

**MUSEUM OF LATIN AMERICAN ART
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2017
AND 2016 (SUMMARIZED)**



MUSEUM OF LATIN AMERICAN ART

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Museum of Latin American Art:

We have audited the accompanying financial statements of the Museum of Latin American Art (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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 accounting principles generally accepted in the United States of America; 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 auditor's 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 Museum of Latin American Art as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information and Adjustments to Prior Period Financial Statements

We have previously audited Museum of Latin American Art's financial statements for the year ended December 31, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived, except as described below.

As discussed in Note 16 of the financial statements, Museum of Latin American Art has restated its 2016 financial statements during the current year to adjust net assets in accordance with accounting principles generally accepted in the United States of America. As part of our audit of the 2017 financial statements, we also audited adjustments described in Note 16 that were applied to restate the 2016 financial statements. In our opinion such adjustments are appropriate and have been properly applied. Our opinion is not modified with respect to that matter.

Onsok & Schely, LLP

Long Beach, California
February 28, 2019

**MUSEUM OF LATIN AMERICAN ART
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE AMOUNTS FOR DECEMBER 31, 2016)**

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,610,358	\$ 6,636,183
Investments in marketable securities	14,273,341	10,217,444
Investments in rental real estate	6,452,858	6,440,890
Investments in mortgage notes receivable	1,699,250	1,699,250
Inventory	131,965	125,989
Accounts receivable	53,860	28,469
Contributions receivable	8,952	1,060,300
Prepaid expenses	22,134	71,718
Property and equipment, net	14,735,626	15,150,300
Deposits	40,345	42,291
	\$ 40,028,689	\$ 41,472,834
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 111,226	\$ 188,724
Accrued liabilities	38,923	91,409
Unearned revenue	38,500	13,470
Loans payable	386,568	519,871
Security deposits and gift certificates	16,713	18,315
	591,930	831,789
Total Liabilities	591,930	831,789
Unrestricted	14,421,899	14,465,761
Temporarily restricted	2,012,723	3,336,724
Permanently restricted	23,002,137	22,838,560
	39,436,759	40,641,045
Total Net Assets	39,436,759	40,641,045
TOTAL LIABILITIES AND NET ASSETS	\$ 40,028,689	\$ 41,472,834

The accompanying notes are an integral part of these financial statements.

MUSEUM OF LATIN AMERICAN ART
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
SUPPORT					
Contributions and grants	\$ 718,231	\$ 312,810	\$ -	\$ 1,031,041	\$ 2,512,092
Donated facilities	399,588	-	-	399,588	434,628
Total Support	<u>1,117,819</u>	<u>312,810</u>	<u>-</u>	<u>1,430,629</u>	<u>2,946,720</u>
REVENUE					
Memberships	148,545	-	-	148,545	124,124
Admissions	154,153	-	-	154,153	110,354
Programs	96,541	-	-	96,541	33,500
Net support from banquet operations	13,151	-	-	13,151	2,152
Net support from special events	55,749	-	-	55,749	68,870
Net support from museum store	77,049	-	-	77,049	30,663
Investment income, net	14,241	1,016,744	163,577	1,194,562	3,262,931
Loss on disposal	(60,905)	-	-	(60,905)	-
Other income	12,982	-	-	12,982	15,086
Total Revenue	<u>511,506</u>	<u>1,016,744</u>	<u>163,577</u>	<u>1,691,827</u>	<u>3,647,680</u>
Net assets released from restriction	<u>2,653,555</u>	<u>(2,653,555)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>4,282,880</u>	<u>(1,324,001)</u>	<u>163,577</u>	<u>3,122,456</u>	<u>6,594,400</u>
EXPENSES					
Program services	2,450,987	-	-	2,450,987	2,680,481
Management and general	1,122,959	-	-	1,122,959	753,405
Fundraising	752,796	-	-	752,796	192,372
TOTAL EXPENSES	<u>4,326,742</u>	<u>-</u>	<u>-</u>	<u>4,326,742</u>	<u>3,626,258</u>
CHANGE IN NET ASSETS	(43,862)	(1,324,001)	163,577	(1,204,286)	2,968,142
NET ASSETS, BEGINNING OF YEAR	<u>14,465,761</u>	<u>3,336,724</u>	<u>22,838,560</u>	<u>40,641,045</u>	<u>37,672,903</u>
NET ASSETS, END OF YEAR	<u>\$ 14,421,899</u>	<u>\$ 2,012,723</u>	<u>\$ 23,002,137</u>	<u>\$ 39,436,759</u>	<u>\$ 40,641,045</u>

The accompanying notes are an integral part of these financial statements.

