

## **Museum of Latin American Art**

Audited Financial Statements

As of and for the Year Ended December 31, 2019

(With Comparative Summarized Financial Information as  
of and for the Year Ended December 31, 2018)



# **Museum of Latin American Art**

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Financial Statements  
For the Year Ended December 31, 2019

# Museum of Latin American Art

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## Independent Auditor's Report

To the Board of Directors  
Museum of Latin American Art  
Long Beach, California

I have audited the accompanying financial statements of Museum of Latin American Art (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, 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; 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.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Museum of Latin American Art as of December 31, 2019, 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.

Lewis Sharpstone & Co.  
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Woodland Hills, CA 91367  
www.sharpstonecpa.com

***Other matter***

*Report on Summarized Comparative Information*

I have previously audited the financial statements of Museum of Latin American Art for the year ended December 31, 2018 and I expressed an unmodified opinion on those audited financial statements in my report dated May 4, 2020. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Lewis Sharpstone & Co.*

Woodland Hills, CA  
September 30, 2020

## **Financial Statements**

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**Museum of Latin American Art**  
**Statement of Financial Position**  
**December 31, 2019**  
**(With Comparative Totals as of December 31, 2018)**

<b>December 31</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 491,226	\$ 910,577
Investments in marketable securities	16,204,543	15,769,006
Investments in rental real estate	9,287,487	8,703,049
Investments in mortgage notes receivable	612,500	612,500
Contributions receivable	303,244	575,099
Prepaid expenses and other assets	114,871	156,330
Property and equipment, net	13,870,442	14,288,376
<b>Total Assets</b>	<b>\$ 40,884,313</b>	<b>\$ 41,014,937</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 219,359	\$ 199,226
Loans payable	304,910	345,535
<b>Total Liabilities</b>	<b>524,269</b>	<b>544,761</b>
<b>Net Assets</b>		
Without donor restrictions	13,415,268	13,950,832
With donor restrictions	26,944,776	26,519,344
<b>Total Net Assets</b>	<b>40,360,044</b>	<b>40,470,176</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 40,884,313</b>	<b>\$ 41,014,937</b>

*See accompanying notes to financial statements.*

# Museum of Latin American Art

## Statement of Activities and Changes in Net Assets Year Ended December 31, 2019 (With Comparative Totals for the Year Ended December 31, 2018)

Year ended December 31	2019			2018
	Without donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue and Support:</b>				
Contributions and grants	\$ 529,427	\$ 1,575	\$ 531,002	\$ 1,989,505
Donated Facilities	382,548	-	382,548	397,668
Memberships	82,884	-	82,884	92,389
Admissions	84,902	-	84,902	79,368
Revenue from special events, net	116,426	-	116,426	107,809
Museum store revenue, net	(19,538)	-	(19,538)	53,437
Investment income	-	2,340,307	2,340,307	1,300,326
Other income	370,047	-	370,047	348,874
Net assets released from restrictions	1,916,450	(1,916,450)	-	-
<b>Total Support and Revenue</b>	<b>3,463,146</b>	<b>425,432</b>	<b>3,888,578</b>	<b>4,369,376</b>
<b>Expenses:</b>				
Program services	2,597,719	-	2,597,719	2,658,281
Management and general	1,107,391	-	1,107,391	977,618
Fundraising	293,600	-	293,600	542,576
<b>Total Expenses</b>	<b>3,998,710</b>	<b>-</b>	<b>3,998,710</b>	<b>4,178,475</b>
<b>Change in Net Assets</b>	<b>(535,564)</b>	<b>425,432</b>	<b>(110,132)</b>	<b>190,901</b>
<b>Net Assets, beginning of year - restated</b>	<b>13,950,832</b>	<b>26,519,344</b>	<b>40,470,176</b>	<b>40,279,275</b>
<b>Net Assets, end of year</b>	<b>\$ 13,415,268</b>	<b>\$ 26,944,776</b>	<b>\$ 40,360,044</b>	<b>\$ 40,470,176</b>

*See accompanying notes to financial statements.*



**Museum of Latin American Art**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2019**  
**(With Comparative Totals for the Year Ended December 31, 2018)**

