

Museum of Latin American Art

Audited Financial Statements

As of and for the Year Ended December 31, 2018

(With Comparative Summarized Financial Information as
of and for the Year Ended December 31, 2017)



Museum of Latin American Art

Financial Statements
For the Year Ended December 31, 2018

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, 2018, 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, 2018, 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.

Emphasis of Matters

As discussed in Note 3 to the financial statements, Museum of Latin American Art adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, during the year ended December 31, 2018. My opinion is not modified with respect to this matter.

As discussed in Note 4 to the financial statements, Museum of Latin American Art incorrectly accounted for the fair value of investments in rental real estate as of and for the year ended December 31, 2017. Museum of Latin American Art has restated its net assets at December 31, 2017 for the correction of this misstatement. My opinion is not modified with respect to this matter.

Other matter

Report on Summarized Comparative Information

The 2017 financial statements of Museum of Latin American Art were audited by other auditors who, in their report dated February 28, 2019, expressed an unmodified opinion on those audited financial statements. The summarized comparative information presented herein as of and for the year ended December 31, 2017 has been modified for the matters described above and except for these matters is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lewis Sharpstone & Co.

Woodland Hills, CA
May 4, 2020

Financial Statements

Museum of Latin American Art
Statement of Financial Position
December 31, 2018
(With Comparative Totals as of December 31, 2017)

December 31	2018	2017
Assets		
Cash and cash equivalents	\$ 910,577	\$ 796,065
Investments in marketable securities	15,769,006	16,087,634
Investments in rental real estate	8,703,049	7,295,374
Investments in mortgage notes receivable	612,500	1,699,250
Inventory	112,170	131,965
Contributions receivable	575,099	62,812
Prepaid expenses and other assets	44,160	62,479
Property and equipment, net	14,288,376	14,735,626
Total Assets	\$ 41,014,937	\$ 40,871,205
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 181,676	\$ 166,862
Unearned revenue	17,550	38,500
Loans payable	345,535	386,568
Total Liabilities	544,761	591,930
Net Assets		
Without donor restrictions (Note 9)	13,950,832	14,421,899
With donor restrictions (Note 9)	26,519,344	25,857,376
Total Net Assets	40,470,176	40,279,275
Total Liabilities and Net Assets	\$ 41,014,937	\$ 40,871,205

See accompanying notes to financial statements.

Museum of Latin American Art

Statement of Activities and Changes in Net Assets Year Ended December 31, 2018 (With Comparative Totals for the Year Ended December 31, 2017)

Year ended December 31	2018			2017
	Without donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support:				
Contributions and grants	\$ 1,203,342	\$ 786,163	\$ 1,989,505	\$ 1,032,961
Donated Facilities	397,668	-	397,668	397,668
Memberships	92,389	-	92,389	148,545
Admissions	79,368	-	79,368	154,153
Revenue from special events, net	107,809	-	107,809	55,749
Museum store revenue, net	53,437	-	53,437	77,049
Investment income	-	1,300,326	1,300,326	2,037,078
Loss on disposal of assets	-	-	-	(60,905)
Other income	348,874	-	348,874	122,674
Net assets released from restrictions	1,424,521	(1,424,521)	-	-
Total Support and Revenue	3,707,408	661,968	4,369,376	3,964,972
Expenses:				
Program services	2,658,281	-	2,658,281	2,450,987
Management and general	977,618	-	977,618	1,122,959
Fundraising	542,576	-	542,576	752,796
Total Expenses	4,178,475	-	4,178,475	4,326,742
Change in Net Assets	(471,067)	661,968	190,901	(361,770)
Net Assets, beginning of year - restated	14,421,899	25,857,376	40,279,275	40,641,045
Net Assets, end of year	\$ 13,950,832	\$ 26,519,344	\$ 40,470,176	\$ 40,279,275

See accompanying notes to financial statements.

MEND - Meet Each Need with Dignity

Statement of Functional Expenses Year Ended December 31, 2018 (With Comparative Totals for the Year Ended December 31, 2017)

Year ended December 31,	2018			2017	
	Total Program Services	Management and General	Fundraising	Total	Total
Salaries, benefits and payroll taxes	\$ 949,218	\$ 558,363	\$ 353,630	\$ 1,861,211	\$ 1,929,565
Advertising and marketing	38,888	-	66,242	105,130	84,274
Bad debts	-	-	-	-	10,000
Bank fees	9,819	2,127	6,394	18,340	32,058
Board expenses		2,421		2,421	2,658
Contracted services	189,199	68,492	55,716	313,407	119,778
Donated facilities	278,368	119,300	-	397,668	397,668
Education	75,737	-	50,492	126,229	180,598
Exhibitions	323,294	-	-	323,294	382,783
Facilities	271,000	117,992	-	388,992	454,560
Insurance	9,111	3,904	-	13,015	59,437
Membership expenses	604	35	-	639	51,238
Office and communication	28,455	11,714	10,102	50,271	108,588
Professional fees	-	28,036	-	28,036	43,182
Travel and conferences	78,266	20,087	-	98,353	23,256
Depreciation	406,322	45,147	-	451,469	446,989
Total expenses	\$ 2,658,281	\$ 977,618	\$ 542,576	\$ 4,178,475	\$ 4,326,742

See accompanying notes to financial statements.

