paid \$2,481,032 in operating expenses related to the 2015 Lease.

(b) Contributions

For the year ended June 30, 2021, UCLA paid \$4,672,162 to the Museum which included annual support per the Operating Agreement, 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, 2021.

(c) Due to the University

The Museum reimburses UCLA for certain expenses, such as salaries and benefits, and pays the University for Museum building expenses. At June 30, 2021, \$1,686,306 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 UCLA 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, 2021, the Museum accrued \$227,188 of interest expense related to the line of credit which is reported as a component of accounts payable in the accompanying financial statements. As of June 30, 2021, outstanding borrowings under the line of credit amounted to \$9,100,000.

(10) Net Assets

Description of amounts classified as net assets with donor-imposed restrictions as of June 30, 2021 are as follows:

The portion of endowment funds subject to donor-restricted stipulation	\$ 11,426,397
The portion of the endowment funds restricted for museum purposes	51,784,093
The portion of endowment funds that is required to be retained permanently by explicit donor stipulation	2,833,500
Contributions received restricted for specific purpose	15,685,461
Contributions receivable restricted for specific purpose or timing of use	<u>36,464,287</u>
	<u>\$ 118,193,738</u>

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(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	\$ 28,939,155
Accounts and interest receivable	58,391
Contribution receivable	1,504,281
Long-term investments	<u>91,896,078</u>
	122,397,905
Less those unavailable for general expenditure within one year due to:	
Restricted by donor with time or purpose restriction	(6,406,415)
Restricted for Museum purposes	(1,037,982)
Board designated amounts for capital projects	<u>(9,279,050)</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u><u>105,674,458</u></u>

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 Museum's 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, 2021, the Museum has determined that \$91,896,078 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 the start of the 2022 fiscal year, the board of directors designated \$6,700,000 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, March 30, 2022, for potential recognition or disclosure in the financial statements.