

*Financial Statements and  
Independent Auditors' Report*



*As of and for the Year Ended  
December 31, 2015*

*Financial Statements and  
Independent Auditors' Report*



*As of and for the Year Ended December 31, 2015*

# MUSEUM OF LATIN AMERICAN ART

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Museum of Latin American Art (the "Museum"), a California nonprofit corporation, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year ended December 31, 2015, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

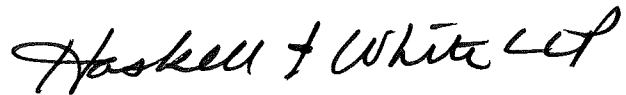
## INDEPENDENT AUDITORS' REPORT (continued)

### *Opinion*

In our 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, 2015, and the changes in its net assets and its cash flows for the year ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

### *Report on Summarized Comparative Information*

We have previously audited the Museum's 2014 financial statements, and our report dated August 19, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



HASKELL & WHITE LLP

Irvine, California  
November 22, 2016

**MUSEUM OF LATIN AMERICAN ART**

**Statement of Financial Position**

**As of December 31, 2015**

*(With summarized information as of December 31, 2014)*

|   | <b>2015</b>          | <b>2014</b>          |
|---|----------------------|----------------------|
| Cash and cash equivalents                         | \$ <b>2,799,358</b>  | \$ 2,228,757         |
| Investments in marketable securities (Note 3)     | <b>13,367,556</b>    | 14,817,082           |
| Investment in private equity (Note 3)             | <b>112,500</b>       | 112,500              |
| Contributions receivable                          | <b>135,947</b>       | 106,887              |
| Prepaid expenses and other assets                 | <b>42,071</b>        | 35,345               |
| Inventory   | <b>138,451</b>       | 145,061              |
| Investments in rental real estate (Note 3)        | <b>4,078,098</b>     | 4,691,508            |
| Investments in mortgage notes receivable (Note 3) | <b>2,411,250</b>     | 1,798,750            |
| Property and equipment, net (Note 4)              | <b>15,517,452</b>    | 15,962,822           |
|   | <b>\$ 38,602,683</b> | <b>\$ 39,898,712</b> |
| <b>Total assets</b>                               | <b>\$ 38,602,683</b> | <b>\$ 39,898,712</b> |
| <br>  |                      |                      |
| Accounts payable                                  | \$ <b>216,156</b>    | \$ 102,091           |
| Accrued expenses                                  | <b>137,267</b>       | 137,210              |
| Security deposits and unearned revenue            | <b>30,964</b>        | 99,766               |
| Loans payable (Note 5)                            | <b>545,393</b>       | 440,914              |
|   | <b>929,780</b>       | <b>779,981</b>       |
| <b>Total liabilities</b>                          | <b>929,780</b>       | <b>779,981</b>       |
| <br>  |                      |                      |
| Commitments (Note 6)                              |                      |                      |
| <br>  |                      |                      |
| Unrestricted                                      | <b>14,729,348</b>    | 15,282,164           |
| Temporarily restricted (Note 7)                   | <b>260,948</b>       | 1,223,640            |
| Permanently restricted (Note 8)                   | <b>22,682,607</b>    | 22,612,927           |
|   | <b>37,672,903</b>    | <b>39,118,731</b>    |
| <b>Total net assets</b>                           | <b>37,672,903</b>    | <b>39,118,731</b>    |
| <br>  |                      |                      |
| <b>Total liabilities and net assets</b>           | <b>\$ 38,602,683</b> | <b>\$ 39,898,712</b> |

See accompanying independent auditors' report and notes to the financial statements.

