

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2021 and 2020

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70 Mitchell Blvd., Ste. 102
San Rafael, CA 94903
Phone (415) 491-1130 * Fax (415) 524-4167
www.DoranAssociates.net
Member CalCPA and AICPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Headlands Center for the Arts
Sausalito, California

Opinion

We have audited the accompanying financial statements of Headlands Center for the Arts (a California nonprofit organization) which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Headlands Center for the Arts as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Headlands Center for the Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Headlands Center for the Arts' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Headlands Center for the Arts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Headlands Center for the Arts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

Doran & Associates

April 27, 2023

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 1,680,652	\$ 1,692,309
Current portion of contributions, grants, and accounts receivable, net of allowance for doubtful accounts (Notes 1 and 3)	856,911	700,109
Inventory (Note 1)	20,588	20,942
Prepaid expenses	7,342	1,071
Total current assets	2,565,493	2,414,431
Artwork inventory (Note 1)	18,000	18,000
Contributions, grants, and accounts receivable, net of current portion, allowance for doubtful accounts, and present value discount (Notes 1 and 3)	706,949	947,978
Equipment and leasehold improvements, net of accumulated depreciation of \$3,600,879 at 2021 and \$3,405,518 at 2020 (Notes 1 and 4)	2,496,431	2,661,639
Work in process (Note 4)	1,028,088	757,630
Collections (Notes 1 and 5)	21,290	21,290
Total assets	\$ 6,836,251	\$ 6,820,968
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 149,005	\$ 239,051
Deferred revenue (Note 1)	73,000	85,725
PPP conditional contributions (Note 6)	254,107	245,482
Total liabilities	476,112	570,258
Net assets (Note 7):		
Net assets without donor restrictions:		
Undesignated	3,747,618	3,910,730
Board-designated:		
Operating reserve	281,690	281,690
Total net assets without donor restrictions	4,029,308	4,192,420
Net assets with donor restrictions	2,330,831	2,058,290
Total net assets	6,360,139	6,250,710
Total liabilities and net assets	\$ 6,836,251	\$ 6,820,968

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND TRANSFERS			
Public support:			
Contributions and grants	\$ 1,186,038	\$ 1,264,742	\$ 2,450,780
PPP conditional contribution (Note 6)	-	245,482	245,482
In-kind contributions (Note 1)	221,253	-	221,253
	<u>1,407,291</u>	<u>1,510,224</u>	<u>2,917,515</u>
Total public support			
Revenue:			
Admissions, sales, and miscellaneous, net of cost of goods sold of \$2,291	8,641	-	8,641
Rentals (Note 1)	1,950	-	1,950
Event income, net of expenses of \$232,416 (Note 8)	166,105	-	166,105
	<u>176,696</u>	<u>-</u>	<u>176,696</u>
Total revenue			
Net assets released from restriction, purpose and/or time restrictions fulfilled	1,237,683	(1,237,683)	-
	<u>2,821,670</u>	<u>272,541</u>	<u>3,094,211</u>
Total support, revenue, and transfers			
EXPENSES AND LOSSES			
Program services	1,450,523	-	1,450,523
Supporting services	1,534,259	-	1,534,259
	<u>2,984,782</u>	<u>-</u>	<u>2,984,782</u>
Total expenses and losses			
Change in net assets	(163,112)	272,541	109,429
Net assets, beginning of year	4,192,420	2,058,290	6,250,710
Net assets, end of year	<u>\$ 4,029,308</u>	<u>\$ 2,330,831</u>	<u>\$ 6,360,139</u>