**MUSEUM OF LATIN AMERICAN ART
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2016)**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Accounting and audit	\$ 5,348	\$ 10,694	\$ 5,347	\$ 21,389	\$ 24,000
Advertising and marketing	61,684	2,109	20,481	84,274	50,717
Bad debt	-	10,000	-	10,000	13,874
Bank fees and miscellaneous	22,429	4,518	5,111	32,058	31,677
Board expenses	664	1,329	665	2,658	6,922
Contracted services	37,525	18,195	64,058	119,778	3,517
Cost of sales	104,860	-	-	104,860	73,015
Depreciation	379,941	67,048	-	446,989	448,525
Donated facilities	298,251	99,417	-	397,668	434,628
Education	85,862	12,333	82,403	180,598	197,490
Exhibitions	351,322	-	31,441	382,763	96,307
Facilities and equipment	227,566	158,174	68,820	454,560	372,876
Insurance	26,680	22,626	10,131	59,437	50,988
Legal	5,449	10,896	5,448	21,793	-
Memberships	26,609	10,678	13,951	51,238	27,736
Phone and office	84,272	117,532	58,297	260,101	137,506
Property taxes	28,738	20,116	8,621	57,475	47,282
Salaries, benefits and payroll taxes	895,291	552,684	481,720	1,929,695	1,896,536
Travel and conferences	14,091	5,825	3,340	23,256	32,064
Total expenses	2,656,582	1,124,174	859,834	4,640,590	3,945,660
Less expenses included with revenues in the statement of activities	<u>(205,595)</u>	<u>(1,215)</u>	<u>(107,038)</u>	<u>(313,848)</u>	<u>(319,402)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 2,450,987</u>	<u>\$ 1,122,959</u>	<u>\$ 752,796</u>	<u>\$ 4,326,742</u>	<u>\$ 3,626,258</u>

The accompanying notes are an integral part of these financial statements.

**MUSEUM OF LATIN AMERICAN ART
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE AMOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2016)**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,204,286)	\$ 2,968,142
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	446,989	448,525
Receipt of donated real estate	(1,000,000)	-
Receipt of donated stock	(100,525)	-
Loss on disposal	60,905	-
Net realized and unrealized gains on investments in marketable securities	(545,409)	(394,745)
Net unrealized loss on investments in private equity	-	112,500
Net realized and unrealized gains on investments in real estate	-	(2,379,839)
Net realized gain on investments in mortgage notes receivable	-	(2,687)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(25,391)	33,391
Contributions receivable	1,051,348	(986,213)
Inventory	(5,976)	12,462
Prepaid expenses	49,584	(36,281)
Deposits	1,946	(35,657)
Increase (decrease) in:		
Accounts payable	(77,498)	(27,432)
Accrued liabilities	(52,486)	(45,858)
Unearned revenue	25,030	3,870
Security deposits	(1,602)	(3,049)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,377,371)</u>	<u>(332,871)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(40,895)	(81,373)
Proceeds from sale of property and equipment	11,500	-
Proceeds from sale of investments	2,344,906	4,119,862
Purchases of investments	(5,754,869)	(575,005)
Proceeds from sale of real estate investments	1,000,000	17,047
Capital expenditures of investments in real estate	(75,793)	-
Proceeds from sale of mortgage notes receivable	-	714,687
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(2,515,151)</u>	<u>4,195,218</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party loan payable	237,410	170,000
Payments of related party loan payable	(365,000)	(190,625)
Payments of A/C unit loan payable	(5,713)	(4,897)
NET CASH USED BY FINANCING ACTIVITIES	<u>(133,303)</u>	<u>(25,522)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,025,825)	3,836,825
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,636,183</u>	<u>2,799,358</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,610,358</u>	<u>\$ 6,636,183</u>

The accompanying notes are an integral part of these financial statements.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 1 – ORGANIZATION