Year ended December 31	2019			2018	
	Total Program Services	Management and General	Fundraising	Total	Total
Salaries, benefits and payroll taxes	\$ 895,868	\$ 646,022	\$ 184,578	\$ 1,726,468	\$ 1,861,211
Advertising and marketing	14,300	-	25,211	39,511	105,130
Bank fees	8,774	4,500	-	13,274	18,340
Board expenses	-	3,383	-	3,383	2,421
Contracted services	229,450	58,379	52,972	340,801	313,407
Donated facilities	267,784	114,764	-	382,548	397,668
Education	9,658	-	6,439	16,097	126,229
Exhibitions	309,603	-	-	309,603	323,294
Facilities	314,574	134,988	-	449,562	388,992
Insurance	4,084	1,750	-	5,834	13,015
Membership expenses	1,723	100	-	1,823	639
Office and communication	99,121	40,667	24,400	164,188	50,271
Professional fees	-	48,162	-	48,162	28,036
Travel and conferences	37,632	9,659	-	47,291	98,353
Depreciation	405,148	45,017	-	450,165	451,469
Total expenses	\$ 2,597,719	\$ 1,107,391	\$ 293,600	\$ 3,998,710	\$ 4,178,475

*See accompanying notes to financial statements.*

# Museum of Latin American Art

## Statement of Cash Flows

Year Ended December 31, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

Years ended December 31	2019	2018
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (110,132)	\$ 190,901
Adjustments to reconcile change in net assets to net assets provided (used) by operating activities		
Depreciation	450,165	451,469
(Gain) loss on investments in marketable securities	(1,252,304)	626,495
(Gain) in investment in rental real estate	(533,563)	(1,392,331)
Changes in operating assets and liabilities		
Contributions receivable	271,855	(512,287)
Prepaid expenses and other assets	41,459	38,114
Accounts payable and accrued expenses	20,133	(6,136)
<b>Net cash provided (used) by operating activities</b>	<b>(1,112,387)</b>	<b>(603,775)</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(32,231)	(4,219)
Process from sale (purchases) of marketable securities - net	816,767	(307,867)
(Purchase) proceeds from sale of investments in real estate	(50,875)	(15,344)
Proceeds from sale of investments in mortgage notes receivable	-	1,086,750
<b>Net cash provided (used) by investing activities</b>	<b>733,661</b>	<b>759,320</b>
<b>Cash flows from financing activities</b>		
Payments of related party loan payable	(40,625)	(41,033)
<b>Net cash provided (used) by financing activities</b>	<b>(40,625)</b>	<b>(41,033)</b>
<b>Change in cash</b>	<b>(419,351)</b>	<b>114,512</b>
<b>Cash - beginning of year</b>	<b>910,577</b>	<b>796,065</b>
<b>Cash - end of year</b>	<b>\$ 491,226</b>	<b>\$ 910,577</b>

See accompanying notes to financial statements.

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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### Note 1- Organization

The Museum of Latin American Art (the "Museum") is a California nonprofit corporation that was incorporated on December 15, 1997 and is located in Long Beach, California. 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 much 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 9). The Museum also receives support and revenues from private grants, contributions, memberships 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 Codifications (ASC) 958-205, Financial Statements of Not for Profit Organizations.

#### **Financial Statement Presentation**

The Museum reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

*Net Assets without Donor Restrictions:* - Net assets without donor restrictions are available for use at the discretion of the Board of Directors and management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. See Note 7 for more information on the composition of net assets without donor restriction.

*Net Assets with Donor Restrictions:* - Net assets with donor restrictions consists of assets whose use is limited by donor imposed, time and/or purpose restrictions. The Museum reports cash or other assets received as revenues with donor restrictions 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 a purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restriction. See Note 7 for more information on the composition of net assets with donor restrictions.

#### **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, 2018, from which the summarized information was derived.

Certain 2018 items have been reclassified to conform to the 2019 presentation.

#### **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 net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of donor restriction. The gifts

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Membership dues: - Revenue from the membership dues are recorded when the member joins.

Special events: - Revenue from 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. For the years ended December 31, 2019 and 2018, gross support from special events of \$194,770 and \$140,475, is presented on the accompanying statement of activities net of expenses of \$78,344 and \$32,666, respectively.

Merchandise sales: - Sales at the museum store are recorded at the time of sale. For the years ended December 31, 2019 and 2018, gross sales were \$100,258 and \$96,490, respectively, and are presented on the accompanying statement of activities net of cost of sales of \$119,796 and \$43,053, respectively. The 2019 cost of sales includes inventory write offs and adjustments of \$74,273.

