



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

Financial Statements

June 30, 2018

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
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



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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Los Angeles, California
February 13, 2019

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

Statement of Financial Position

June 30, 2018

(With summarized financial information as of June 30, 2017)

Assets	2018			Total	2017 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Assets:					
Cash and cash equivalents	\$ 7,026,982	838,910	—	7,865,892	2,919,707
Accounts and interest receivable	105,956	—	—	105,956	146,081
Contributions receivable, net (note 3)	—	72,375,376	—	72,375,376	57,464,371
Inventories	209,048	—	—	209,048	213,532
Prepaid expenses and other	71,923	—	—	71,923	167,347
Investments restricted for museum purposes (notes 4 and 7)	—	44,184,635	333,500	44,518,135	42,875,523
Long-term investments (notes 4 and 8)	78,496,260	1,607,891	—	80,104,151	67,703,758
Property and equipment, net (note 5)	71,618,259	—	—	71,618,259	66,794,336
Total assets	\$ 157,528,428	119,006,812	333,500	276,868,740	238,284,655
Liabilities and Net Assets					
Accounts and other payables	\$ 610,133	—	—	610,133	363,719
Accrued liabilities	749,463	—	—	749,463	68,456
Line of credit from related party (note 9)	9,100,000	—	—	9,100,000	—
Unearned income	540,000	—	—	540,000	855,000
Due to related parties (note 9)	1,394,534	—	—	1,394,534	2,527,587
Total liabilities	12,394,130	—	—	12,394,130	3,814,762
Net assets	145,134,298	119,006,812	333,500	264,474,610	234,469,893
Total net assets	145,134,298	119,006,812	333,500	264,474,610	234,469,893
Total liabilities and net assets	\$ 157,528,428	119,006,812	333,500	276,868,740	238,284,655

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2018

(With summarized financial information as of June 30, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues and support:					
Admission and membership fees	\$ 449,930	—	—	449,930	297,443
Bookstore sales	766,958	—	—	766,958	572,483
Contributions	1,250,044	36,232,467	—	37,482,511	48,954,181
Contributions from related parties	3,015,396	894,649	—	3,910,045	2,419,555
Interest and dividend income, net	1,934,611	2,127,311	—	4,061,922	4,243,420
Net unrealized and realized gains on investments	4,178,731	2,671,538	—	6,850,269	11,109,790
Other income	2,074,009	—	—	2,074,009	1,661,006
Special events:					
Revenue	2,605,607	—	—	2,605,607	2,317,708
Less costs of direct benefits to donors	(546,320)	—	—	(546,320)	(478,166)
Net revenue from special events	2,059,287	—	—	2,059,287	1,839,542
Total revenues and support	15,728,966	41,925,965	—	57,654,931	71,097,420
Net assets released from restrictions	24,769,451	(24,769,451)	—	—	—
Total revenues and other support	40,498,417	17,156,514	—	57,654,931	71,097,420
Expenses:					
Program services:					
Exhibitions and programs	15,309,004	—	—	15,309,004	13,725,457
Education	4,680,553	—	—	4,680,553	4,689,527
Total program services	19,989,557	—	—	19,989,557	18,414,984
Support services:					
Management and general	2,423,274	—	—	2,423,274	2,530,889
Fundraising	3,163,078	—	—	3,163,078	2,874,903
Total support services	5,586,352	—	—	5,586,352	5,405,792
Cost of goods sold	411,809	—	—	411,809	304,262
Art acquisitions	1,662,496	—	—	1,662,496	1,643,348
Total expenses	27,650,214	—	—	27,650,214	25,768,386
Change in net assets	12,848,203	17,156,514	—	30,004,717	45,329,034
Net assets, beginning of year	132,286,095	101,850,298	333,500	234,469,893	189,140,859
Net assets, end of year	\$ 145,134,298	119,006,812	333,500	264,474,610	234,469,893