## MUSEUM OF LATIN AMERICAN ART

### Statement of Activities For The Year Ended December 31, 2015 *(With summarized information for the year ended December 31, 2014)*

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>2015<br/>Total</u> | <u>2014<br/>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| <b>Support and revenues</b>                 |                      |                                   |                                   |                       |                       |
| Contributions and grants                    | \$ 676,355           | \$ 395,598                        | \$ -                              | \$ 1,071,953          | \$ 1,340,376          |
| Donated facilities                          | 322,548              | -                                 | -                                 | 322,548               | 322,548               |
| Memberships                                 | 158,844              | -                                 | -                                 | 158,844               | 212,315               |
| Admissions                                  | 98,304               | -                                 | -                                 | 98,304                | 174,550               |
| Programs                                    | 247,825              | -                                 | -                                 | 247,825               | 236,077               |
| Net support from special events (Note 2)    | 150,362              | -                                 | -                                 | 150,362               | 195,798               |
| Net support from museum store (Note 2)      | 57,734               | -                                 | -                                 | 57,734                | 130,064               |
|   | <u>1,711,972</u>     | <u>395,598</u>                    | <u>-</u>                          | <u>2,107,570</u>      | <u>2,611,728</u>      |
| Banquet revenue                             | 179,074              | -                                 | -                                 | 179,074               | 166,407               |
| Banquet expenses                            | (176,987)            | -                                 | -                                 | (176,987)             | (164,630)             |
| Net support from banquet operations         | <u>2,087</u>         | <u>-</u>                          | <u>-</u>                          | <u>2,087</u>          | <u>1,777</u>          |
| Total support and revenues                  | <u>1,714,059</u>     | <u>395,598</u>                    | <u>-</u>                          | <u>2,109,657</u>      | <u>2,613,505</u>      |
| <b>Other income</b>                         |                      |                                   |                                   |                       |                       |
| Investment income, net                      | -                    | 394,202                           | 69,680                            | 463,882               | 951,663               |
| Miscellaneous income                        | 11,046               | -                                 | -                                 | 11,046                | 74                    |
| Total other income                          | <u>11,046</u>        | <u>394,202</u>                    | <u>69,680</u>                     | <u>474,928</u>        | <u>951,737</u>        |
| <b>Net assets released from restriction</b> | <u>1,752,492</u>     | <u>(1,752,492)</u>                | <u>-</u>                          | <u>-</u>              | <u>-</u>              |
| Total support, revenues and other income    | <u>3,477,597</u>     | <u>(962,692)</u>                  | <u>69,680</u>                     | <u>2,584,585</u>      | <u>3,565,242</u>      |
| <b>Expenses</b>                             |                      |                                   |                                   |                       |                       |
| Program expenses                            | 2,969,602            | -                                 | -                                 | 2,969,602             | 3,081,184             |
| Supporting services                         | 860,355              | -                                 | -                                 | 860,355               | 898,323               |
| Fundraising expenses                        | 200,456              | -                                 | -                                 | 200,456               | 217,994               |
| Total expenses                              | <u>4,030,413</u>     | <u>-</u>                          | <u>-</u>                          | <u>4,030,413</u>      | <u>4,197,502</u>      |
| <b>Changes in net assets</b>                | <u>(552,816)</u>     | <u>(962,692)</u>                  | <u>69,680</u>                     | <u>(1,445,828)</u>    | <u>(632,260)</u>      |
| <b>Net assets, beginning of year</b>        | <u>15,282,164</u>    | <u>1,223,640</u>                  | <u>22,612,927</u>                 | <u>39,118,731</u>     | <u>39,750,991</u>     |
| <b>Net assets, end of year</b>              | <u>\$ 14,729,348</u> | <u>\$ 260,948</u>                 | <u>\$ 22,682,607</u>              | <u>\$ 37,672,903</u>  | <u>\$ 39,118,731</u>  |

See accompanying independent auditors' report and notes to the financial statements.