The Museum of Latin American Art (the "Museum") is a California nonprofit corporation that was incorporated on December 15, 1997. The Museum was founded by Dr. Robert Gumbiner with the purpose to operate a museum, to collect and display Latin American art, and to provide education and research services regarding Latin American art. The Museum receives most of its support and revenue from the Endowment Fund created by the estate of Dr. Robert Gumbiner and his private foundation, Robert Gumbiner Foundation (Note 12). The Museum also receives support and revenues from private grants, contributions, membership dues and program revenue.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and follow the recommendations of the Accounting Standards Codification (ASC) 958-205, Financial Statements of Not for Profit Organizations.

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted – Net assets represent the portion of expendable funds available for support of the general operations of the Museum.

Temporarily Restricted – Net assets consist of contributions and related investment income restricted by donors for a particular purpose or time period are reported as temporarily restricted revenue when received (contributions) or earned (investment income). When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. Additionally, net investment gains on permanently restricted endowments that have not been appropriated for expenditure or for additional endowment funds are presented in temporarily restricted net assets.

Permanently Restricted – Net assets subject to donor-restricted funds for which the corpus is to be held in perpetuity and invested for purposes of producing income to be expended for the general operations of the Museum.

Support and Revenue Recognition

Contributions - Contributions are recognized when the donor makes a promise to give to the Museum that is unconditional. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restriction. The gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Membership dues - Annual membership and admission to the Museum. Revenue from the membership dues are recorded when the member joins.

Special events - Revenues and expenses from art auctions and other special events held for the benefit of the Museum. Revenue from the art auctions are recorded when the buyer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Shipping and other transportation costs charged to buyers are recorded in both revenue and expenses. For the years ended December 31, 2017 and 2016, gross support of \$121,086 and \$152,951, respectively, from special events is presented on the accompanying statement of activities net of expenses of \$65,337 and \$84,081, respectively.

Merchandise sales - Sales at the museum store are recorded at the time of sale. For the years ended December 31, 2017 and 2016, gross support of \$252,107 and \$153,185, respectively, is presented on the accompanying statement of activities, net of expenses of \$175,058 and \$122,522, respectively.

Banquet revenue - Banquet revenue is recorded when persuasive evidence of an arrangement exists, sales price is fixed or determinable, and the event has occurred at the Museum's facilities. Banquet activity is considered unrelated business income under the US income tax code section 512. For the years ended December 31, 2017 and 2016, gross support of \$86,604 and \$114,951, respectively, is presented on the accompanying statement of activities, net of expenses of \$73,453 and \$112,799, respectively.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash held in checking and savings accounts, cash on hand, and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

The Museum maintains cash balances at several financial institutions. Cash and cash equivalent accounts are insured by the FDIC for up to \$250,000 in the aggregate. From time to time, the cash balances on hand at the Museum may exceed the insured amounts by the FDIC. Management believes the cash balances are not exposed to any significant credit risk based on the high credit quality of the financial institutions.

Receivables

Receivables consist of accounts and contributions receivable. Unconditional pledges are recorded at their net realizable value and no discount has been recorded. Conditional promises to give are recognized only when the conditions are substantially met. An allowance for doubtful accounts has been established by the Museum's management based on past collection experience. Management believes the receivables as of December 31, 2017 and 2016 are fully collectible and therefore, the Museum has not recorded an allowance for doubtful accounts.

Inventory

Inventory is valued at the lower of cost (determined on a first-in, first-out basis) or market. Inventory consists of books, posters, jewelry, and miscellaneous art objects which are sold in the Museum's gift shop. Donated inventory is recorded at estimated fair value at the date of the donation.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are capitalized at historical cost or, if donated, at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment other than land is depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the life of the related lease.

The Museum uses the following for the estimated useful lives of its various classes of assets:

Leasehold improvements	39 years
Equipment and vehicles	5-7 years
Furniture and fixtures	7 years
Liquor license	15 years

The cost of property and equipment purchased in excess of \$500 is capitalized. Repairs, maintenance and minor acquisitions are expensed as incurred. Gains and losses are recognized in the statements of activities upon disposal of property and equipment.

