



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

Financial Statements

June 30, 2023

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6



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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, 2023, 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, 2023, 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). 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 that 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 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, 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*KPMG LLP*

Los Angeles, California  
April 2, 2024

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

Statement of Financial Position

June 30, 2023

(With comparative financial information as of June 30, 2022)

<b>Assets</b>	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 18,707,655	29,545,868
Accounts and interest receivable	102,818	144,343
Contributions receivable, net (note 3)	28,708,644	30,553,457
Inventories	199,388	184,815
Prepaid expenses and other	614,565	220,211
Investments (notes 4 and 8)	135,387,056	134,461,061
Property and equipment, net (note 5)	115,888,005	105,393,501
Total assets	\$ 299,608,131	300,503,253
<b>Liabilities and Net Assets</b>		
Accounts and other payables	\$ 2,824,351	1,784,279
Accrued liabilities	732,392	343,554
Line of credit from related party (note 9)	9,100,000	9,100,000
Unearned income	300,094	11,590
Due to related parties (note 10)	1,077,642	779,448
Total liabilities	14,034,479	12,018,871
Net assets		
Without donor restrictions	190,203,406	183,542,617
With donor restrictions (note 11)	95,370,246	104,941,765
Total net assets	285,573,652	288,484,382
Total liabilities and net assets	\$ 299,608,131	300,503,253

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2023

(With summarized financial information as of June 30, 2022)

	<b>2023</b>			<b>2022 Total</b>
	<b>Without restrictions</b>	<b>With restrictions</b>	<b>Total</b>	
Revenues and support:				
Admission and membership fees	\$ 493,048	—	493,048	401,679
Bookstore sales and Café sales, net	422,421	—	422,421	468,622
Contributions	2,970,513	12,148,063	15,118,576	19,961,467
Contributions from related parties	3,878,780	900,000	4,778,780	4,709,853
Income (loss) from investments	5,130,615	3,448,518	8,579,133	(16,528,608)
Other income	1,372,591	—	1,372,591	759,348
Special events:				
Revenue	2,409,700	—	2,409,700	290,370
Less costs of direct benefits to donors	(983,538)	—	(983,538)	(77,077)
Net revenue from special events	1,426,162	—	1,426,162	213,293
Total revenues and support	15,694,130	16,496,581	32,190,711	9,985,654
Net assets released from restrictions	26,068,100	(26,068,100)	—	—
Total revenues and other support	41,762,230	(9,571,519)	32,190,711	9,985,654
Expenses:				
Program services:				
Exhibitions overhead and collections	12,317,776	—	12,317,776	9,994,255
Exhibitions	6,140,727	—	6,140,727	6,635,594
Education	4,928,172	—	4,928,172	4,433,542
Art acquisition	4,419,020	—	4,419,020	2,330,782
Total program services	27,805,695	—	27,805,695	23,394,173
Support services:				
Management and general	2,343,269	—	2,343,269	2,155,203
Fundraising	4,952,477	—	4,952,477	3,299,676
Total support services	7,295,746	—	7,295,746	5,454,879
Total expenses	35,101,441	—	35,101,441	28,849,052
Change in net assets	6,660,789	(9,571,519)	(2,910,730)	(18,863,398)
Net assets, beginning of year	183,542,617	104,941,765	288,484,382	307,347,780
Net assets, end of year	\$ 190,203,406	95,370,246	285,573,652	288,484,382

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2023

(with comparative financial information as of June 30, 2022)

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Change in net assets	\$ (2,910,731)	(18,863,398)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,512,171	2,933,441
Net unrealized and realized (gains) losses on investments	(8,110,003)	17,480,140
Disposal of fixed assets	—	(10,929)
Change in operating assets and liabilities:		
Accounts and interest receivable	41,525	(85,952)
Contributions receivable	1,844,813	6,103,370
Inventories	(14,573)	(2,107)
Prepaid expenses	(394,354)	1,078,622
Accounts and other payables	1,040,072	(1,234,090)
Accrued liabilities	382,713	205,439
Due to related parties	298,194	(906,858)
Unearned income	288,504	(3,835)
Net cash (used in) provided by operating activities	(4,021,669)	6,693,843
Cash flows from investing activities:		
Purchase of equipment	(106,689)	—
Purchases of property and equipment with capital contributions	(13,893,863)	(12,086,000)
Purchases of investments	(1,000,000)	(900,000)
Proceeds from sale of investments	8,184,008	6,898,870
Net cash used in investing activities	(6,816,544)	(6,087,130)
Net (decrease) increase in cash and cash equivalents	(10,838,213)	606,713
Cash and cash equivalents, beginning of year	29,545,868	28,939,155
Cash and cash equivalents, end of year	\$ 18,707,655	29,545,868
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 540,754	215,493