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND TRANSFERS			
Public support:			
Contributions and grants	\$ 1,489,053	\$ 426,397	\$ 1,915,450
In-kind contributions (Note 1)	<u>189,299</u>	<u>-</u>	<u>189,299</u>
Total public support	<u>1,678,352</u>	<u>426,397</u>	<u>2,104,749</u>
Revenue:			
Admissions, sales, and miscellaneous, net of cost of goods sold of \$172	7,867	-	7,867
Rentals (Note 1)	58,719	-	58,719
Event income, net of expenses of \$158,958 (Note 8)	<u>146,714</u>	<u>-</u>	<u>146,714</u>
Total revenue	<u>213,300</u>	<u>-</u>	<u>213,300</u>
Net assets released from restriction, purpose and/or time restrictions fulfilled	<u>953,716</u>	<u>(953,716)</u>	<u>-</u>
Total support, revenue, and transfers	<u>2,845,368</u>	<u>(527,319)</u>	<u>2,318,049</u>
EXPENSES AND LOSSES			
Program services	1,875,677	-	1,875,677
Supporting services	<u>986,722</u>	<u>-</u>	<u>986,722</u>
Total expenses and losses	<u>2,862,399</u>	<u>-</u>	<u>2,862,399</u>
Change in net assets	(17,031)	(527,319)	(544,350)
Net assets, beginning of year	<u>4,209,451</u>	<u>2,585,609</u>	<u>6,795,060</u>
Net assets, end of year	<u>\$ 4,192,420</u>	<u>\$ 2,058,290</u>	<u>\$ 6,250,710</u>

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended December 31, 2021

	Program Services			Supporting Services				Total
	Artists in Residence	Programs General	Total Program Services	Fundraising	Facilities	General Administration	Supporting Services	
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,684	\$ 17,684	\$ 17,684
Artist Honoraria exhibits	5,000	5,000	10,000	-	-	-	-	10,000
Building expense	92,222	15,947	108,169	204	-	-	204	108,373
Cleaning and garbage	28,710	63,065	91,775	32,083	-	19,616	51,699	143,474
Contractors and interns	5,191	1,993	7,184	-	-	-	-	7,184
Depreciation	117,217	29,304	146,521	29,304	-	19,536	48,840	195,361
Dues and publications	210	800	1,010	-	-	752	752	1,762
Equipment, services and software	3,579	31,369	34,948	3,677	-	32,232	35,909	70,857
Fiscal Sponsorship programs	-	7,284	7,284	-	-	-	-	7,284
Food and kitchen expense	12,266	902	13,168	4,152	-	-	4,152	17,320
In-kind rents, goods and services	1,500	216	1,716	91,933	80,121	47,483	219,537	221,253
Insurance	18,787	11,278	30,065	112	-	15,044	15,156	45,221
Marketing	11,250	3,006	14,256	81,785	-	-	81,785	96,041
Merchandise-COGS	-	-	-	380	-	1,911	2,291	2,291
Miscellaneous	35	3,855	3,890	20,619	-	15,703	36,322	40,212
Auction Commissions - COGS	-	-	-	142,470	-	-	142,470	142,470
Salaries, taxes and benefits	209,612	532,980	742,592	559,114	-	440,944	1,000,058	1,742,650
Special events - Auction	-	-	-	89,946	-	-	89,946	89,946
Special events -Others	-	1,356	1,356	624	-	-	624	1,980
Stipends	124,750	58,555	183,305	-	-	-	-	183,305
Supplies	5,542	13,389	18,931	5,029	-	3,479	8,508	27,439
Telephone and internet	13,457	8,845	22,302	2,025	-	9,576	11,601	33,903
Travel	1,212	1,428	2,640	81	-	1,328	1,409	4,049
Utilities and SDC	6,428	-	6,428	-	-	-	-	6,428
Vehicles	2,896	87	2,983	3	-	16	19	3,002
Total Expenses by function	659,864	790,659	1,450,523	1,063,541	80,121	625,304	1,768,966	3,219,489
Less expenses included with revenues on the statement of activities								
Auction Event	-	-	-	(89,946)	-	-	(89,946)	(89,946)
Auction Commissions-COGS	-	-	-	(142,470)	-	-	(142,470)	(142,470)
Merchandise-COGS	-	-	-	(380)	-	(1,911)	(2,291)	(2,291)
Total Expenses included in the expense section on the statement of activities	\$ 659,864	\$ 790,659	\$ 1,450,523	\$ 830,745	\$ 80,121	\$ 623,393	\$ 1,534,259	\$ 2,984,782