Long Lived Assets

The Museum reviews long lived assets such as property and equipment to determine if there has been an impairment of value whenever events or changes occur that indicate the carrying value of the assets may have declined and not be recoverable. No circumstances have occurred during the years ended December 31, 2017 and 2016 causing the Museum to believe there has been any impairment of the carrying value of its long lived assets. There can be no assurance, however, that market or other conditions will not change in the future resulting in impairment of long lived assets.

Income Taxes

The Museum is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Tax Code. Contributions to the Museum are deductible for tax purposes under Section 170(c)(2) of the IRC. The Museum is not a private foundation.

The Museum evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will, more likely than not, be sustained upon examination. As of December 31, 2017, management does not believe the Museum has any uncertain tax positions requiring accrual or disclosure. The Museum is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Asset Classifications and Endowment Funds

The Museum's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported on the existence or absence of donor imposed restrictions (Note 10).

The Financial Accounting Standards Board's Accounting Standard Codification ("ASC") Topic 958-205 requires the net asset classification of unrestricted income earned on donor-restricted endowment funds for a not-for-profit organization that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") to be classified as temporarily restricted until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. ASC 958-205 also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the entity is subject to UPMIFA. All of the Museums' endowment net assets meet the definition of endowment funds under UPMIFA.

The Museum classifies as permanently restricted net assets (a) the original value of initial and subsequent gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum's board of directors in a manner consistent with the standard of prudence prescribed by UPMIFA, unless the donor gift instrument stipulates specific instructions.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the organization
- 7) The investment policy of the organization

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration.

Unearned Revenue

Unearned revenue represents prepayments for banquet events, which have not yet been performed and prepayments on grants received in which funds were received upfront with services to be provided in the upcoming fiscal year.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Materials, Services, and Facilities

Donated materials and other noncash contributions when received are reflected in the accompanying statements at their estimated fair values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements. A number of volunteers donate their time to the Museum. The volunteer services received by the Museum did not meet the above criteria and, therefore, are not reflected in the accompanying financial statements. The Museum received donated facilities from the Robert Gumbiner Foundation with an estimated fair value of \$322,548 during the years ended December 31, 2017 and 2016. The Museum received donated facilities from a member of the Museum's board (Note 12) with an estimated fair value of \$75,120 and \$112,080 during the years ended December 31, 2017 and 2016.

Art Collection

Art collections purchased by or donated to the Museum are not capitalized in the statement of financial position. The art collection represents the acquisitions of works of art, whether through gift or by purchase, that is held for exhibition and educational purposes. Each of the items are cataloged, preserved and cared for, and activities verifying their existence and assessing their conditions are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the net assets used to purchase the items are restricted by donors. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Museum received donated art works valued at \$70,650 and \$680,531 during the years ended December 31, 2017 and 2016, respectively.

Fair Value Measurements

Generally accepted accounting standards related to fair value measurements (a) define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and (b) set out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described as follows:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 – Directly or indirectly observable input for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets.

Level 3 – Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

Marketable securities - Reported at fair value, which is determined by using market quotes for securities with readily determinable values as explained below. Interest and dividend income and gains and losses on investments are reported in the statement of activities and changes in net assets as either increases or decreases in net assets in accordance with the required restrictions.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in rental real estate - Reported at fair value, which is estimated based primarily on current market prices of comparable properties, less estimated selling costs and management evaluation of the general real estate market conditions. No depreciation is recorded for the real estate assets. The Museum has a policy that requires an appraisal of the properties once every three years.

Investments in mortgage notes receivable - Reported at fair value, which is estimated based on the inherent interest rate of the notes compared to the discount rate of measuring the future payment stream over the term of the notes. Additionally, any changes to the credit quality of the creditor will be considered in determining the fair value.

Certain financial instruments are carried at cost, which approximates fair value because of the short-term nature of these instruments, and thus are not categorized. These instruments include receivables, accounts payable, and accrued liabilities.

Advertising Costs

The Museum uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Advertising costs for the years ended December 31, 2017 and 2016 were \$84,274 and \$50,717, respectively.