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 21, 2019 and 2018, gross support of \$116,216 and \$103,181, respectively, is presented on the accompanying statement of activities within other income, net of expenses of \$34,564 and \$47,333, respectively. Any deposits received in advance of events held is recorded as an advance, included within accounts payable and accrued expenses on the statement of financial position.

### **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.

### **Receivables**

Receivables consist of accounts and contributions receivable. Unconditional pledges are recorded at their net realizable value. No discount has been recorded since one was not necessary. Conditional promises to give are recognized only when the conditions are substantially met. An allowance for doubtful accounts has been established by the Museums management based on past collection experience. Management believes the receivables as of December 31, 2019 and 2018 are fully collectible and therefore, the Museum has not recorded an allowance for doubtful accounts.

### **Inventory**

Inventory is valued at the lower of costs (determined on a first-in, first-out basis) or net realizable value. 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. The inventory balance is not material to the financial statements and is included within prepaid expenses and other assets on the statement of financial position.

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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### 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 net assets with donor restrictions to net assets without donor restrictions 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, 2019 and 2018 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 the other conditions will not change in the future resulting in impairment of long-lived assets.

### Income Taxes

The Museum received its determination letters in March 1999 that it 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, 2019, 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.

### 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 8).

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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The Financial Accounting Standards Board's Accounting Standard Codification ("ASC") Topic 958-205 required the net asset classification of 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 net assets with donor restriction 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 Museum's endowment net assets meet the definition of endowment funds under UPMIFA.

The Museum classifies as net assets with donor restriction – "corpus" (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 "corpus" is classified as net assets with donor restriction – "accumulated endowment earnings" until those amount 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.

### **Contributed Materials, Services, and Facilities**

Donated materials and other noncash contributions when received are reflected in the accompanying statements at their estimate 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 form the Robert Gumbiner Foundation with an estimated fair value of \$322,548 during the years ended December 31, 2019 and 2018. The Museum received donated facilities from a member of the Museum's board (Note 9) with an estimated fair value of \$60,000 and \$75,120 during the years ended December 31, 2019 and 2018, respectively.

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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### **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 net assets with donor restrictions if the net assets used to purchase the items are restricted by donors. The Museum purchased collection items in the amount of \$93,000 and \$124,991 for the years ended December 31, 2019 and 2018, respectively. These amounts are included in exhibition expenses in the statement of functional expenses. In addition, the Museum received donated art works valued at \$62,725 and \$283,700 during the years ended December 31, 2019 and 2018, respectively.

### **Art Held for Sale**

The Museum receives donated works of art that it chooses not to access into the permanent collection. Instead these art items are held for sale. The Museum records these at the estimated net value of the proceeds expected to be received upon the sale of these items. As of December 31, 2019, this estimate was \$50,000. This is included within prepaid expenses and other assets on the statement of financial position.

### **Fair Value Measurements**

Generally accepted accounting standards related to fair value measurements (a) define fair value as the price that would be received for 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 their 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.

Investments in rental real estate – As permitted by ASC 958-325-35, reported at fair value, which is estimated based primarily on current market prices or comparable properties, less estimated selling costs and management's evaluation of the general real estate market conditions. No depreciation is recorded for the real estate assets.

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

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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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 expenses.

### **Credit Risk**

Custodial credit risk is the risk that the Museum will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

Financial instruments that potentially subject the Museum to credit risk include cash deposits with banks and other financial institutions that are in excess of the federally insured limit of \$250,000. Also, the Museum's investments are similarly subject to custodial credit risk. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these financial instruments.

### **Advertising Costs**

The museum uses advertising to promote its programs among the audiences it serves. The costs of the advertising are expensed as incurred. Advertising costs for the year ended December 31, 2019 and 2018 were \$39,511 and \$105,130, respectively.

### **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 estimates. The significant items in these statements that are affected by management estimates are useful lives of property and equipment, valuation of donated facilities, valuation of level 3 investments and allocations of functional expenses.