**MUSEUM OF LATIN AMERICAN ART**

**Statement of Functional Expenses**

**For The Year Ended December 31, 2015**

*(With summarized information for the year ended December 31, 2014)*

|                                      | <b>Program<br/>Expenses</b> | <b>Supporting<br/>Services</b> | <b>Fundraising<br/>Expenses</b> | <b>2015<br/>Total</b> | <b>2014<br/>Total</b> |
|--------------------------------------|-----------------------------|--------------------------------|---------------------------------|-----------------------|-----------------------|
| Accounting and audit                 | \$ -                        | \$ 25,000                      | \$ -                            | \$ <b>25,000</b>      | \$ 25,360             |
| Advertising and marketing            | -                           | 60,705                         | 6,745                           | <b>67,450</b>         | 114,131               |
| Bank fees and miscellaneous          | 6,147                       | 5,843                          | 5,072                           | <b>17,062</b>         | 22,031                |
| Board expenses                       | -                           | 3,091                          | -                               | <b>3,091</b>          | 3,199                 |
| Contract services                    | 1,920                       | 46,533                         | -                               | <b>48,453</b>         | 30,100                |
| Depreciation                         | 350,044                     | 38,894                         | -                               | <b>388,938</b>        | 389,646               |
| Donated facilities                   | 225,784                     | 96,764                         | -                               | <b>322,548</b>        | 322,548               |
| Education                            | 236,374                     | -                              | -                               | <b>236,374</b>        | 326,994               |
| Exhibitions                          | 199,676                     | -                              | -                               | <b>199,676</b>        | 271,948               |
| Facilities and equipment             | 282,275                     | 120,975                        | -                               | <b>403,250</b>        | 450,957               |
| Insurance                            | 29,853                      | 12,794                         | -                               | <b>42,647</b>         | 142,386               |
| Memberships                          | 33,329                      | 1,754                          | -                               | <b>35,083</b>         | 59,571                |
| Phone and office expense             | 61,824                      | 36,874                         | 16,404                          | <b>115,102</b>        | 39,706                |
| Property taxes (refund)              | 14,771                      | 6,331                          | -                               | <b>21,102</b>         | (168,224)             |
| Salaries, benefits and payroll taxes | 1,421,244                   | 378,207                        | 172,235                         | <b>1,971,686</b>      | 2,113,763             |
| Travel and conferences               | 106,361                     | 26,590                         | -                               | <b>132,951</b>        | 53,386                |
| <b>Total expenses</b>                | <b>\$ 2,969,602</b>         | <b>\$ 860,355</b>              | <b>\$ 200,456</b>               | <b>\$ 4,030,413</b>   | <b>\$ 4,197,502</b>   |

See accompanying independent auditors' report and notes to the financial statements.



**MUSEUM OF LATIN AMERICAN ART**

**Statement of Cash Flows  
For The Year Ended December 31, 2015**

*(With summarized information for the year ended December 31, 2014)*

|   | <b>2015</b>         | <b>2014</b>         |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities</b>   |                     |                     |
| Changes in net assets   | \$ (1,445,828)      | \$ (632,261)        |
| Adjustments to reconcile changes in net assets<br>to net cash used in operating activities: |                     |                     |
| Depreciation  | 453,480             | 453,568             |
| Net realized and unrealized gains on<br>investments in marketable securities                | (377,656)           | (369,419)           |
| Net realized gains on investments in<br>real estate   | (254,242)           | -                   |
| Stock contribution  | -                   | (112,500)           |
| Changes in operating assets and liabilities:  |                     |                     |
| Contributions receivable  | (29,060)            | (4,795)             |
| Prepaid expenses and other assets   | (6,726)             | 19,271              |
| Inventory   | 6,610               | (31,676)            |
| Accounts payable  | 114,065             | (65,752)            |
| Accrued expenses  | 57                  | 30,212              |
| Security deposits and unearned revenue  | (68,802)            | 16,712              |
| <b>Net cash used in operating activities</b>  | <b>(1,608,102)</b>  | <b>(696,640)</b>    |
| <b>Cash flows from investing activities</b>   |                     |                     |
| Purchase of property and equipment  | (8,109)             | (30,271)            |
| Proceeds from sale of investments   | 2,894,719           | 2,056,158           |
| Purchases of investments  | (1,067,537)         | (1,541,584)         |
| Proceeds from sale of real estate investments   | 269,652             | -                   |
| Capital improvements of investments in real estate  | (14,500)            | (2,250)             |
| <b>Net cash provided by investing activities</b>  | <b>2,074,225</b>    | <b>482,053</b>      |
| <b>Cash flows from financing activities</b>   |                     |                     |
| Proceeds from related party note payable  | 150,000             | -                   |
| Repayments of related party note payable  | (45,521)            | (45,817)            |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>104,479</b>      | <b>(45,817)</b>     |
| <b>Net change in cash and cash equivalents</b>  | <b>570,602</b>      | <b>(260,404)</b>    |
| <b>Cash and cash equivalents, beginning of year</b>   | <b>2,228,756</b>    | <b>2,489,160</b>    |
| <b>Cash and cash equivalents, end of year</b>   | <b>\$ 2,799,358</b> | <b>\$ 2,228,756</b> |

See accompanying independent auditors' report and notes to the financial statements.