Museum of Latin American Art
Statement of Cash Flows
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

Years ended December 31	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 190,901	\$ (361,770)
Adjustments to reconcile change in net assets to net assets provided (used) by operating activities		
Depreciation	451,469	446,989
Receipt of donated real estate	-	(1,000,000)
Receipt of donated stock	-	(100,525)
Loss on disposal	-	60,905
Loss (gain) on investments in marketable securities	626,495	(545,409)
Gain in investment in rental real estate	(1,392,331)	(842,516)
Changes in operating assets and liabilities		
Inventory	19,795	(5,976)
Contributions receivable	(512,287)	1,025,957
Prepaid expenses and other assets	18,319	51,530
Accounts payable and accrued expenses	14,814	(131,586)
Unearned revenue	(20,950)	25,030
Net cash provided (used) by operating activities	(603,775)	(1,377,371)
Cash flows from investing activities		
Purchases of property and equipment	(4,219)	(31,395)
Purchases of marketable securities - net	(307,867)	(3,409,963)
(Purchase) proceeds from sale of investments in real estate	(15,344)	1,000,000
Acquisition of investments in real estate	-	(75,793)
Proceeds from sale of investments in mortgage notes receivable	1,086,750	-
Net cash provided (used) by investing activities	759,320	(2,515,151)
Cash flows from financing activities		
Proceeds from related party loan payable	-	237,410
Payments of related party loan payable	(41,033)	(365,000)
Payments on other loans payable	-	(5,713)
Net cash provided (used) by financing activities	(41,033)	(133,303)
Change in cash	114,512	(4,025,825)
Cash - beginning of year	796,065	4,821,890
Cash - end of year	\$ 910,577	\$ 796,065

See accompanying notes to financial statements.

Museum of Latin American Art

Notes to Financial Statements December 31, 2018 and 2017(Summarized)

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 12). 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 Organization 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 9 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 Organization 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 9 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, 2017, from which the summarized information was derived.

Certain 2017 items have been reclassified to conform to the 2018 presentation.

Museum of Latin American Art

Notes to Financial Statements December 31, 2018 and 2017(Summarized)

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 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, 2018 and 2017, gross support from special events of \$140,475 and \$121,086, is presented on the accompanying statement of activities net of expenses of \$32,666 and \$65,337, respectively.

Merchandise sales: - Sales at the museum store are recorded at the time of sale. For the years ended December 31, 2018 and 2017, gross sales were \$96,490 and \$252,107, respectively, and are presented on the accompanying statement of activities net of cost of sales of \$43,053 and \$175,058, 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, 2018 and 2017, gross support of \$103,181 and \$86,604, respectively, is presented on the accompanying statement of activities within other income, net of expenses of \$47,333 and \$73,453, 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.

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 Museum’s management based on past collection experience. Management believes the receivables as of December 31, 2018 and 2017 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 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.

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Notes to Financial Statements December 31, 2018 and 2017(Summarized)

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, 2018 and 2017 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 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, 2018, 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.

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Notes to Financial Statements December 31, 2018 and 2017(Summarized)

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 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 Museums' 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.

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.

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

Museum of Latin American Art

Notes to Financial Statements December 31, 2018 and 2017(Summarized)

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, 2018 and 2017. The Museum received donated facilities from a member of the Museum's board (Note 12) with an estimated fair value of \$75,120 during the years ended December 31, 2018 and 2017.

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 \$124,991 and \$11,675 for the years ended December 31, 2018 and 2017 respectively. These amounts are included in exhibition expenses in the statement of functional expenses. In addition, the Museum received donated art works valued at \$283,700 and \$70,650 during the years ended December 31, 2018 and 2017, 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 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 explain 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

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Notes to Financial Statements December 31, 2018 and 2017(Summarized)

and management 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 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, 2018 and 2017 were \$105,130 and \$84,274, 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

Museum of Latin American Art

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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, 2019. 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 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, 2020. 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 is in the process of evaluating the impact of adoption on its 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 - Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The guidance simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements about its liquidity, financial performance and cash flows. The guidance is effective for the Museum in its year ended December 31, 2018 and the Museum adopted this guidance.