### **Recent Accounting Pronouncements**

In May 2014, The FASB issued ASU NO. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The deferred effective date, ASU 2014-09 will be effective for the Museum in its year ended December 31, 2020. Early adoption is permitted. The Museum is in the process of evaluating the impact of adoption on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all



# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Museum in its year ended December 31, 2022. The Museum is in the process of evaluating the impact of adoption on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Topic 958, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The new guidance clarifies what is an exchange transaction, of which revenues would be reported under Topic 606, and what is a contribution reported under Topic 958. The new guidance presents three key considerations for the not-for-profit to consider in order to determine what type of transaction transpired and how to account for the transaction. The effective date of this ASU for the Museum is for its year ended December 31, 2019. The Museum has adopted this pronouncement in its 2019 financial statements.

In March 2019 the FASB issued ASU 2019-03, Topic 958, Updating the Definition of Collections. The amendments in this Update modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care. The effective date of this ASU for the Museum is for its year ended December 31, 2020. The Museum is in the process of evaluating the impact of adoption on its financial statements.

### Note 3 – Receivables

Receivables as of December 31, 2019 and 2018 consisted of outstanding contributions and grants receivable and are due within one year from each balance sheet date.

### Note 4 – Investments

#### Investments in Marketable Securities

Investments in marketable securities consist of the following at December 31:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Fixed income instruments	\$ 10,204,832	\$ 9,854,502	\$ 10,818,143	\$ 9,817,408
Exchange traded funds	5,999,711	3,660,853	4,950,863	3,687,903
	<u>\$ 16,204,543</u>	<u>\$ 13,542,405</u>	<u>\$ 15,969,006</u>	<u>\$ 13,505,311</u>

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

	2019	2018
Interest and dividends	\$ 332,131	\$ 352,863
Net gains (losses) on investments	1,252,262	(626,495)
Investment fees	(55,541)	(57,250)
Net return	<u>\$ 1,528,852</u>	<u>\$ (330,882)</u>

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

### Investments in Rental Real Estate

Investments consist of the following in December 31:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Land and building	\$ 9,166,283	\$ 2,881,101	\$ 8,632,720	\$ 2,881,101
Capital improvements	49,717	49,717	49,717	49,717
Other real estate assets	71,487	71,487	20,612	20,612
	<u>\$ 9,287,487</u>	<u>\$ 3,002,305</u>	<u>\$ 8,703,049</u>	<u>\$ 2,951,430</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:

	2019	2018
Rental income from investments in real estate	\$ 532,349	\$ 503,194
Expenses and management fees	<u>(285,082)</u>	<u>(302,871)</u>
Net income on rental activities	247,267	200,323
Unrealized gain on fair value of investments in real estate	<u>533,563</u>	<u>1,392,331</u>
Total investment return on real estate	<u>\$ 780,830</u>	<u>\$ 1,592,654</u>

### Investment in Mortgage Notes Receivable

In 2013, the Museum invested in a mortgage note payable from the sale of a previously owned investment in rental real estate. It consisted of a note for \$1,086,750, due in 2018, which earns interest at 5.50% per annum. The note matured and the proceeds were received in January 2018.

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 notes are 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, 2019 and 2018 was \$30,625 and \$38,554 respectively.

### 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.

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

The following tables presents investments that are measured at fair value on a recurring basis in the accompanying statement of financial position at December 31, 2019 and 2018:

Asset Class	Level 1	Level 2	Level 3	Total
<b>2019</b>				
Marketable securities				
Fixed income funds				
US treasuries	\$ 4,328,083	\$ -	\$ -	\$ 4,328,083
Government obligations	-	314,461	-	314,461
Corporate bonds	-	2,234,996	-	2,234,996
Municipal bonds	-	200,166	-	200,166
Asset backed securities	-	74,709	-	74,709
Cash and certificate of deposits	3,052,416	-	-	3,052,416
Exchange traded funds	5,999,711	-	-	5,999,711
Total marketable securities	13,380,210	2,824,333		16,204,543
Rental real estate	-	-	9,287,487	9,287,487
Mortgage notes receivable	-	-	612,500	612,500
<b>Total</b>	<b>\$ 13,380,210</b>	<b>\$ 2,824,333</b>	<b>\$ 9,899,987</b>	<b>\$ 26,104,530</b>