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2018

(with comparative financial information as of June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 30,004,717	45,329,034
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	2,467,688	2,251,399
Net unrealized and realized (gains) losses on investments	(6,850,269)	(11,109,790)
Change in operating assets and liabilities:		
Accounts and interest receivable	40,125	(8,241)
Contributions receivable	(14,915,929)	(37,147,333)
Inventories	4,484	(57,736)
Prepaid expenses	95,424	(104,519)
Accounts and other payables	246,414	(17,460)
Accrued liabilities and unearned income	(164,840)	(715,113)
Due to related parties	(1,133,053)	500,808
Net cash provided by (used in) operating activities	9,794,761	(1,078,951)
Cash flows from investing activities:		
Purchases of property and equipment	(6,760,765)	(7,741,444)
Purchases of investments	(9,853,221)	(100,000)
Proceeds from sale of investments	2,665,410	7,970,207
Net cash (used in) provided by investing activities	(13,948,576)	128,763
Cash flows from financing activities:		
Proceeds from line of credit	9,100,000	—
Net cash provided by financing activities	9,100,000	—
Net increase (decrease) in cash and cash equivalents	4,946,185	(950,188)
Cash and cash equivalents, beginning of year	2,919,707	3,869,895
Cash and cash equivalents, end of year	\$ 7,865,892	2,919,707
Noncash investing activities:		
Liabilities accrued for property and equipment	\$ 530,847	—

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2018

(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. 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 Hammer. 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 three classes of net assets – unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets include contributions received without any donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets. Revenues, gains, and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets

The Museum reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations as to the specific timing or use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. Donor-restricted contributions that are received and expended in the same reporting period are reported as unrestricted in the accompanying financial statements.

Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as temporarily restricted support, and are reclassified to unrestricted net assets when the long-lived assets

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

Notes to Financial Statements

June 30, 2018

are placed into service, absent explicit donor stipulations as to how long such assets must be maintained.

Permanently Restricted Net Assets

Permanently restricted net assets result from donor-imposed restrictions, which require that the resources be maintained permanently or provide a permanent source of income to the Museum. The Museum had \$333,500 of permanently restricted net assets as of June 30, 2018.

In 2009, the Decade Fund was established through gifts in celebration of Ann Philbin's first decade at the Museum. The principal is permanently restricted and the earnings are used to support Hammer Projects.

(c) Contribution Revenue

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 3% to 7% at June 30, 2018. Conditional promises to give are not included as support until the conditions are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

(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.

(e) Investments

The Museum records its investments at fair value as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. Investments are stated at fair value with gains and losses included in the statement of activities as an increase or decrease in unrestricted net assets unless their use is temporarily or permanently restricted by a donor.

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

The Museum has approximately \$124.6 million of its funds invested in the UCLA Foundation's Endowed Investment Pool, which are reported at net asset value as of June 30, 2018. The Endowed Investment Pool is a unitized fund whereby the Museum participates in investment returns and income on an equivalent pro rated 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

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

Notes to Financial Statements

June 30, 2018

estimating fair value. The amounts reported at net asset value at June 30, 2018 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.

The Museum follows the guidance issued in ASU 2015-07 Topic 820, *Disclosure for Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which remove the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share as a practical expedient and related disclosures.

(f) Inventories

Inventories, which consist of items for the Museum's bookstore, are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

(g) Art Collections

The Museum's collections are not recognized as assets on the statement of financial position. U.S. generally accepted accounting principles permit such treatment if the contributed works of art are held for public exhibition and education rather than financial gain, the collection is protected, kept unencumbered, cared for and preserved, and the contributed artwork is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. For insurance purposes, the value of a significant portion of the art collections is appraised every five years (note 6). Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class.

(h) Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from 3 to 30 years. Leasehold improvements are depreciated over the shorter of the useful life and the lease term. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and improvements are capitalized. 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.

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 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. During the fiscal year ended June 30, 2018, management determined that there were no events or changes in circumstances indicating that the carrying amount of certain property and equipment may not be recoverable.

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

Notes to Financial Statements

June 30, 2018

(i) Expense Allocation

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management.

(j) 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.

(k) 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.

(l) Comparative Totals for 2017

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, 2017, from which the summarized information was derived.

(m) Concentration of Credit Risk

At June 30, 2018, the Museum had \$131.8 million of its investments and cash and cash equivalents held and managed by the UCLA Foundation.