Fundraising Expenses

The accompanying statement of activities includes fundraising expenses for the years ended December 31, 2017 and 2016 of \$752,796 and \$192,372, respectively, which does not include annual special event and banquet expenses of \$107,038 and \$84,081, respectively, as these expenses are directly deducted from support from special events or banquets and presented on a net basis in the accompanying statement of activities.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates. The significant items in these statements that are affected by management estimates are useful lives of property and equipment and allocations of functional expenses.

Summarized Comparative Totals

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2017 consisted of outstanding bequests and grants receivable and are due as follows:

Less than one year	\$ 8,952
One to five years	-
	<u>\$ 8,952</u>

Contributions receivable as of December 31, 2016 consisted of outstanding bequests and grants receivable and are due as follows:

Less than one year	\$ 1,060,300
One to five years	-
	<u>\$ 1,060,300</u>

NOTE 4 – INVESTMENTS

Investments in Marketable Securities

Investments consist of the following at December 31:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Fixed income instruments	\$ 8,810,993	\$ 8,907,568	\$ 5,387,945	\$ 5,542,181
Exchange traded funds	5,462,348	3,660,853	4,829,499	3,660,853
	<u>\$14,273,341</u>	<u>\$12,568,421</u>	<u>\$10,217,444</u>	<u>\$ 9,203,034</u>

Investment returns on marketable securities are included in investment income on the accompanying statement of activities and consists of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 351,018	\$ 337,366
Net realized and unrealized gain (loss) on investments	553,471	394,745
Investment fees	(56,164)	(56,616)
	<u>\$ 848,325</u>	<u>\$ 675,495</u>

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 4 – INVESTMENTS (continued)

Investments in Rental Real Estate

Investments consist of the following at December 31:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Land and building	\$ 6,403,141	\$ 2,886,359	\$ 6,391,173	\$ 2,874,391
Capital improvements	49,717	49,717	49,717	49,717
	<u>\$ 6,452,858</u>	<u>\$ 2,936,076</u>	<u>\$ 6,440,890</u>	<u>\$ 2,924,108</u>

Investment returns on rental real estate are included in investment income on the accompanying statement of activities and consists of the following for the years ended December 31:

	2017	2016
Income from investments in real estate	\$ 495,095	\$ 470,624
Unrealized gain (loss) on fair value of investments in real estate	-	2,379,839
Expenses and management fees	(239,254)	(239,734)
	<u>\$ 255,841</u>	<u>\$2,610,729</u>

The rental real estate portfolio was re-valued to fair market value thereby increasing unrealized gains by \$2.38 million dollars for the year 2016. It was not re-valued in 2017 since the Museum appraises its investments in rental real estate every three years.

Investments in Mortgage Notes Receivable

In 2013, the Museum invested in two mortgage notes payable from the sale of previously owned investments in rental real estate. Investments in mortgage notes receivable consist of a note for \$712,000, which earns interest at 4.75% per annum and a note for \$1,086,750, which earns interest at 5.50% per annum. The payment terms on the notes are interest only through 2018, at which time the entire principal balance is due. In 2016, the note for \$712,000 was sold.

On December 28, 2015, the Museum invested in ten mortgage notes payable from the sale of previously owned investments in rental real estate. Investments in mortgage notes receivable consist of ten different notes for \$61,250 totaling \$612,500, which earn interest at 5.00% per annum. The payment terms on the note is interest only through 2026, at which time the entire principal balance is due.

The total interest earned on these notes during the years ended December 31, 2017 and 2016 was \$90,396 and \$99,264, respectively.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 4 – INVESTMENTS (continued)

Fair Value Measurements

As described in Note 2, the Museum's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation.

The following table presents investments that are measured at fair value on a recurring basis in the accompanying statement of financial position at December 31, 2017:

	Total	Level 1	Level 2	Level 3
Investments in securities:				
Fixed income funds				
U.S. treasuries	\$ 2,056,789	\$ 2,056,789	\$ -	\$ -
Government obligations	2,542,052	-	2,542,052	-
Corporate bonds	2,697,564	-	2,697,564	-
Municipal bonds	441,657	-	441,657	-
Asset backed securities	119,980	-	119,980	-
Certificate of deposits	952,951	952,951	-	-
Exchange traded funds	5,462,348	5,462,348	-	-
	<u>14,273,341</u>	<u>8,472,088</u>	<u>5,801,253</u>	<u>-</u>
Mortgage notes receivable	1,699,250	-	-	1,699,250
Rental real estate	6,452,858	-	-	6,452,858
	<u>22,425,449</u>	<u>8,472,088</u>	<u>3,054,488</u>	<u>8,152,108</u>
Total investment at fair value	<u>\$22,425,449</u>	<u>\$ 8,472,088</u>	<u>\$ 3,054,488</u>	<u>\$ 8,152,108</u>