# MUSEUM OF LATIN AMERICAN ART

## Notes to Financial Statements December 31, 2015

### 1. Organization

The Museum of Latin American Art (the “Museum”) is a California nonprofit corporation that was incorporated on December 15, 1997. The Museum was founded by Dr. Robert Gumbiner with the purpose to operate a museum, to collect and display Latin American art, and to provide education and research services regarding Latin American art. The Museum receives most of its support and revenue from the estate of Dr. Gumbiner and his private foundation, Robert Gumbiner Foundation (Note 9). The Museum also receives support and revenues from private grants, contributions, membership dues and program revenue.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying financial statements are presented on the accrual basis of accounting and present the amounts for each of three classes of net assets described below:

#### Unrestricted Net Assets

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

#### Temporarily Restricted Net Assets

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

#### Permanently Restricted Net Assets

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

# MUSEUM OF LATIN AMERICAN ART

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### *Net Asset Classifications and Endowment Funds*

The Museum's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported on the existence or absence of donor imposed restrictions (Note 8).

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

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

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

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

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Net Asset Classifications and Endowment Funds (continued)*

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.

##### *Use of Estimates and Assumptions*

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America "GAAP". Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during each reporting period. Actual results could vary from the estimates that were assumed in preparing the financial statements.

##### *Support and Revenue Recognition*

Unrestricted, unconditional promises to give are recorded as receivables at their estimated fair value and recognized as revenue by net asset class when they are received. Unconditional promises to give are recognized as revenue in the period the promise is received at the net present value of the amounts expected to be collected.

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

Support from special events is comprised of revenues and expenses from art auctions and other special events held for the benefit of the Museum. Revenue from the art auctions are recorded when the buyer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Shipping and other transportation costs charged to buyers are recorded in both revenue and expenses. For the years ended December 31, 2015 and 2014, gross support of \$247,906 and \$297,639, respectively, from special events is presented on the accompanying statement of activities net of the expenses of \$97,544 and \$101,841, respectively.

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Revenues and Support Recognition (continued)*

Revenue from merchandise sales at the museum store is recorded at the time of sale. For the years ended December 31, 2015 and 2014, gross support of \$200,585 and \$317,567, respectively, is presented on the accompanying statement of activities, net of expenses of \$142,851 and \$187,503, respectively.

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.

##### *Donated Materials, Services, and Facilities*

Donated materials and other noncash contributions when received are reflected in the accompanying statements at their estimated fair values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements. A number of volunteers donate their time to the Museum. The volunteer services received by the Museum did not meet the above criteria and, therefore, are not reflected in the accompanying financial statements. The Museum received donated facilities from the Robert Gumbiner Foundation with an estimated fair value of \$322,548 during the years ended December 31, 2015 and 2014.

##### *Art Collection*

Art collections purchased by or donated to the Museum are not capitalized in the statement of financial position. The art collection represents the acquisitions of works of art, whether through gift or by purchase, that is held for exhibition and educational purposes. Each of the items are cataloged, preserved and cared for, and activities verifying their existence and assessing their conditions are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the net assets used to purchase the items are restricted by donors. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Museum received donated art works valued at \$291,850 and \$114,950 during the years ended December 31, 2015 and 2014, respectively.

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Allocations*

The Museum has allocated natural expenses to their functional categories, as required by GAAP for non-profit organizations. The allocations are based on the functional category's estimated usage of the natural expense, as determined by management.