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended December 31, 2020

	Program Services				Supporting Services				Total
	Artists in Residence	Public Forums	Special Projects	Program Services	Fundraising	Facilities	General Administration	Supporting Services	
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,186	\$ 17,186	\$ 17,186
Artist Honoraria exhibits	5,554	4,650	-	10,204	-	-	-	-	10,204
Building expense	4,479	4,479	5,375	14,333	-	3,583	-	3,583	17,916
Cleaning and garbage	15,174	15,108	16,438	46,720	-	6,203	7,317	13,520	60,240
Depreciation	40,809	61,213	61,213	163,235	-	20,404	20,405	40,809	204,044
Dues and publications	14,405	-	-	14,405	-	-	1,141	1,141	15,546
Equipment, services and software	16,578	2,917	42,572	62,067	228	2,306	19,216	21,750	83,817
Fiscal Sponsorship programs	-	-	58,174	58,174	-	-	-	-	58,174
Food and kitchen expense	7,987	1,361	5,528	14,876	-	-	-	-	14,876
In-kind rents, goods and services	25,954	26,939	25,954	78,847	5,800	10,007	86,526	102,333	181,180
Insurance	16,683	16,683	-	33,366	-	4,169	4,171	8,340	41,706
Mailing	-	-	-	-	6,145	-	613	6,758	6,758
Merchandise-COGS	-	-	-	-	-	-	172	172	172
Miscellaneous	360	5,516	3,721	9,597	7,915	1,472	9,406	18,793	28,390
Printing	1,182	7,575	4,483	13,240	2,143	-	170	2,313	15,553
Professional fees-Master Planning	27,262	12,392	7,435	47,089	-	1,239	1,239	2,478	49,567
Public relations	1,256	3,078	12,747	17,081	20	-	-	20	17,101
Salaries, taxes and benefits	309,147	370,888	314,715	994,750	251,044	75,972	376,427	703,443	1,698,193
Special events	-	-	114,321	114,321	44,637	-	-	44,637	158,958
Stipends	71,705	39,025	29,800	140,530	-	-	-	-	140,530
Supplies	118	4,453	1,853	6,424	17	172	2,250	2,439	8,863
Telephone and internet	10,193	15,851	8,395	34,439	2,818	3,688	6,505	13,011	47,450
Travel	6,898	46	4,143	11,087	-	168	3,965	4,133	15,220
Utilities and SDC	65,664	23,132	10,548	99,344	-	6,042	18,630	24,672	124,016
Vehicles	5,869	-	-	5,869	-	-	-	-	5,869
Total Expenses by function	647,277	615,306	727,415	1,989,998	320,767	135,425	575,339	1,031,531	3,021,529
Less expenses included with reverses on the statement of activities									
Auction Event	-	-	-	-	(44,637)	-	-	(44,637)	(44,637)
Auction Commissions-COGS	-	-	(114,321)	(114,321)	-	-	-	-	(114,321)
Merchandise-COGS	-	-	-	-	-	-	(172)	(172)	(172)
Total Expenses included in the expense section on the statement of activities	\$ 647,277	\$ 615,306	\$ 613,094	\$ 1,875,677	\$ 276,130	\$ 135,425	\$ 575,167	\$ 986,722	\$ 2,862,399