(n) New Accounting Pronouncements

In August 2016, FASB Issued ASU No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities*. Provision of this update include: the reduction in the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; the requirement to present expenses by their functional and their natural classifications in one location in the financial statements; the requirement to present quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and the retention of the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. This update is effective for the Museum for the fiscal

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

Notes to Financial Statements

June 30, 2018

year ending June 30, 2019. The Museum is currently evaluating the effects the adoption of the statement will have on the financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities*. The amendments in this update will impact how an entity evaluates whether transactions should be accounted for as contributions within the scope of Topic 958, or as exchange transactions and determining whether a contribution is conditional. This update is effective for the Museum for the fiscal year ending June 30, 2020. The Museum is currently evaluating the effects the adoption of the statement will have on the financial statements.

(2) Fair Value

In accordance with ASC 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 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 of investments)

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, 2018

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

Fair value of the Museum's financial instruments is determined using the estimates, methods, and assumption as set forth below.

- Cash and cash equivalents

Cash and cash equivalents are reported at cost, which approximated their fair values at June 30, 2018 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.

- Contributions receivable

Contributions receivable are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated 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. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary.

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, 2018 are expected to be received as follows:

Amounts due in:	
Less than one year	\$ 22,905,529
One to five years	43,890,000
More than five years	<u>63,370,575</u>
	130,166,104
Less discount to reflect contributions at present value	<u>(57,790,728)</u>
Total	<u><u>\$ 72,375,376</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 \$12,780,701 at June 30, 2018. See further discussion in note 9 to the financial statements.

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

Notes to Financial Statements

June 30, 2018

(4) Investments

Investments are stated at fair value. Investment purchases and sales are recorded on a trade-date basis. Unrealized appreciation or depreciation on investments is recorded in the statement of activities. Dividend income is recorded on the ex-dividend date. Interest income is recorded when earned.

The following methods and assumptions were used to estimate fair value for each class of financial instrument measured at fair value:

- **Endowed Investment Pool**

The UCLA Foundation 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, 2018: 16.3% U.S. equity securities, 43.2% international equity securities, 6.0% U.S. fixed income securities, 3.1% U.S. real estate funds, 8.8% natural resources funds, 11.4% inflation hedge funds, and 11.2% private equity funds.

- **Short-Term Investment Pool**

Investments included in the Short-Term Investment Pool are highly liquid investments held by UCLA Foundation with original maturities of three months or less.

All investments held by the Museum as of December 31, 2018, utilize the net asset value practical expedient to report such investments at fair value.

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, 2018, property and equipment comprised the following:

Building under lease	\$	53,800,000
Leasehold improvements		33,503,453
Furniture and fixtures		116,139
Equipment		<u>1,004,103</u>
		88,423,695
Less accumulated depreciation		<u>(16,805,436)</u>
Total	\$	<u><u>71,618,259</u></u>

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

Notes to Financial Statements

June 30, 2018

Accumulated amortization of the building under lease (discussed in note 8a), totaled \$1,494,444 at June 30, 2018. Amortization expense totaled \$543,434 for the year ended June 30, 2018.

As a part of the 2015 lease (note 8a), the Museum gained an additional 40,000 square feet of programming, exhibition and office space. The Museum has embarked on a comprehensive, multi-year construction project to renovate, expand and expects to fully activate the facility by 2022. The project will elevate and expand the physical space to match the scope of the Museum's exhibitions, programs and collections.

(6) Art Collections

The Museum's permanent collections consist of: The Armand Hammer Collection (Old Master, Impressionist and Post-Impressionist paintings); The Armand Hammer Daumier and Contemporaries Collection (paintings, sculptures, and lithographs by the French 19th century caricaturist Honore Daumier and the work of his contemporaries); and the Hammer Contemporary Collection (international contemporary art since 1965, with an emphasis on works on paper and Los Angeles artists). Throughout the year, the Museum displays a substantial portion of The Armand Hammer Collection, as well as a rotation of selections from The Armand Hammer Daumier and Contemporaries Collection and the Hammer Contemporary Collection. The collections are subject to a policy which requires proceeds from their sales to be used to acquire other items for collections. There were no significant sales of art related to these collections during the fiscal year ended June 30, 2018.