##### *Fundraising Expenses*

The accompanying statement of activities includes fundraising expenses for the years ended December 31, 2015 and 2014 of \$200,456 and \$217,994, respectively, which does not include annual special event expenses of \$97,544 and \$101,841, respectively, as these event expenses are directly deducted from support from special events and presented on a net basis in the accompanying statement of activities.

##### *Income Taxes*

The Museum has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. The Museum recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. 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 purposes is three years and for California purposes is four years. Management has evaluated its tax positions using the guidance of ASC Topic 450, "Contingencies", and has concluded that an additional provision for such tax liabilities is not necessary as of December 31, 2015 and 2014.

##### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Museum considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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

# MUSEUM OF LATIN AMERICAN ART

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### *Fair Value Measurements*

Marketable securities are 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 is reported at fair value, which is estimated based primarily on current market prices of comparable properties, less estimated selling costs and management evaluation of the general real estate market conditions. No depreciation is recorded for the real estate assets.

Investments in mortgage notes receivable are 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.

ASC 820, "Fair Value Measurements," defines fair value as the price that an entity would receive to sell an asset, or pay to transfer a liability, in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Museum's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

# MUSEUM OF LATIN AMERICAN ART

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### *Fair Value Measurements (continued)*

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

#### *Inventory*

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

#### *Property and Equipment*

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

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

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



## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Impairment of Long-Lived Assets*

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the expected future cash flows from the use of such assets (undiscounted and without interest charges) are less than the carrying value, the Museum recognizes an impairment loss based on the difference between the carrying value of the assets and their estimated fair value. There were no impairment losses recognized during the years ended December 31, 2015 and 2014. There can be no assurance, however, that market conditions will not change or demand for the Museum's services will continue, which could result in impairment of long-lived assets in the future.

##### *Recent Accounting Pronouncements*

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The new standard will be effective for reporting periods beginning after December 15, 2017, with early application permitted. Management is currently evaluating the impact of the adoption of this standard.

##### *Reclassification*

Certain amounts on the 2014 financial statements have been reclassified to conform with the current year presentation.

#### 3. Investments

##### *Investments in Marketable Securities*

Investments consist of the following at December 31:

|                          | 2015                 |                      | 2014                 |                      |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
|                          | Fair Value           | Cost                 | Fair Value           | Cost                 |
| Fixed income instruments | \$ 8,981,843         | \$ 9,118,365         | \$ 10,204,503        | \$ 10,256,174        |
| Exchange traded funds    | 4,385,713            | 3,660,853            | 4,612,579            | 3,660,853            |
|                          | <u>\$ 13,367,556</u> | <u>\$ 12,779,218</u> | <u>\$ 14,817,082</u> | <u>\$ 13,917,027</u> |

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 3. Investments (continued)

##### *Investments in Marketable Securities (continued)*

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

|  | 2015        | 2014       |
|--|-------------|------------|
| Interest and dividends                                 | \$ 275,643  | \$ 302,770 |
| Net realized and unrealized (loss) gain on investments | (291,682)   | 369,419    |
| Investment fees  | (57,005)    | (59,973)   |
|  | \$ (73,044) | \$ 612,216 |

##### *Investments in Rental Real Estate*

The Museum owns residential rental real estate properties and holds them for investment purposes. Investments in rental real estate consist of the following at December 31:

|                      | 2015         |              | 2014         |              |
|----------------------|--------------|--------------|--------------|--------------|
|                      | Fair Value   | Cost         | Fair Value   | Cost         |
| Land and building    | \$ 4,028,381 | \$ 2,883,341 | \$ 4,625,106 | \$ 3,418,143 |
| Capital improvements | 49,717       | 49,717       | 66,402       | 66,402       |
|                      | \$ 4,078,098 | \$ 2,933,058 | \$ 4,691,508 | \$ 3,484,545 |

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:

|   | 2015       | 2014       |
|---|------------|------------|
| Income from investments in real estate                            | \$ 548,452 | \$ 498,510 |
| Realized gain on sale of investments in real estate               | 254,242    | -          |
| Unrealized gain(loss) on fair value of investments in real estate | (70,871)   | -          |
| Expenses and management fees                                      | (288,573)  | (252,654)  |
|   | \$ 443,250 | \$ 245,856 |