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 109,429</u>	<u>\$ (544,350)</u>
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	195,361	204,044
Realized loss on investments	-	4,818
Forgiveness of PPP conditional contribution	(245,482)	-
In-kind donation of work in process	(43,274)	(8,119)
Changes in assets and liabilities:		
Contributions, grants, and accounts receivable	84,227	628,182
Prepaid expenses	(6,271)	32,748
Inventory	354	-
Accounts payable and accrued expenses	(90,046)	150,948
Deferred revenue	<u>(12,725)</u>	<u>(39,359)</u>
Total adjustments	<u>(117,856)</u>	<u>973,262</u>
Net cash (used) provided by operating activities	<u>(8,427)</u>	<u>428,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(30,153)	(435,044)
Purchase of work in progress	(227,184)	(214,877)
Proceeds from sale of investments	-	225,870
Net cash used by investing activities	<u>(257,337)</u>	<u>(424,051)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from PPP conditional contributions	<u>254,107</u>	<u>245,482</u>
Net cash provided by financing activities	<u>254,107</u>	<u>245,482</u>
Net increase in cash and cash equivalents	(11,657)	250,343
Cash and cash equivalents, beginning of year	<u>1,692,309</u>	<u>1,441,966</u>
Cash and cash equivalents, end of year	<u>\$ 1,680,652</u>	<u>\$ 1,692,309</u>
Supplementary information:		
Non-cash transactions:		
In-kind donation of work in process	<u>\$ 43,274</u>	<u>\$ 8,119</u>
Forgiveness of PPP conditional contribution	<u>\$ 245,482</u>	<u>\$ -</u>

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

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Headlands Center for the Arts (hereafter, the Center), a California nonprofit public benefit corporation, was incorporated in 1982 to develop and maintain an interdisciplinary arts center located within the Golden Gate National Recreation Area (GGNRA), administered by the National Park Service (NPS), and to work as a designated National Park Partner with the National Park Service in the development of the facilities under its jurisdiction and in fulfillment of the Center's programmatic goals, which includes serving the general public. The Center's programs include: artist residencies, public events including lectures, open studios, performances, exhibitions, and readings.

The Center is directed by a Board with the authorized number of no less than five and no greater than thirty members who serve without compensation. The Center's major sources of revenue are contributions and grants, rentals, and event income.

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for identified reserves (see Note 7).

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no net assets of this nature held at December 31, 2021 or 2020. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Method of Accounting - The financial statements of the Center are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Investments - Investments primarily included corporate stocks. Purchased investments in equity and debt securities with readily determinable fair values are reported at fair value based upon quoted market prices. Other investment instruments are measured on the net equity basis, as reported on the K-1 or other year-end report. Investments received by donation are recorded at the fair value at the date of donation.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Center determines the fair values of its assets and liabilities based on the fair value hierarchy, which includes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are significant other observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3 inputs are unobservable inputs for the assets or liabilities. Unobservable inputs reflect the Center's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances, and may include the Center's own data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Revenue Recognition -

* *Contributions* - Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Conditional promises to give - that is, those with a measurable performance or other barrier and right of return - are not recognized until the conditions on which they depend have been met. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Consequently, at December 31, 2021, pledges totaling approximately \$2,838,000 had not been recognized in the accompanying financial statements, because the conditions have not yet been met. At December 31, 2020, a pledge of \$150,000 had not been recognized in the accompanying financial statements, because the conditions have not yet been met. The conditional pledges for each year depend on the donor advised fund honoring the donor's stated intentions, or have specific measurable goals not yet met.

* *Revenue* - Revenue, other than from unconditional contributions, bequests, and grants, is recognized in the period in which service is provided. Rental activity includes mission- and affiliate-related rentals, as well as rentals for weddings and special events.

* *Receivables* - It is the practice of the Center to expense uncollectibles only after exhausting all efforts to collect the amounts due (see Note 3).

* *Deferred Revenue* - The Center has received deposits for future events, which will be recognized in the subsequent fiscal year. The total of deposits for future events was \$73,000 as of December 31, 2021, and \$85,725 as of December 31, 2020.

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

* *In-Kind Contributions* - The Center receives the benefit of in-kind goods and services that either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased by the organization if they had not been provided by contribution. These items have a fair market value using the market method as follows:

<u>Description</u>	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>December 31, 2021:</u>				
Capitalized architecture and design work (a)	\$ -	\$ 43,274	\$ -	\$ 43,274
In-kind rent (b)	-	80,074	-	80,074
Goods and services	-	97,905	-	97,905
	<u>\$ -</u>	<u>\$ 221,253</u>	<u>\$ -</u>	<u>\$ 221,253</u>
<u>December 31, 2020:</u>				
Capitalized architecture and design work (a)	\$ -	\$ 8,119	\$ -	\$ 8,119
In-kind rent (b)	-	86,514	-	86,514
Goods and services	-	94,666	-	94,666
	<u>\$ -</u>	<u>\$ 189,299</u>	<u>\$ -</u>	<u>\$ 189,299</u>

(a) See Note 4

(b) Under the Memorandum of Understanding with the National Park Service (see Note 11), the Center received temporary relief due to the COVID-19 pandemic from the Service District Charge (SDC) for occupancy of the buildings used by the organization.