(7) Endowment

The Museum's endowment consists of four individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated 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, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	1,625,765	333,500	1,959,265
Board-designated endowments	78,496,260	44,166,761	—	122,663,021
Total	<u>\$ 78,496,260</u>	<u>45,792,526</u>	<u>333,500</u>	<u>124,622,286</u>

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

Notes to Financial Statements

June 30, 2018

Changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 66,246,772	43,999,008	333,500	110,579,280
Investment return:				
Investment income	2,953,838	1,775,564	—	4,729,402
Realized and unrealized gains, net	4,151,916	2,703,277	—	6,855,193
Management fees	<u>(476,925)</u>	<u>(286,574)</u>	<u>—</u>	<u>(763,499)</u>
Total investment return	<u>6,628,829</u>	<u>4,192,267</u>	<u>—</u>	<u>10,821,096</u>
Additions	9,753,221	100,000	—	9,853,221
Appropriation of endowment assets for expenditure	<u>(4,132,562)</u>	<u>(2,498,749)</u>	<u>—</u>	<u>(6,631,311)</u>
Endowment net assets, end of year	<u>\$ 78,496,260</u>	<u>45,792,526</u>	<u>333,500</u>	<u>124,622,286</u>

(a) Spending Policy

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

(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 \$44,166,761 as of June 30, 2018. The Museum's Board of Directors approves the investment policy guidelines and a payout rate annually. Investment principal is restricted for the acquisition of works of art for its collections. All or any part of the investment income (including the appreciation in fair market value) may be used for the acquisition of works of art or used to fund exhibitions and other programs and also may be used for such other purposes as determined by the unanimous action of the Board of Directors. For the year ended June 30, 2018, the restricted investments had interest and dividend income of \$1,761,698 and net realized and unrealized gains of \$2,631,717.

(9) Related-Party Transactions

(a) The 2015 Lease

On October 23, 2015, Occidental and the Museum entered into a lease agreement providing the Museum with free rent for expanded exhibition, office and parking space in the Occidental building for a 99-year term (the 2015 Lease). The fair value of the free rent was determined by an independent appraiser to be \$53.8 million and is reflected as Building under lease in property and equipment (note 5). Subsequent to this agreement, UCLA purchased the building and assumed the lease agreement with the Museum. For the year ended June 30, 2018, the Museum paid \$2,073,050 in operating expenses related to the free rent included in the 2015 Lease.

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

Notes to Financial Statements

June 30, 2018

(b) Contributions

For the year ended June 30, 2018, the University paid \$3,910,045 of expenses on behalf of the Museum, including the annual support from the University, nonobligatory contributions, and cost of living adjustments (note 3). Such contributions were reflected as contributions from related parties in the statement of activities for the year ended June 30, 2018.

(c) Due to the University

As discussed in note 3, the University pays for certain expenses on behalf of the Museum under the operating agreement, which include the annual support and nonobligatory contributions. Any amounts paid by the University in excess of these contributions are recorded as a liability to the University. At June 30, 2018, such amounts totaled \$1,394,534.

(d) Line of Credit

As The Museum entered into a line of credit agreement with the Regents of the University of California on October 2, 2017 that provides for borrowings up to \$15,000,000 and expires on October 2, 2020. 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 Investment Company. For the year ended June 30, 2018, the Museum accrued \$142,732 of interest expense related to the line of credit. As of June 30, 2018 outstanding borrowings under the line of credit amounted to \$9,100,000 and there were no amounts payable for interest.

(10) Net Assets

Description of amounts classified as temporarily restricted net assets as of June 30, 2018 are as follows:

The portion of endowment funds subject to donor-imposed stipulation	\$ 45,792,526
Contributions restricted for specific purpose or timing of use	<u>73,214,286</u>
	<u>\$ 119,006,812</u>

Description of amounts classified as permanently restricted net assets as of June 30, 2018 are as follows:

The portion of endowment funds that is required to be retained permanently by explicit donor stipulation	\$ <u>333,500</u>
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(11) Subsequent Events

The Museum has evaluated subsequent events through the date that the financial statements were available to be issued, February 13, 2019 for potential recognition or disclosure in the financial statements.