##### *Investments in Mortgage Notes Receivable*

In 2013, the Museum invested in two mortgage notes payable from the sale of previously owned investments in rental real estate. Investments in mortgage notes receivable consist of a note for \$712,000, which earns interest at 4.75% per annum and a note for \$1,086,750, which earns interest at 5.50% per annum. The payment terms on the notes

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 3. Investments (continued)

##### *Investments in Mortgage Notes Receivable (continued)*

are interest only through 2018, at which time the entire principal balance is due. The total interest earned during the years ended December 31, 2015 and 2013 was \$93,676 and \$21,436, respectively, and is included in the investment income line item on the accompanying statement of activities.

On December 28, 2015, the Museum invested in ten mortgage notes payable from the sale of previously owned investments in rental real estate. Investments in mortgage notes receivable consist of ten different notes for \$61,250 totaling \$612,500, which earn interest at 5.00% per annum. The payment terms on the note is interest only through 2026, at which time the entire principal balance is due. There was no interest earned on these notes during the year ended December 31, 2015.

##### *Fair Value Measurements*

As described in Note 2, the Museum's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The following table presents investments that are measured at fair value on a recurring basis in the accompanying statement of financial position at December 31, 2015:

|  | <u>Total</u>         | <u>(Level 1)</u>    | <u>(Level 2)</u>    | <u>(Level 3)</u>    |
|--|----------------------|---------------------|---------------------|---------------------|
| <b>Investments in securities:</b>      |                      |                     |                     |                     |
| <b>Fixed income funds</b>              |                      |                     |                     |                     |
| U.S. treasuries                        | \$ 1,542,893         | \$ 1,542,893        | \$ -                | \$ -                |
| Government obligations                 | 3,133,344            | -                   | 3,133,344           | -                   |
| Corporate bonds                        | 2,492,301            | -                   | 2,492,301           | -                   |
| Municipal bonds                        | 792,574              | -                   | 792,574             | -                   |
| Asset backed securities                | 215,956              | -                   | 215,956             | -                   |
| Certificate of deposits                | 804,775              | 804,775             | -                   | -                   |
| Exchange traded funds                  | 4,385,713            | 4,385,713           | -                   | -                   |
|  | <u>13,367,556</u>    | <u>6,733,381</u>    | <u>6,634,175</u>    | <u>-</u>            |
| Investment in private equity           | 112,500              | -                   | -                   | 112,500             |
| Mortgage notes receivable              | 2,411,250            | -                   | -                   | 2,411,250           |
| Rental real estate                     | 4,078,098            | -                   | -                   | 4,078,098           |
|  | <u>4,078,098</u>     | <u>-</u>            | <u>-</u>            | <u>4,078,098</u>    |
| <b>Total investments at fair value</b> | <u>\$ 19,969,404</u> | <u>\$ 6,733,381</u> | <u>\$ 6,634,175</u> | <u>\$ 6,601,848</u> |

**MUSEUM OF LATIN AMERICAN ART**

**Notes to Financial Statements (continued)**

**3. Investments (continued)**

*Fair Value Measurements (continued)*

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, 2014:

|                                 | <u>Total</u>         | <u>(Level 1)</u>    | <u>(Level 2)</u>    | <u>(Level 3)</u>    |
|---------------------------------|----------------------|---------------------|---------------------|---------------------|
| Investments in securities:      |                      |                     |                     |                     |
| Fixed income funds:             |                      |                     |                     |                     |
| U.S. treasuries                 | \$ 196,368           | \$ 196,368          | \$ -                | \$ -                |
| Government obligations          | 5,302,945            | -                   | 5,302,945           | -                   |
| Corporate bonds                 | 2,501,563            | -                   | 2,501,563           | -                   |
| Municipal bonds                 | 1,163,787            | -                   | 1,163,787           | -                   |
| Asset backed securities         | 286,500              | -                   | 286,500             | -                   |
| Certificate of deposits         | 753,340              | 753,340             | -                   | -                   |
| Exchange traded funds           | 4,612,579            | 4,612,579           | -                   | -                   |
|                                 | <u>14,817,082</u>    | <u>5,562,287</u>    | <u>9,254,795</u>    | <u>-</u>            |
| Investment in private equity    | 112,500              | -                   | -                   | 112,500             |
| Mortgage notes receivable       | 1,798,750            | -                   | -                   | 1,798,750           |
| Rental real estate              | 4,691,508            | -                   | -                   | 4,691,508           |
|                                 | <u>14,817,082</u>    | <u>5,562,287</u>    | <u>9,254,795</u>    | <u>-</u>            |
| Total investments at fair value | <u>\$ 21,419,840</u> | <u>\$ 5,562,287</u> | <u>\$ 9,254,795</u> | <u>\$ 6,602,758</u> |