Functional Expenses - The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, those expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, occupancy, insurance and utilities, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of timesheets and PTO reports submitted every pay period.

Equipment and Leasehold Improvements - The Center is headquartered and operates in former U.S. Army barracks at Fort Barry, California, in the Marin Headlands under a memorandum of understanding (see Note 11) with the United States Department of Interior, National Park Service, Golden Gate National Recreation Area. The Center records equipment, leasehold improvements, and collections above a \$5,000 capitalization threshold at cost when acquired by purchase or commission and at estimated fair market value when received as a donation. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3-5 years for furniture, equipment and vehicles and is 20 years for leasehold improvements.

HEADLANDS CENTER FOR THE ARTS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections - Management has determined that certain assets have artistic worth and will appreciate over a period of time. Funds received from the sale of works may be used to improve stewardship of the collection through direct care of that collection. In the case of Headlands, the collection consists of the historic buildings leased from the National Park Service and artist installations, rehabilitations, and commissions. Alternatively, funds may be used to purchase or commission new works for the collection. Works of art purchased with deaccession funds will be publicly credited to the original donor(s). These inexhaustible assets are capitalized as collections at the lower of original cost or market value and, accordingly, are not depreciated.

Inventory - Inventory consisted of the following at December 31, 2021 and 2020:

- Boxed sets of limited edition artists' prints, stated at the lower of cost or net realizable value, determined on a first-in, first-out basis, \$20,588 and \$20,942, respectively.
- Artwork received in 2015 as a donation, to be sold at a future benefit auction, measured at the fair value upon receipt, \$18,000.

Income Taxes - The Center is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In 2021 and 2020 the Center paid no taxes for unrelated business income.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Center to report information regarding its exposure to various tax positions taken by the Center. The Center has determined whether any tax positions have met the recognition threshold and has measured the Center's exposure to those tax positions. Management believes that the Center has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed (four years for California). Any interest or penalties assessed to the Center are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Accounting Standards Update, ASU 2014-09, Revenue from Contracts with Customers (Topic 606) - In May 2014, the FASB provided a new five-step process for the analysis of contracts with customers and the recognition of revenue resulting from those contracts. Among other steps is the identification of performance obligations under the contracts and the allocation of a transaction price to those performance obligations. The amendment does not affect contributions or investment income. The Center has elected the practical expedient with regard to the application of this new standard. The new standard was effective for fiscal years beginning after December 15, 2019, and did not have an impact on the Center's reporting of earned revenue.

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Update, ASU 2016-02, Leases - In February 2016, the FASB issued amendments to the way lessees record lease transactions. Upon implementation, lessees will be required to recognize at commencement the right-of-use asset and a lease liability representing the lessee's obligation to make lease payments arising from the lease, as discounted, for all leases except short-term leases. This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2021, and early adoption is permitted. Management is currently evaluating the impact the amendments to this ASU will have on the financial statements of the Center.

Accounting Standards Update, ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets - In September 2020, the FASB amended guidance regarding the way nonprofit organizations report nonfinancial assets, including donated goods and rent, in-kind professional services, etc. The amendment requires contributed nonfinancial assets to be presented separately from cash and other financial assets on the statement of activities, and the footnote disclosure must include a dis-aggregation by type, donor restrictions, if applicable, and other details about the nature and valuation of the nonfinancial assets received. The new standard is effective for fiscal years beginning after June 15, 2021, and could have an impact on the Center's reporting of contributed nonfinancial assets.