The following table presents investments that are measured at fair value on a recurring basis in the accompanying statement of financial position at December 31, 2016:

	Total	Level 1	Level 2	Level 3
Investments in securities:				
Fixed income funds				
U.S. treasuries	\$ 1,545,619	\$ 1,545,619	\$ -	\$ -
Government obligations	329,492	-	329,492	-
Corporate bonds	1,986,565	-	1,986,565	-
Municipal bonds	571,038	-	571,038	-
Asset backed securities	167,393	-	167,393	-
Certificate of deposits	787,838	787,838	-	-
Exchange traded funds	4,829,499	4,829,499	-	-
	<u>10,217,444</u>	<u>7,162,956</u>	<u>3,054,488</u>	<u>-</u>
Mortgage notes receivable	1,699,250	-	-	1,699,250
Rental real estate	6,440,890	-	-	6,440,890
	<u>18,357,584</u>	<u>7,162,956</u>	<u>3,054,488</u>	<u>8,140,140</u>
Total investment at fair value	<u>\$18,357,584</u>	<u>\$ 7,162,956</u>	<u>\$ 3,054,488</u>	<u>\$ 8,140,140</u>

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 4 – INVESTMENTS (continued)

Fair Value Measurements (continued)

The following is a reconciliation of investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	Investment in Private Equity	Mortgage Notes	Rental Real Estate	Total
Balance as of December 31, 2015	\$ 112,500	\$2,411,250	\$4,078,098	\$6,601,848
Sales	-	(712,000)	(17,047)	(729,047)
Unrealized Gain (Loss)	(112,500)	-	2,379,839	2,267,339
Balance as of December 31, 2016	-	1,699,250	6,440,890	8,140,140
Purchases	-	-	11,968	11,968
Balance as of December 31, 2017	\$ -	\$1,699,250	\$6,452,858	\$8,152,108

NOTE 5 – PREPAID EXPENSES

Prepaid expenses consist of the following at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Prepaid insurance	\$ 15,540	\$ 23,508
Prepaid exhibition	929	41,753
Prepaid expenses- other	5,665	6,457
	<u>\$ 22,134</u>	<u>\$ 71,718</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016, are summarized as follows:

	December 31,	
	2017	2016
Land and buildings	\$ 3,008,196	\$ 3,008,196
Improvements	16,797,526	16,788,420
Furniture and equipment	502,255	483,713
Vehicles	4,273	46,165
Liquor license	18,697	18,697
	<u>20,330,947</u>	<u>20,345,191</u>
Less: accumulated depreciation	(5,595,321)	(5,194,891)
Net property and equipment	<u>\$14,735,626</u>	<u>\$15,150,300</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$446,989 and \$448,525, respectively.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 – ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2017 and 2016 consisted of the following:

	December 31,	
	2017	2016
Accrued salaries and payroll taxes	\$ 37,343	\$ 91,080
Accrued other expenses	1,580	329
	\$ 38,923	\$ 91,409

NOTE 8 – LOANS PAYABLE

On December 18, 2007, The Museum received a loan in the amount of \$125,000 from the Redevelopment Agency of the City of Long Beach for the acquisition of property. No payments of principal or interest are due as long as the Museum provides arts programming to the surrounding community, especially youths, for a period of at least ten years after the date of the loan. The principal shall be forgiven on the tenth anniversary date of the loan. The loan is collateralized by a deed of trust of one of the Museum's owned properties. At December 31, 2017 and 2016 the balance outstanding is \$125,000 respectively. The loan's tenth anniversary passed during the year ended December 31, 2017. The loan has not been forgiven and is considered outstanding as the City of Long Beach is reviewing the Museum's documentation. The Museum expects the loan balance to be forgiven in the upcoming fiscal year.