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

|                                 | <u>Investment in<br/>Private Equity</u> | <u>Mortgage<br/>Notes</u> | <u>Rental real<br/>estate</u> | <u>Total</u>        |
|---------------------------------|---|---------------------------|-------------------------------|---------------------|
| Balance as of December 31, 2013 | \$ -                                    | \$ 1,798,750              | \$ 4,689,258                  | \$ 6,488,008        |
| Capital improvements            |   |                           | 2,250                         | 2,250               |
| Purchases                       | 112,500                                 | -                         | -                             | 112,500             |
| Balance as of December 31, 2014 | 112,500                                 | 1,798,750                 | \$ 4,691,508                  | 6,602,758           |
| Purchases                       | -                                       | 612,500                   | -                             | 612,500             |
| Capital improvements            | -                                       | -                         | 14,500                        | 14,500              |
| Sales                           | -                                       | -                         | (627,910)                     | (627,910)           |
| Balance as of December 31, 2015 | <u>\$ 112,500</u>                       | <u>\$ 2,411,250</u>       | <u>\$ 4,078,098</u>           | <u>\$ 6,601,848</u> |

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 4. Property and Equipment

Property and equipment consists of the following at December 31,:

|  | <u>2015</u>          | <u>2014</u>          |
|--|----------------------|----------------------|
| Land   | \$ 3,008,196         | \$ 3,008,196         |
| Leasehold improvements                         | 16,709,920           | 16,703,211           |
| Equipment and vehicles                         | 383,706              | 382,306              |
| Furniture and fixtures                         | 143,300              | 143,300              |
| Liquor license                                 | 18,697               | 18,697               |
|  | <u>20,263,819</u>    | <u>20,255,710</u>    |
| Less accumulated depreciation and amortization | <u>(4,746,367)</u>   | <u>(4,292,888)</u>   |
| Total  | <u>\$ 15,517,452</u> | <u>\$ 15,962,822</u> |

For the year ended December 31, 2015, depreciation expense on property and equipment totaled \$453,479, of which \$64,541 was allocated to banquet direct expenses and \$388,938 was allocated to program expenses and supporting services on the accompanying statement of activities. For the year ended December 31, 2014, depreciation expense on property and equipment totaled \$453,568, of which \$63,922 was allocated to banquet direct expenses and \$389,646 was allocated to program expenses and supporting services on the accompanying statement of activities.

#### 5. 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, 2015 and 2014, the balance outstanding is \$125,000, respectively.

The Museum also has a related party loan outstanding to the Robert Gumbiner Foundation (see Note 9) at December 31, 2015 and 2014 for \$420,393 and \$315,914, respectively. An additional \$150,000 was borrowed during the year ended December 31, 2015. No interest accrues and the note is payable in monthly principal payments of \$3,385 through September 2023. See Note 10.

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 6. Commitments

The Museum leases a copier, security system equipment and postal equipment under three operating leases that require specified monthly lease payments through June 12, 2017. Future minimum cash payments due under operating lease commitments are as follows:

| Year Ending<br>December 31, |                  |
|-----------------------------|------------------|
| 2016                        | \$ 31,031        |
| 2017                        | 13,561           |
|                             | <u>\$ 44,592</u> |

Rent and maintenance expense related to these leases for years ended December 31, 2015 and 2014 was \$40,717 and \$49,567, respectively, and is recorded within facilities and equipment on the accompanying statement of functional expenses.