Subsequent Events - Subsequent events have been evaluated through April 27, 2023, which is the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following:

Cash and cash equivalents	\$ 246,848
Pledges, grants, and other receivables	<u>14,108</u>
Total liquid assets without donor restrictions	<u>\$ 260,956</u>

The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The organization invests cash in excess of daily requirements in short-term investments, CDs and money market funds. As of December 31, 2020, the board-designated operating reserve held \$281,690. Although the Center does not intend to spend from this reserve, these funds could be made available if necessary.

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 3 CONTRIBUTIONS, GRANTS, AND ACCOUNTS RECEIVABLE

The Center received pledges, grants, and other receivables for various purposes. The receivables are collectible as follows at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current portion	\$ 883,663	\$ 732,933
Less: allowance for doubtful accounts	<u>(26,752)</u>	<u>(32,824)</u>
Net current portion	<u>856,911</u>	<u>700,109</u>
Long-term portion, collectible during the year ending December 31:		
2022	N/A	591,662
2023	542,456	430,480
2024	219,241	31,250
2025	6,250	-
Less: allowance for doubtful accounts	(23,248)	(47,176)
Less: present value discount, 4%	<u>(37,750)</u>	<u>(58,238)</u>
Net long-term portion	<u>706,949</u>	<u>947,978</u>
 Total contributions, grants, and accounts receivable	 <u>\$ 1,563,860</u>	 <u>\$ 1,648,087</u>

NOTE 4 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

<u>Equipment and leasehold improvements, at cost</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Balance, December 31, 2019	\$ 5,272,409	\$ 314,304	\$ 45,400	\$ 5,632,113
Additions	<u>435,044</u>	<u>-</u>	<u>-</u>	<u>435,044</u>
Balance, December 31, 2020	5,707,453	314,304	45,400	6,067,157
Additions	<u>30,153</u>	<u>-</u>	<u>-</u>	<u>30,153</u>
Balance, December 31, 2021	<u>5,737,606</u>	<u>314,304</u>	<u>45,400</u>	<u>6,097,310</u>
 <u>Accumulated depreciation</u>				
Balance, December 31, 2019	2,858,624	309,704	33,146	3,201,474
Depreciation expense	<u>199,923</u>	<u>730</u>	<u>3,391</u>	<u>204,044</u>
Balance, December 31, 2020	3,058,547	310,434	36,537	3,405,518
Depreciation expense	<u>191,240</u>	<u>730</u>	<u>3,391</u>	<u>195,361</u>
Balance, December 31, 2021	<u>3,249,787</u>	<u>311,164</u>	<u>39,928</u>	<u>3,600,879</u>
 Equipment and leasehold improvements, net	 <u>\$ 2,487,819</u>	 <u>\$ 3,140</u>	 <u>\$ 5,472</u>	 <u>\$ 2,496,431</u>

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 4 EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

In accordance with the Memorandum of Understanding with the National Park Service, the Center has incurred \$30,153 and \$721,702 in campus improvement costs, which were capitalized or expensed, depending on their nature, during the years ended December 31, 2021 and 2020.

The total work in process at December 31, 2021 and 2020, was \$1,028,088 and \$757,630, respectively, the majority of which is comprised of an in-kind donation of architecture and design work tied to early stages of a multiyear leasehold improvement project. The value will be held in Work in Process until the project is complete, at which time it will be transferred to Leasehold Improvements and capitalized accordingly.

NOTE 5 COLLECTIONS

The Center has assets of artistic worth held as collections. The fair value of these assets at acquisition was \$21,290. In the opinion of management, no impairment of these assets has occurred. Management estimates the collections to have a value of \$100,000, but no estimated appreciation has been recorded in these financial statements.