The Museum also has a related party loan outstanding to the Robert Gumbiner Foundation (see Note 12), consisting of three separate notes, all bearing interest at 0%. Monthly installments for the first note for \$300,000 has monthly installments of \$3,385.42, maturing in May, 2022. The second note for \$50,000 has monthly installments of \$8,333.33 and matured in June 2017 and was fully paid off in 2017. The third note for \$120,000 has no monthly installments, matured in February 2017 and was fully paid off in 2017. The fourth note for \$42,410 has monthly installments of \$3,534.17, maturing in December 2018.

The aggregate maturities of the loans payable are as follows:

Year Ended December 31,	Amount
2018	\$ 249,068 *
2019	40,625
2020	40,625
2021	40,625
2022	15,625
	\$ 386,568

*- Includes \$125,000 loan payable balance that will be forgiven if contract terms are met.

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Time restricted	\$ -	\$ 1,000,000
Designated for specific purpose	191,543	377,288
Endowment funds	1,821,180	1,959,436
	\$ 2,012,723	\$ 3,336,724

NOTE 10 – ENDOWMENT

The Museum's endowment consists of the Robert Gumbiner Operations endowment fund ("Endowment"), which supports the Museum's general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2009, the estate of Robert Gumbiner through the Robert Gumbiner Revocable Trust ("Trust") provided the Museum \$13,666,667 of permanently restricted endowment contributions, and an additional \$3,000,000 contribution restricted to the completion of the construction of the Museum or to retire debt incurred by the Museum for capital construction. During 2010, the estate provided \$4,166,667 of endowment contributions and upon the settlement of the estate in 2012; the Museum received an additional \$4,166,667 endowment contribution.

The Trust endowment contributions are contingent on the Museum remaining a charitable organization, continuing to be a museum exclusively showing Latin American contemporary fine art, and remaining open to the public at least 48 hours per week. The contributions are further contingent upon the name of the museum staying the same and not including any other individual or corporation in the name. Should the Museum fail to comply with these contingencies, all gifts made under the Trust shall go to the Robert Gumbiner Foundation.

The Museum is currently open to the public 34 hours per week and the Robert Gumbiner Foundation's Board of Directors has agreed that the Museum's current hours of operations exhibiting modern and contemporary Latin American art as well as the special events offered satisfies the hours requirement and will not challenge the contributions, provided the Museum does not decrease the hours of operations further without the consent of the Robert Gumbiner Foundation's Board of Directors.

The endowment fund assets consist of the following, as of December 31:

	2017	2016
Cash and cash equivalents	\$ 2,397,868	\$ 6,440,412
Marketable securities	14,273,341	10,217,444
Real estate	6,452,858	6,440,890
Secured notes receivable	1,699,250	1,699,250
Non-marketable securities	-	-
	\$24,823,317	\$24,797,996

**MUSEUM OF LATIN AMERICAN ART
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016 (SUMMARIZED)**

NOTE 10 – ENDOWMENT (continued)

Activities related to the endowment net assets for the year ended December 31, 2017 and 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ -	\$22,682,607	\$22,682,607
Investment return	3,106,978	155,953	3,262,931
Disbursements	<u>(1,147,542)</u>	<u>-</u>	<u>(1,147,542)</u>
Endowment net assets, December 31, 2016	1,959,436	22,838,560	24,797,996
Investment return	1,016,744	163,577	1,180,321
Disbursements	<u>(1,155,000)</u>	<u>-</u>	<u>(1,155,000)</u>
Endowment net assets, December 31, 2017	<u>\$ 1,821,180</u>	<u>\$23,002,137</u>	<u>\$24,823,317</u>

Return Objectives and Risk Parameters

The Museum's endowment funds are invested and managed according to their investment and spending policies. These policies attempt to provide a consistent return on assets in order to achieve a stable stream of funding for programs supported by the Museum's endowment while seeking to maintain the purchasing power of the endowment assets. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, meet or exceed the spending policy rate plus the rate of inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest, dividends, and rental income). The Museum targets a diversified asset allocation for its investment portfolio in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The objective of the endowment spending policy is to allocate the total endowment earnings between current spending and reinvestment for future earnings and expenditures in order to maintain or enhance the purchasing power of the endowment. The Museum has set procedures specified by the Trust agreement for appropriating expenditures of a maximum of 90% of the three-year average net investment income, to be used for operations, including a minimum of 10% of the three-year net investment income being reinvested into the Endowment. The spending policies are consistent with the Museum's objectives to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through new gifts and investment return.