Asset Class	Level 1	Level 2	Level 3	Total
<b>2018</b>				
Marketable securities				
Fixed income funds				
US treasuries	\$ 2,527,875	\$ -	\$ -	\$ 2,527,875
Government obligations	-	3,523,507	-	3,523,507
Corporate bonds	-	2,296,580	-	2,296,580
Municipal bonds	-	430,330	-	430,330
Asset backed securities	-	90,998	-	90,998
Cash and certificate of deposits	1,948,853	-	-	1,948,853
Exchange traded funds	4,950,863	-	-	4,950,863
Total marketable securities	9,427,591	6,341,415		15,769,006
Rental real estate	-	-	8,703,049	8,703,049
Mortgage notes receivable	-	-	612,500	612,500
<b>Total</b>	<b>\$ 9,427,591</b>	<b>\$ 6,341,415</b>	<b>\$ 9,315,549</b>	<b>\$ 25,084,555</b>

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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

	Rental real estate	Mortgage notes
Balance December 31, 2017	\$ 7,295,374	\$ 1,699,250
Purchases	15,344	-
Sales	-	(1,086,750)
Unrealized gain	<u>1,392,331</u>	<u>-</u>
Balance December 31, 2018	8,703,049	612,500
Purchases	50,875	-
Sales	-	-
Unrealized gain	<u>533,563</u>	<u>-</u>
Balance December 31, 2019	\$ <u>9,287,487</u>	\$ <u>612,500</u>

### Note 5 – Property and Equipment

Property and equipment at December 31, 2019 and 2018, are summarized as follows:

	December 31	
	2019	2018
Land and building	\$ 3,008,196	\$ 3,008,196
Building improvements	16,829,230	16,797,526
Furniture and equipment	507,001	506,474
Vehicles	4,273	4,273
Liquor license	<u>18,697</u>	<u>18,697</u>
Total cost	20,367,397	20,335,166
Less accumulated depreciation	<u>(6,496,955)</u>	<u>(6,046,790)</u>
Net property and equipment	\$ <u>13,870,442</u>	\$ <u>14,288,376</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$450,165 and \$451,469, respectively.

### Note 6 – 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, 2019 and 2018 the balance outstanding is \$125,000, respectively. The loan's

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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ten 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 9), bearing interest at 0%. The amount owed on the note at December 31, 2019 was 179,910. Monthly installments are \$3,385 and the note matures in May 2024.

The aggregate maturities of the loans payable at December 31, 2019 are as follows:

Year ended December 31,	Amount
2020 (includes \$125,000 – see above)	\$ 165,625
2021	40,625
2022	40,625
2023	40,625
2024	17,410
	<u>\$ 304,910</u>

### Note 7 - Net Assets

#### Net Assets without Donor Restrictions

In 2018 the Board designated a reserve fund in the amount of \$300,000. This was the designated balance as of December 31, 2019 and 2018

#### Net Assets with Donor Restrictions

Net assets without donor restrictions consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Perpetual in nature - see Note 8	\$ 26,729,032	\$ 25,733,131
Purpose restricted	215,744	311,213
Time restricted	-	475,000
Total net assets with donor restrictions	<u>\$ 26,944,776</u>	<u>\$ 26,519,344</u>

### Note 8 – 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

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

\$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 of 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:

	2019	2018
Cash and cash equivalents	\$ 624,502	\$ 648,576
Marketable securities	16,204,543	15,769,006
Real estate	9,287,487	8,703,049
Secured notes receivable	612,500	612,500
	<u>\$ 26,729,032</u>	<u>\$ 25,733,131</u>

Activities related to the endowment net assets for the year ended December 31, 2019 and 2018 are as follows:

	Original "corpus"	Accumulated earnings	Total donor restricted endowment
December 31, 2017	\$ 23,002,137	\$ 2,663,696	\$ 25,665,833
Investment return	100,000	1,200,326	1,300,326
Appropriation	-	(1,233,028)	(1,233,028)
December 31, 2018	23,102,137	2,630,994	25,733,131
Investment return	100,000	2,240,307	2,340,307
Appropriation	-	(1,344,406)	(1,344,406)
December 31, 2019	<u>\$ 23,202,137</u>	<u>\$ 3,526,895</u>	<u>\$ 26,729,032</u>

### *Return Objectives and Risk Parameters*

The Museum's endowment funds are invested and managed according to their investments and spending policies. These policies attempt to provide a consistent return on assets in order to achieve a stable stream

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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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 earning 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 10% of the prior three-year net investment income being reinvested into the Endowment. The earnings draw is agreed upon each year – for the years ended December 31, 2019 and 2018 the draw approximated 5% of the total 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 9 – Related Party Transactions**

The Museum was founded by Dr. Rober Gumbiner, who served on the Board of Directors and played a key role in the Museum operations until his passing. The Robert Gumbiner Foundation continues to play a key role in the Museum. Two directors of the Museum's Board serve as members of the Board of Directors of the Robert Gumbiner Foundation.