Note 4 – Correction of Opening Net Assets

During the year ended December 31, 2018, the Museum determined that it had improperly accounted for investments in rental real estate at December 31, 2017. As noted in Note 2, the Museum's accounting policy is to report investments in rental real estate at fair value. The value reported for these assets at December 31, 2017 was incorrectly previously reported as of December 31, 2016. The correction of this error resulted in the Museum recognizing an unrealized gain in the fair value of investments in real estate for the year ended December 31, 2017 of \$842,516. Total net assets and net assets with donor restrictions at December 31, 2017 were restated as follows:

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Notes to Financial Statements December 31, 2018 and 2017(Summarized)

	Total net assets	Net assets with donor restriction
Balance at December 31, 2017 as previously reported	\$ 39,436,759	\$ 25,014,860
Adjustment to fair value of investments in rental real estate	<u>842,516</u>	<u>842,516</u>
Balance at December 31, 2017, restated	\$ <u>40,279,275</u>	\$ <u>25,857,376</u>

Note 5 –Receivables

Receivables as of December 31, 2018 and 2017 consisted of outstanding contributions and grants receivable and are due within one year from each balance sheet date.

Note 6 – Investments

Investments in Marketable Securities

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

	2018		2017	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Fixed income instruments	\$ 10,818,143	\$ 9,817,408	\$ 10,625,286	\$ 10,721,861
Exchange traded funds	<u>4,950,863</u>	<u>3,687,903</u>	<u>5,462,348</u>	<u>3,660,563</u>
	\$ <u>15,769,006</u>	\$ <u>13,505,311</u>	\$ <u>16,087,634</u>	\$ <u>14,382,424</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:

	2018	2017
Interest and dividends	\$ 352,863	\$ 351,018
Net gains (losses) on investments	(626,495)	553,471
Investment fees	<u>(57,250)</u>	<u>(56,164)</u>
	\$ <u>(330,882)</u>	\$ <u>848,325</u>

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Investments in Rental Real Estate

Investments consist of the following in December 31:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Land and building	\$ 8,632,720	\$ 2,881,101	\$ 7,240,389	\$ 2,881,101
Capital improvements	49,717	49,717	49,717	49,717
Other real estate assets	20,612	20,612	5,268	5,258
	<u>\$ 8,703,049</u>	<u>\$ 2,951,430</u>	<u>\$ 7,295,374</u>	<u>\$ 2,936,076</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:

	2018	2017
Rental income from investments in real estate	\$ 503,194	\$ 495,095
Expenses and management fees	<u>(302,871)</u>	<u>(239,254)</u>
Net income on rental activities	200,323	255,841
Unrealized gain on fair value of investments in real estate	<u>1,392,331</u>	<u>842,516</u>
Total investment return on real estate	<u>\$ 1,592,654</u>	<u>\$ 1,098,357</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, 2018 and 2017 was \$38,554 and \$90,396 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.

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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, 2018:

Asset Class	Level 1	Level 2	Level 3	Total
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
Total	\$ 9,427,591	\$ 6,341,415	\$ 9,315,549	\$ 25,084,555

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.

Asset Class	Level 1	Level 2	Level 3	Total
Marketable securities				
Fixed income funds				
US treasuries	\$ 2,056,789	\$ -	\$ -	\$ 2,056,789
Government obligations	-	2,541,052	-	2,542,052
Corporate bonds	-	2,697,564	-	2,697,564
Municipal bonds	-	441,657	-	441,657
Asset backed securities	-	119,980	-	119,980
Cash and certificate of deposits	2,767,244	-	-	2,767,244
Exchange traded funds	5,462,348	-	-	5,462,348
Total marketable securities	10,286,381	5,801,253	-	16,087,634
Rental real estate	-	-	7,295,374	7,295,374
Mortgage notes receivable	-	-	1,699,250	1,699,250
Total	\$ 10,286,381	\$ 5,801,253	\$ 8,994,624	\$ 25,082,258

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

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	Rental real estate	Mortgage notes
Balance December 31, 2016	\$ 6,440,890	\$ 1,699,250
Purchases	11,968	-
Unrealized gain	842,516	-
Balance December 31, 2017	7,295,374	1,699,250
Purchases	15,344	
Sales	-	(1,086,750)
Unrealized gain	1,392,331	-
Balance December 31, 2018	\$ 8,703,049	\$ 612,500

Note 7 – Property and Equipment

Property and equipment at December 31, 2018 and 2017, are summarized as follows:

	December 31	
	2018	2017
Land and building	\$ 3,008,196	\$ 3,008,196
Building improvements	16,797,526	16,797,526
Furniture and equipment	506,474	502,255
Vehicles	4,273	4,273
Liquor license	18,697	18,697
Total cost	20,335,166	20,330,947
Less accumulated depreciation	(6,046,790)	(5,595,321)
Net property and equipment	\$ 14,288,376	\$ 14,735,626

Depreciation expense for the years ended December 31, 2018 and 2017 was \$451,469 and \$446,989, respectively.

