



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

Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

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

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## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of 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, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2022, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year after the date the financial statements are issued.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Report on Summarized Comparative Information*

We have previously audited the Museum's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023 on our consideration of the Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Museum's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California  
March 23, 2023

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

Statement of Financial Position

June 30, 2022

(With comparative financial information as of June 30, 2021)

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 29,545,868	28,939,155
Accounts and interest receivable	144,343	58,391
Contributions receivable, net (note 3)	30,553,457	36,656,827
Inventories	184,815	182,708
Prepaid expenses and other	220,211	1,298,833
Long-term investments (notes 4 and 8)	134,461,061	157,940,068
Property and equipment, net (note 5)	105,393,501	96,241,543
Total assets	\$ 300,503,253	321,317,525
<b>Liabilities and Net Assets</b>		
Accounts and other payables	\$ 1,784,279	3,029,899
Accrued liabilities	343,554	138,115
Line of credit from related party (note 9)	—	9,100,000
Term Loan (note 9)	9,100,000	—
Unearned income	11,590	15,425
Due to related parties (note 10)	779,448	1,686,306
Total liabilities	12,018,871	13,969,745
Net assets:		
Without donor restrictions	183,542,617	189,154,042
With donor restrictions (note 11)	104,941,765	118,193,738
Total net assets	288,484,382	307,347,780
Total liabilities and net assets	\$ 300,503,253	321,317,525

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2022

(With summarized financial information as of June 30, 2021)

	<b>2022</b>			<b>2021 Total</b>
	<b>Without restrictions</b>	<b>With restrictions</b>	<b>Total</b>	
Revenues and support:				
Admission and membership fees	\$ 401,679	—	401,679	336,468
Bookstore sales and Café sales, net	468,622	—	468,622	160,877
Contributions	4,524,443	15,437,024	19,961,467	10,254,516
Contributions from related parties	3,809,853	900,000	4,709,853	4,672,162
Income/(Loss) from investments	(9,700,635)	(6,827,973)	(16,528,608)	40,949,261
Other income	759,348	—	759,348	65,743
Special events:				
Revenue	290,370	—	290,370	747,414
Less costs of direct benefits to donors	(77,077)	—	(77,077)	(37,238)
Net revenue from special events	213,293	—	213,293	710,176
Total revenues and support	476,603	9,509,051	9,985,654	57,149,203
Net assets released from restrictions	22,761,024	(22,761,024)	—	—
Total revenues and other support	23,237,627	(13,251,973)	9,985,654	57,149,203
Expenses:				
Program services:				
Exhibitions overhead and collections	9,994,255	—	9,994,255	10,419,377
Exhibitions	6,635,594	—	6,635,594	3,392,681
Education	4,433,542	—	4,433,542	3,883,031
Art acquisition	2,330,782	—	2,330,782	1,834,414
Total program services	23,394,173	—	23,394,173	19,529,503
Support services:				
Management and general	2,155,203	—	2,155,203	2,285,776
Fundraising	3,299,676	—	3,299,676	2,481,639
Total support services	5,454,879	—	5,454,879	4,767,415
Total expenses	28,849,052	—	28,849,052	24,296,918
Change in net assets	(5,611,425)	(13,251,973)	(18,863,398)	32,852,285
Net assets, beginning of year	189,154,042	118,193,738	307,347,780	274,495,495
Net assets, end of year	\$ 183,542,617	104,941,765	288,484,382	307,347,780

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART  
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Statement of Cash Flows

Year ended June 30, 2022

(with comparative financial information as of June 30, 2021)

	<b>2022</b>	<b>2021</b>
Cash flows from operating activities:		
Change in net assets	\$ (18,863,398)	32,852,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,933,441	3,248,110
Net unrealized and realized loss and (gains) on investments	17,480,140	(39,981,855)
Disposal of fixed assets	(10,929)	—
Forgiveness of loan	—	(2,301,000)
Change in operating assets and liabilities:		
Accounts and interest receivable	(85,952)	50,142
Contributions receivable	6,103,370	13,032,332
Inventories	(2,107)	20,992
Prepaid expenses	1,078,622	(1,163,390)
Accounts and other payables	(1,234,090)	3,514,611
Accrued liabilities	205,439	(1,897,014)
Due to related parties	(906,858)	(1,069,083)
Unearned income	(3,835)	15,425
Net cash provided by operating activities	6,693,843	6,321,555
Cash flows from investing activities:		
Purchases of property and equipment with capital contributions	(12,086,000)	(12,247,645)
Purchases of investments	(900,000)	(500,000)
Proceeds from sale of investments	6,898,870	6,710,903
Net cash used in investing activities	(6,087,130)	(6,036,742)
Net increase in cash and cash equivalents	606,713	284,813
Cash and cash equivalents, beginning of year	28,939,155	28,654,342
Cash and cash equivalents, end of year	\$ 29,545,868	28,939,155
Noncash investing activities:		
Liabilities accrued for property and equipment	\$ —	11,530
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 215,493	—

See accompanying notes to financial statements.