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2023

**(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 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 are recognized as revenue when the underlying promises are received by the Museum. 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 0.36% to 7% at June 30, 2023. Contributions that are conditional are not recorded until the condition is substantially met or when the possibility that the condition will not be met is remote. Conditional contributions must include both (1) one or more barriers



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

Notes to Financial Statements

June 30, 2023

that need to be overcome before the Museum is entitled to the contribution, and (2) a right of return or a right of release from the donor's obligation to provide the contribution.

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, 2023 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 \$135.4 million of its funds invested in the UCLA Foundation's Endowed Investment Pool, which is reported at net asset value as of June 30, 2023. 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, 2023 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.

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

Notes to Financial Statements

June 30, 2023

**(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

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

Notes to Financial Statements

June 30, 2023

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, 2023:

	Program services				Total program services	Support services		Total support services	Total
	Exhibition overhead and collections	Exhibitions	Education	Art acquisitions		Management and general	Fundraising		
Salaries and benefits	\$ 6,769,636	1,956,145	2,390,558	—	11,116,339	1,480,269	2,219,286	3,699,555	14,815,894
Professional services	525,554	86,010	162,878	—	774,442	206,369	1,027,390	1,233,759	2,008,201
Advertising and promotions	104,310	102,310	125,415	—	332,035	20,462	61,386	81,848	413,883
Office expense	253,447	103,618	189,542	—	546,607	46,926	103,440	150,366	696,973
Information technology	119,076	119,347	172,614	—	411,037	56,783	54,460	111,243	522,280
Occupancy	482,895	452,219	907,054	—	1,842,168	224,765	273,899	498,664	2,340,832
Travel	55,588	58,260	145,994	—	259,842	11,487	21,128	32,615	292,457
Interest expense	—	—	—	—	—	—	540,754	540,754	540,754
Depreciation and amortization	3,027,421	122,150	239,536	—	3,389,107	64,371	58,693	123,064	3,512,171
Insurance	36,810	36,810	73,620	—	147,240	158,802	18,405	177,207	324,447
Equipment rental and maintenance	62,419	75,751	39,750	—	177,920	3,434	6,566	10,000	187,920
Catering and beverages	8,511	4,284	35,006	—	47,801	4,996	296,463	301,459	349,260
Other expenses	872,109	3,023,823	446,205	—	4,342,137	64,605	270,607	335,212	4,677,349
Art acquisitions	—	—	—	4,419,020	4,419,020	—	—	—	4,419,020
<b>Total expenses</b>	<b>\$ 12,317,776</b>	<b>6,140,727</b>	<b>4,928,172</b>	<b>4,419,020</b>	<b>27,805,695</b>	<b>2,343,269</b>	<b>4,952,477</b>	<b>7,295,746</b>	<b>35,101,441</b>

**(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 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 2022**

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, 2022, from which the summarized information was derived.

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

Notes to Financial Statements

June 30, 2023

**(l) Concentration of Credit Risk**

At June 30, 2023, the Museum had \$146 million of its investments and cash and cash equivalents held and managed by the UCLA Foundation.

**(m) New Accounting Pronouncements**

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 adoption of this accounting guidance did not have a material effect on the 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.)
- 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.

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

Notes to Financial Statements

June 30, 2023

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, 2023 are expected to be received as follows:

Amounts due in:	
Less than one year	\$ 4,550,692
One to five years	8,886,875
More than five years	<u>67,259,978</u>
	80,697,545
Less discount to reflect contributions at present value	<u>(51,988,901)</u>
Total	<u>\$ 28,708,644</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 \$12,742,425 at June 30, 2023. See further discussion in note 10 to the financial statements. The remaining contribution receivables are mainly restricted gifts for capital campaign construction purposes and gifts restricted for exhibitions and programs.