#### 7. Temporarily Restricted Net Assets

As of December 31, 2015 and 2014, temporarily restricted net assets included the following:

|   | <u>2015</u>       | <u>2014</u>         |
|---|-------------------|---------------------|
| Time restriction                        | \$ 62,500         | \$ 63,372           |
| Endowment funds                         | -                 | 974,315             |
| Designation for specific purpose        | 198,448           | 185,953             |
| Total temporarily restricted net assets | <u>\$ 260,948</u> | <u>\$ 1,223,640</u> |

#### 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.

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 8. Endowment (continued)

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

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

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

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

|                           | <u>2015</u>          | <u>2014</u>          |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 2,713,203         | \$ 2,167,402         |
| Marketable securities     | 13,367,556           | 14,817,082           |
| Real estate               | 4,078,098            | 4,691,508            |
| Secured notes receivable  | 2,411,250            | 1,798,750            |
| Non-marketable securities | 112,500              | 112,500              |
|                           | <u>\$ 22,682,607</u> | <u>\$ 23,587,242</u> |

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 8. Endowment (continued)

Activities related to the endowment net assets for the years ended December 31, 2015 and 2014 is as follows:

|   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, December 31, 2013 | \$ 1,467,803                      | \$ 22,348,365                     | \$ 23,816,168        |
| Contributions                           | -                                 | 112,500                           | 112,500              |
| Investment return                       | 799,542                           | 152,062                           | 951,604              |
| Disbursements                           | (1,293,030)                       | -                                 | (1,293,030)          |
| Endowment net assets, December 31, 2014 | 974,315                           | 22,612,927                        | 23,587,242           |
| Investment return                       | 394,202                           | 69,680                            | 463,882              |
| Disbursements                           | (1,368,517)                       | -                                 | (1,368,517)          |
| Endowment net assets, December 31, 2015 | <u>\$ -</u>                       | <u>\$ 22,682,607</u>              | <u>\$ 22,682,607</u> |

#### *Return Objectives and Risk Parameters*

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

#### *Strategies Employed for Achieving Objectives*

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



## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### 8. Endowment (continued)

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

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

#### 9. Related Party Transactions

The Museum was founded by Dr. Robert Gumbiner, who also served on the Board of Directors and played a key role in Museum operations. During the years ended December 31, 2015 and 2014, his estate or private foundation made the following contributions to the Museum:

|                    | <u>2015</u>       | <u>2014</u>       |
|--------------------|-------------------|-------------------|
| Cash contribution  | \$ 475,000        | \$ 525,858        |
| Donated facilities | 322,548           | 322,548           |
|                    | <u>\$ 797,548</u> | <u>\$ 848,406</u> |

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

The Museum paid property management fees of \$56,613 and \$54,339 for the years ended December 31, 2015 and 2014, respectively, to real estate companies to manage its investments in real estate. In 2014, \$34,766 of these fees were paid to a real estate company owned and operated by a former member of the Board of Directors. In August 2014, the Museum engaged an unrelated property management company to manage its investments in real estate.

The Museum pays a management fee to a related company to manage its investment portfolio. A member of the Museum's Board is an owner of the investment management company. The management fee is calculated based on an annual rate of 0.35% of the fair value of the asset portfolio being managed. For the years ended December 31, 2015 and 2014, the Museum paid the management company \$57,005 and \$59,973, respectively.

## MUSEUM OF LATIN AMERICAN ART

### Notes to Financial Statements (continued)

#### **9. Related Party Transactions (continued)**

The Museum contracted with a travel agency for arranging trips sponsored by the Museum. A board member has an ownership interest in the travel agency. The board member agreed to donate to the Museum any commissions earned for these sponsored trips, which totaled \$18,825 for the year ended December 31, 2015. This amount was collected in December 2015.

#### **10. Subsequent Events**

The Museum has evaluated subsequent events from the statement of financial position date through November 22, 2016, the date at which the financial statements were available to be issued. The Museum repaid the \$150,000 loan received from the Robert Gumbiner Foundation in March 2016.