**ARMAND HAMMER MUSEUM OF ART  
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Notes to Financial Statements

June 30, 2022

**(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 of 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, 2022. Conditional promises to give are not included as revenue 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, 2022, 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 \$134.5 million of its funds invested in the UCLA Foundation's Endowed Investment Pool, which is reported at net asset value as of June 30, 2022. 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, 2022, 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 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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June 30, 2022

allocation is primarily based on the Museum's time study and building square footage. The following table presents expenses by both nature and function for the fiscal year ended June 30, 2022:

	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	\$ 5,668,481	1,772,643	2,134,306	—	9,575,430	1,398,466	1,962,695	3,361,161	12,936,591
Professional services	201,182	132,452	191,995	—	525,629	178,967	57,914	236,881	762,510
Advertising and promotions	85,798	100,611	118,370	—	304,779	17,160	51,479	68,639	373,418
Office expense	195,138	106,944	162,589	—	464,671	45,069	82,500	127,569	592,240
Information technology	145,660	235,437	128,995	—	510,092	51,323	62,362	113,685	623,777
Occupancy	407,414	376,490	740,525	—	1,524,429	182,903	200,434	383,337	1,907,766
Travel	77,473	132,451	346,518	—	556,442	8,123	10,741	18,864	575,306
Interest expense	—	—	—	—	—	—	215,493	215,493	215,493
Depreciation and amortization	2,412,774	130,984	257,203	—	2,800,961	69,370	63,110	132,480	2,933,441
Insurance	30,050	30,339	60,100	—	120,489	146,537	15,025	161,562	282,051
Equipment rental and maintenance	44,778	84,099	19,887	—	148,764	4,758	19,629	24,387	173,151
Catering and beverage	3,453	9,159	13,817	—	26,429	3,310	358,208	361,518	387,947
Exhibition expenses	—	3,485,632	—	—	3,485,632	—	—	—	3,485,632
Other expenses	722,054	38,353	259,237	—	1,019,644	49,217	200,086	249,303	1,268,947
Art acquisitions	—	—	—	2,330,782	2,330,782	—	—	—	2,330,782
Total expenses	\$ 9,994,255	6,635,594	4,433,542	2,330,782	23,394,173	2,155,203	3,299,676	5,454,879	28,849,052

**(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 2021**

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, 2021, from which the summarized information was derived.

**ARMAND HAMMER MUSEUM OF ART  
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Notes to Financial Statements

June 30, 2022

**(l) Concentration of Credit Risk**

At June 30, 2022, the Museum had \$155.2 million of its investments and cash and cash equivalents held and managed by the UCLA Foundation.

**(m) New Accounting Pronouncements**

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Assets*, to address stakeholders' concerns regarding the lack of transparency about how certain gifts-in-kind are valued and used in a not-for-profit's programs and other activities. The standard introduces enhanced presentation and disclosure requirements. The statement is effective for the year ending June 30, 2022. The adoption of this accounting guidance did not have a material effect on the financial statements.

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 equal 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.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective dates for ASU 2016-13 have been updated by ASU 2019-10, *Effective Dates*. The statement is effective the fiscal year ending June 30, 2024. The Museum is currently evaluating the effects the adoption of this statement will have on the consolidated financial statements.

**(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.)

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Notes to Financial Statements

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- 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.

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, 2022 are expected to be received as follows:

Amounts due in:		
Less than one year	\$	6,424,389
One to five years		7,982,860
More than five years		<u>72,304,982</u>
		86,712,231
Less discount to reflect contributions at present value		<u>(56,158,774)</u>
Total	\$	<u><u>30,553,457</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 \$12,749,930 at June 30, 2022. 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 10 to the financial statements.

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Notes to Financial Statements

June 30, 2022

**(4) Investments**

At June 30, 2022, the Museum had long-term investments totaling \$134.5 million, and cash and cash equivalents of \$20.7 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, 2022: 38% global public equity, 19% independent return, 21% private equity or venture, and 17% real assets, with the remaining 5% 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. For the year ending June 30, 2022, the funds remaining in the initial lockup total \$900,000. 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, 2022, property and equipment comprised the following:

Building under lease	\$ 53,800,000
Leasehold improvements	61,846,157
Construction in progress	14,790,064
Furniture and fixtures	1,985,394
Equipment	<u>1,575,199</u>
	133,996,814
Less accumulated depreciation	<u>(28,603,313)</u>
Total	\$ <u><u>105,393,501</u></u>

Depreciation and amortization totaled \$2,933,441 for the year ended June 30, 2022. This value is made up of \$2,075,570 in accumulated amortization of the building under lease (discussed in note 10a), \$543,434 of amortization expense, and \$314,437 of depreciation for furniture, fixtures, and equipment.

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As a part of the 2015 lease (note 10a), 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 March 2023. The project is expected to 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, 2022.