NOTE 11 – RETIREMENT PLAN

The Museum has a Savings Incentive Match Plan for Employees (SIMPLE) IRA in which eligible employees may make elective contributions of up to \$12,500. The Organization will make a matching contribution equal to 100% of the employee's contribution up to a limit of 3% of the employee's compensation for the calendar year. The Organization contributed \$20,508 and \$19,302 to the plan for the years ended December 31, 2017 and 2016, respectively.

**MUSEUM OF LATIN AMERICAN ART
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NOTE 12 – RELATED PARTY TRANSACTIONS

The Museum was founded by Dr. Robert Gumbiner, who also served on the Board of Directors and played a key role in Museum operations. See Note 8 for related party loan. During the years ended December 31, 2017 and 2016, the Robert Gumbiner Foundation made the following contributions to the Museum:

	2017	2016
Cash contributions	\$ 475,000	\$ 475,000
Donated facilities	322,548	322,548
	\$ 797,548	\$ 797,548

Two directors of the Museum's Board also serve as members of the Board of Directors of the Robert Gumbiner Foundation.

The Museum paid property management fees of \$30,889 and \$25,396 for the years ended December 31, 2017 and 2016, respectively, to a related company to manage its investments in real estate.

The Museum pays a management fee to a related company to manage its investment portfolio. A member of the Museum's Board is an owner of the investment management company. The management fee is calculated based on an annual rate of 0.35% of the fair value of the asset portfolio being managed. For the years ended December 31, 2017 and 2016, the Museum paid the management company \$56,011 and \$56,616, respectively.

The Museum holds various events in which the Museum's primary caterer is owned by a member of the Museum's Board. The amount paid for services for the years ended December 31, 2017 and 2016 was \$37,435 and \$102,378, respectively.

The Museum receives donated rent from a member of the Museum's Board. The donated rent for the years ended December 31, 2017 and 2016 was \$75,120 and \$112,080, respectively.

NOTE 13 – COMMITMENTS

The Museum leases equipment under four operating leases that require specified monthly lease payments through October 22, 2022. Future minimum cash payments due under operating lease commitments are as follows:

Year Ended December 31,	Amount
2018	\$ 8,379
2019	7,967
2020	6,732
2021	6,732
2022	5,610
	\$ 35,420

**MUSEUM OF LATIN AMERICAN ART
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NOTE 13 – COMMITMENTS (continued)

Rental expenses were \$23,783 and \$32,060 for the years ended December 31, 2017 and 2016, respectively.

NOTE 14 – CONCENTRATIONS

Support

Approximately 56 percent of the Museum's support for the year ended December 31, 2017 was from one donor, the Robert Gumbiner Foundation. Approximately 61 percent of the Museum's support for the year ended December 31, 2016 was from two donors.

Support and revenue decreased by approximately \$3.5mm from 2016 to 2017. There were two reasons for the large decrease. A revaluation of the rental real estate portfolio was done in 2016, which increased unrealized gains by approximately \$2.4mm. This revaluation is done every three years. A bequest was received in 2016 for a personal residence. The personal residence was later sold by the Museum for \$1mm. Management deems these two events occurring in 2016 as extraordinary and that support and revenue should be more consistent in future years with the totals reflected for the year ended December 31, 2017.

NOTE 15 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the years ended December 31, 2017 and 2016, the Museum paid no income taxes and no interest.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

Net assets beginning January 1, 2017 have been adjusted for corrections to the prior year. The previously issued financial statement have been restated. The effect of this correction was to increase contributions receivable by \$1,000,000 and increase temporarily restricted net assets by \$1,000,000 as of January 1, 2017.

A promise to give was not recorded in the prior year, causing contributions receivable and temporarily restricted support to be understated by \$1,000,000. On December 1, 2016, the Museum was notified it was the beneficiary of an irrevocable trust and would be receiving a distribution of the donor's personal residence. The deed was transferred to the Museum's name and the property was sold for \$1,000,000 during the year ended December 31, 2017.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 28, 2019, the date the financial statements were available to be issued.