During the years ended December 31, 2019 and 2018, the Robert Gumbiner Foundation made the following contributions to the Museum:

	<u>2019</u>		<u>2018</u>
Cash contributions	\$ -	\$	475,000
Contributions receivable	187,500		475,000
Donated facilities	<u>322,548</u>		<u>322,548</u>
	<u>\$ 510,048</u>	\$	<u>1,272,548</u>

These contributions represented 35% and 53% of total contributions and grants for the years ended December 31, 2019 and 2018, respectively.

In addition to the donated facilities above, the Museum also receives donated rent from another member of the museum's Board, who also serves on the Board of the Robert Gumbiner Foundation. The estimated fair value of this donated rent for the years ended December 31, 2019 and 2018 was \$60,000 and \$75,120, respectively.

# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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The Robert Gumbiner Foundation loans payable represents 59% and 64% of total loans payable at December 31, 2019 and 2018, respectively.

The Museum paid property management fees of \$24,708 and \$25,027 for the years ended December 31, 2019 and 2018, respectively, to a company owned by a member of the Board of Directors of the Museum, who is also a member of the Board of the Robert Gumbiner Foundation, to manage its investments in real estate.

The Museum pays a management fee to a company owned by a member of the Board of Directors of the Museum, who is also a member of the Board of the Robert Gumbiner Foundation, to manage its marketable securities investment portfolio. 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, 2019 and 2018, the Museum paid the management company \$55,541 and \$57,249, respectively.

The Museum holds various events at the Museum for which the caterer is owned by a member of the Museum's Board. The amount paid for services for the years ended December 2019 and 2018 was \$36,972 and \$24,287, respectively.

### Note 10 – 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 Museum contributed \$39,159 and \$21,709 to the plan for the years ended December 31, 2019 and 2018, respectively.

### Note 11 – 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
2020	6,732
2021	6,732
2022	5,610
	\$ <u>19,074</u>

Rental expenses were \$16,382 and \$14,932 for the years ended December 31, 2019 and 2018, respectively.



# Museum of Latin American Art

## Notes to Financial Statements December 31, 2019 and 2018 (Summarized)

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### Note 12 – Concentrations

#### Support

Approximately 35 percent of the Museum's support for the year ended December 31, 2019 was from one donor. Approximately 66 percent of the Museum's support for the year ended December 31, 2018 was from two donors.

### Note 13 Liquidity and Availability of Resources

The Museum monitors its financial assets available within one year of the balance sheet date for expenditures on a quarterly basis. As of December 31, 2019, the balance available is as follows:

Cash and cash equivalents	\$	491,226
Investments at fair value		<u>16,204,543</u>
Total financial assets available		16,695,769
Less those unavailable for expenditure within one year due to:		
Restricted by donor with time or purpose restrictions		<u>(15,529,045 )</u>
Financial assets available to meet cash needs for expenditures within one year	\$	<u>1,166,724</u>

As noted in the statement of cash flows, for the year ended December 31, 2019 the Organization used approximately \$1,100,000 of cash in its operations. As part of the Organization's liquidity management the Museum prepares semi-annual cash requirement projections which are used to ensure that needed balances are liquid and available for payment of general expenses in the near term. In addition, the Museum employs an extensive annual budgeting process and strategic planning process to ensure the Museum will continue to be poised to have funds available to pay general expenses in the long term.

### Note 14 – Subsequent Events

Starting in March 2020, the US economy began to experience considerable uncertainty related to the impact of the COVID-19 virus. The Museum took positive steps to adapt its operations to the changing environment but may be adversely affected in the future through restrictions on the ability of the Organization to deploy staff to pursue its mission and decreases in future grant revenue. Management is currently evaluating the impact these uncertainties may have on future operations.

Management has evaluated subsequent events through September 30, 2020, the date the financial statements were available to be issued.