**(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, 2022 is as follows:

	<u>Without donor imposed restrictions</u>	<u>With donor imposed restrictions</u>	<u>Total</u>
Donor-restricted endowments	\$ —	57,006,658	57,006,658
Board-designated endowments	<u>77,454,403</u>	<u>—</u>	<u>77,454,403</u>
Total	<u>\$ 77,454,403</u>	<u>57,006,658</u>	<u>134,461,061</u>

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Changes in endowment net assets for the fiscal year ended June 30, 2022 are as follows:

	<b>Without donor imposed restrictions</b>	<b>With donor imposed restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 91,896,078	66,043,990	157,940,068
Investment return:			
Investment income	1,477,615	1,028,260	2,505,875
Realized and unrealized losses, net	(10,157,506)	(7,119,166)	(17,276,672)
Management fees	(1,090,848)	(759,487)	(1,850,335)
Total investment return	(9,770,739)	(6,850,393)	(16,621,132)
Additions	—	900,000	900,000
Appropriation of endowment assets for expenditure	(4,670,936)	(3,086,939)	(7,757,875)
Endowment net assets, end of year	\$ <u>77,454,403</u>	<u>57,006,658</u>	<u>134,461,061</u>

*Spending Policy*

The Museum, with the approval of the Board, appropriated for distribution (on a cash basis) 5.5% of its endowment fund's value for the year ended June 30, 2022. The value of the endowment appropriation is 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 \$43,776,807 as of June 30, 2022. 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, 2022, the restricted investments had interest and dividend income of \$819,273, and net realized and unrealized loss of \$5,631,897.



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**(9) Term Loan and Line of Credit**

On January 26, 2022, the Museum transferred the existing \$15,000,000 line of credit from UCLA to City National Bank (CNB). The new agreement includes two loans, (a) a Revolving Line of Credit for \$2,500,000, and (b) a Multiple Disbursement Term Loan with principal amount of \$12,500,000. The unpaid principal on both loans has annual interest equal to the Daily Simple SOFR Loan, the greater of (i) the floor of the Daily Simple SOFR Loan, and (ii) Daily Simple SOFR plus 2.3%. Both of these loans are secured by a continuing security interest in all of the Museum's Accounts, Deposit Accounts, and General Intangibles, including all capital campaign pledges.

- (a) The Revolving Line of Credit for \$2.5 million renews annually and has a maturity date of December 31, 2023. No amounts were outstanding on this Line of Credit as of June 30, 2022, and there were no draw-downs during the fiscal year.
- (b) The \$12.5 million Multiple Disbursement Note has a termination date of June 30, 2025, which means no additional funds can be advanced after that date. Starting on September 30, 2025, loan principal payments will be due and payable in eight equal consecutive quarterly installments. The loan has a maturity date of June 30, 2027. As of June 30, 2022, the outstanding borrowings were \$9.1 million. For the year ended June 30, 2022, the Museum accrued \$211,643 of interest expense, which is a component of accounts payable in the accompanying financial statements. Based on the outstanding borrowings of \$9.1 million as of June 30, 2022, \$4,550,000 will be paid in years 2026 and 2027.

**(10) 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, and office, 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, 2022, the Museum paid \$1,826,016 in operating expenses related to the 2015 Lease.

**(b) *Contributions***

For the year ended June 30, 2022, UCLA paid \$4,709,853 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, 2022.

**(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, 2022, \$779,448 was due to the University for these expenses and reported as due to related parties in the accompanying financial statements.

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**(11) Net Assets**

Description of amounts classified as net assets with donor-imposed restrictions as of June 30, 2022 are as follows:

The portion of endowment funds subject to donor-restricted stipulation	\$	9,496,350
The portion of the endowment funds restricted for museum purposes		43,776,807
The portion of endowment funds that is required to be retained permanently by explicit donor stipulation		3,733,501
Contributions received restricted for specific purpose		17,399,185
Contributions receivable restricted for specific purpose or timing of use		<u>30,535,923</u>
	<b>\$</b>	<b><u>104,941,765</u></b>

**(12) 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	\$	29,545,868
Accounts and interest receivable		144,343
Contribution receivable		6,424,389
Long-term investments		<u>77,454,403</u>
		113,569,004
Less those unavailable for general expenditure within one year due to:		
Restricted by donor with time or purpose restriction		(4,322,951)
Restricted for Museum purposes		(651,417)
Board designated amounts for capital projects		<u>(12,885,284)</u>
Financial assets available to meet cash needs for general expenditure within one year	<b>\$</b>	<b><u>95,709,352</u></b>

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, 2022, the Museum has determined that \$77,454,403 of investments could be converted to cash within one year.

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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 2023 fiscal year, the board of directors designated \$6,730,000 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.

**(13) Subsequent Events**

The Museum has evaluated subsequent events through the date that the financial statements were available to be issued, March 23, 2023, for potential recognition or disclosure in the financial statements.