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 ten anniversary passed during the year ended December 31, 2017. The loan has not been forgiven and is

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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, maturing in May, 2024. The second note for \$50,000 had monthly installment of \$8,333 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 aggregate maturities of the loans payable at December 31, 2018 are as follows:

Year ended December 31,	Amount
2019 (includes \$125,000 – see above)	\$ 165,625
2020	40,625
2021	40,625
2022	40,625
2023	40,625
2024	15,625
	<u>\$ 345,535</u>

Note 9 - Net Assets

Net Assets without Donor Restrictions

Net assets without donor restrictions also had no Board designations at December 31, 2017. In 2018 the Board designated a reserve fund in the amount of \$300,000.

Net Assets with Donor Restrictions

Net assets without donor restrictions consisted of the following as of December 31, 2018 and 2017:

	2018	2017
Perpetual in nature - see Note 10	\$ 25,733,131	\$ 25,665,833
Purpose restricted	311,213	191,543
Time restricted	475,000	-
Total net assets with donor restrictions	<u>\$ 26,519,344</u>	<u>\$ 25,857,376</u>

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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 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:

	2018	2017
Cash and cash equivalents	\$ 648,576	\$ 583,575
Marketable securities	15,769,006	16,087,634
Real estate	8,703,049	7,295,374
Secured notes receivable	612,500	1,699,250
	\$ 25,733,131	\$ 25,665,833

Activities related to the endowment net assets for the year ended December 31, 2018 and 2017 are as follows:

	Original “corpus”	Accumulated earnings	Total donor restricted endowment
December 31, 2016	\$ 22,838,560	\$ 1,959,436	\$ 24,797,996
Investment return	163,577	1,859,260	2,022,837
Appropriation	-	(1,155,000)	(1,155,000)
December 31, 2017	23,002,137	2,663,696	25,665,833

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Investment return	100,000	1,200,326	1,300,326
Appropriation	<u>-</u>	<u>(1,233,028)</u>	<u>(1,233,028)</u>
December 31, 2018	\$ <u>23,102,137</u>	\$ <u>2,630,994</u>	\$ <u>25,733,131</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 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 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 Museum contributed \$21,709 and \$20,508 to the plan for the years ended December 31, 2018 and 2017, respectively.

Note 12 – 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.

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During the years ended December 31, 2018 and 2017, the Robert Gumbiner Foundation made the following contributions to the Museum:

	<u>2018</u>	<u>2017</u>
Cash contributions for 2018	\$ 475,000	\$ 475,000
Promise to give for 2019 support	475,000	-
Donated facilities	<u>322,548</u>	<u>322,548</u>
	<u>\$ 1,272,548</u>	<u>\$ 797,548</u>

These contributions represented 53% and 56% of total contributions and grants for the years ended December 31, 2018 and 2017 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, 2018 and 2017 was \$75,120 and \$75,120, respectively.

The Robert Gumbiner Foundation loans payable represented 64% and 68% of total loans payable at December 31, 2018 and 2017 respectively.

The Museum paid property management fees of \$25,027 and \$30,889 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the Museum paid the management company \$57,249 and \$56,011, 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 2018 and 2017 was \$24,287 and \$37,435, 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:

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Year ended December 31,	Amount
2019	\$ 7,697
2020	6,732
2021	6,732
2022	<u>5,610</u>
	<u>\$ 26,771</u>

Rental expenses were \$14,932 and \$23,783 for the years ended December 31, 2018 and 2017, respectively.

Note 14 – Concentrations

Support

Approximately 66 percent of the Museum’s support for the year ended December 31, 2018 was from two donors. Approximately 56 percent of the Museum’s support for the years ended December 31, 2017 was from one donor, the Robert Gumbiner Foundation.

Note 15 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, 2018, the balance available is as follows:

Cash and cash equivalents	\$ 910,577
Investments at fair value	<u>15,769,006</u>
Total financial assets available	16,679,583
Less those unavailable for expenditure within one year due to:	
Restricted by donor with time or purpose restrictions	<u>(16,417,582)</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 262,001</u>

As noted in the statement of cash flows, for the year ended December 31, 2018 the Organization used approximately \$600,000 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 16 – 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

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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.

Related to the above, the US equity market experienced significant declines in value in the first quarter of 2020. This negatively impacted the value of the Museum's investment portfolio. Management believes these declines will be of a temporary nature and the Museum is continuing to pursue a prudent investment strategy for its endowment investments as noted in Note 10.

Management has evaluated subsequent events through May 4, 2020, the date the financial statements were available to be issued.