**(4) Investments**

At June 30, 2023, the Museum had long-term investments totaling \$135.4 million, and cash and cash equivalents of \$10.6 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, 2023: 39.8% global public equity, 18.4% independent return, 21.2% private equity and venture, and 15.5% real assets and natural resources, with the remaining 4.8% held in cash and 0.3% 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

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

Notes to Financial Statements

June 30, 2023

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, 2023, property and equipment comprised the following:

Building under lease	\$ 53,800,000
Leasehold improvements	90,173,115
Construction in progress	25,000
Furniture and fixtures	2,343,390
Equipment	<u>1,661,984</u>
	148,003,489
Less accumulated depreciation	<u>(32,115,484)</u>
Total	\$ <u>115,888,005</u>

Depreciation and amortization totaled \$3,512,171 for the year ended June 30, 2023. This value includes \$2,559,442 in accumulated amortization of the building under lease (discussed in note 10a), \$543,434 of amortization expense, and \$409,295 of depreciation for furniture, fixtures, and equipment.

**(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, 2023.

**(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 designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Notes to Financial Statements

June 30, 2023

Endowment net asset composition by type of funds as of June 30, 2023 is as follows:

	<u>Without donor imposed restrictions</u>	<u>With donor imposed restrictions</u>	<u>Total</u>
Donor-restricted endowments	\$ —	57,683,234	57,683,234
Board-designated endowments	77,703,822	—	77,703,822
Total	<u>\$ 77,703,822</u>	<u>57,683,234</u>	<u>135,387,056</u>

Changes in endowment net assets for the fiscal year ended June 30, 2023 are as follows:

	<u>Without donor imposed restrictions</u>	<u>With donor imposed restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 77,454,403	57,006,658	134,461,061
Investment return:			
Investment income	997,982	712,037	1,710,019
Realized and unrealized losses, net	4,877,647	3,475,663	8,353,310
Management fees	<u>(1,105,783)</u>	<u>(784,091)</u>	<u>(1,889,874)</u>
Total investment return	4,769,846	3,403,609	8,173,455
Additions	—	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	<u>(4,520,427)</u>	<u>(3,727,033)</u>	<u>(8,247,460)</u>
Endowment net assets, end of year	<u>\$ 77,703,822</u>	<u>57,683,234</u>	<u>135,387,056</u>

*Spending Policy*

The Museum, with the approval of the Board, appropriated for distribution (on a cash basis) 5.12% of its endowment fund's value for the year ended June 30, 2023. 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) Museum Reserve Fund**

The fair value of the Museum Reserve Fund is held in the UCLA Foundation Endowed Investment Pool totaled \$43,915,100 as of June 30, 2023. 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)

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

Notes to Financial Statements

June 30, 2023

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, 2023, the restricted investments had interest and dividend income of \$553,338, and net realized and unrealized gain of \$2,704,444.

**(9) Multiple Disbursement Note and Revolving 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) the Daily Simple SOFR plus 2.3%. Both loans are secured by a continuing security interest in all 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, 2023, and there were no drawdowns 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 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, 2023, the outstanding borrowings were \$9.1 million. For the year ended June 30, 2023, the Museum accrued \$540,754 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, 2023, \$4,550,000 will be paid in the 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, 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, 2023, the Museum paid \$2,290,047 in operating expenses related to the 2015 Lease.

**(b) *Contributions***

For the year ended June 30, 2023, UCLA paid \$4,778,780 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, 2023.



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

Notes to Financial Statements

June 30, 2023

**(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, 2023, \$1,077,642 was due to the University for these expenses and reported as due to related parties in the accompanying financial statements.

**(11) Net Assets**

Description of amounts classified as net assets with donor-imposed restrictions as of June 30, 2023, are as follows:

The portion of endowment funds subject to donor-restricted stipulation	\$ 873,014
The portion of the museum reserve fund	43,915,100
The portion of endowment funds that is required to be retained permanently by explicit donor stipulation	3,833,500
Contributions received restricted for specific purpose	18,073,105
Contributions receivable restricted for specific purpose or timing of use	<u>28,675,527</u>
	<u>\$ 95,370,246</u>

**(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	\$ 18,707,655
Accounts and interest receivable	102,818
Contribution receivable	979,027
Investments	<u>77,703,821</u>
	97,493,321
Less those unavailable for general expenditure within one year due to:	
Restricted by donor with time or purpose restriction	(5,734,132)
Restricted for Museum Reserve Fund	(776,480)
Board designated amounts for capital projects	<u>(3,394,637)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 87,588,072</u>

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

Notes to Financial Statements

June 30, 2023

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, 2023, the Museum determined that \$77,703,821 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, are 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 2024 fiscal year, the board of directors designated \$6,727,000 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, April 2, 2024, for potential recognition or disclosure in the financial statements.