NOTE 6 PPP CONDITIONAL CONTRIBUTIONS

On May 4, 2020, the Corporation entered into an unsecured note payable to the MUFG Union Bank as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act's "Paycheck Protection Program" (PPP) which was guaranteed by the U.S. Small Business Administration. The loan was for \$245,482, was scheduled to mature on May 4, 2022, and bore interest at the fixed rate of 1% per annum; payments of principal and interest were deferred until August 25, 2021, if no application for forgiveness was submitted. As long as a PPP loan forgiveness application was submitted by August 25, 2021, payments were not required until the forgiveness amount was remitted by the SBA. Under the terms of the program, some or all of the loan may be forgiven if funds are used during the covered period for costs identified in the CARES Act: payroll costs, covered rent obligations, and covered utility payments. On July 19, 2021, this loan was fully forgiven and recognized as a contribution in 2021.

On May 20, 2021, the Corporation entered into a second unsecured note payable to MUFG Union Bank as part of the Paycheck Protection Program. The loan is for \$254,107, matures May 20, 2026, and bears interest at the fixed rate of 1% per annum; payments of principal and interest are deferred until April 20, 2022, if no application for forgiveness is submitted. As long as a PPP loan forgiveness application is submitted by April 20, 2022, payments are not required until the forgiveness amount is remitted by the SBA. Under the terms of the program, some or all of the loan may be forgiven if funds are used during the covered period for costs identified in the CARES Act: payroll costs, covered rent obligations, and covered utility payments. On May 26, 2022, this loan was fully forgiven and will be recognized as a contribution in 2022.

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 7 NET ASSETS

Net assets without donor restrictions:

The Center has net assets that are not subject to donor imposed restrictions. The balance of net assets without donor restriction at December 31, 2021 and 2020, was \$4,029,308 and \$4,192,420, respectively. Included in that amount are \$281,690 in net assets that have been designated by the Board of Directors to be used as an operating reserve to cover 90 days of operating expenditures. These funds were set aside by the Board with the goal of reserving funds necessary to cover at least 90 days of operating expenditures.

Net assets with donor restrictions:

These are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Net assets with donor restrictions at December 31, 2021 and 2020, are designated for the following uses:

	<u>2021</u>	<u>2020</u>
Artists in Residence	\$ 495,890	\$ 610,055
Bay Area Fellowship	384,043	60,000
Capital campaign	200,000	-
Education/public forums	52,337	2,337
Facilities	20,000	20,000
Fiscal sponsorships	62,004	69,288
Library fund	17,083	17,083
Time-restricted	1,080,307	1,417,765
Threshold	19,167	-
Less: allowance for uncollectible receivables and present value discount on restricted grants	-	(138,238)
	<u>\$ 2,330,831</u>	<u>\$ 2,058,290</u>

NOTE 8 SPECIAL EVENTS

During the years ended December 31, 2021 and 2020, the Center held special events resulting in net income as follows:

	<u>2021</u>	<u>2020</u>
Donations, shown as contributions on the Statement of Activities	\$ 298,247	\$ 223,705
Ticket and auction sales	398,521	305,672
Less: direct expenses	(232,416)	(158,958)
Net special event earned income	166,105	146,714
Less: in-kind event expenses	(49,587)	(5,800)
Total event net income	<u>\$ 414,765</u>	<u>\$ 364,619</u>

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 9 LINE OF CREDIT

The Center had entered into an agreement for a line of credit with a local bank. The agreement allowed for a maximum borrowing of \$100,000. The line of credit matured November 27, 2020, and was not renewed.

NOTE 10 RETIREMENT PLAN

The Center offers a 401(k) retirement plan for all employees made available immediately upon hire. No amounts were contributed by the Center in 2021 or 2020.

NOTE 11 NATIONAL PARK SERVICE MEMORANDUM OF UNDERSTANDING

Since 1982 the Headlands Center for the Arts has operated under various agreements with the U.S. Department of Interior, National Park Service ("NPS"), and Golden Gate National Recreation Area ("GGNRA"). These agreements include various obligations and duties, including: conducting visitor and artist programs, education, and outreach, as approved by the Park Service; providing capital improvements and maintenance of the facilities within the prescribed time frames and standards; and by complying with other basic use conditions.

Under the current agreement, which commenced on January 1, 2015, Headlands, designated as a "Park Partner", occupies certain GGNRA buildings and grounds until at least December 31, 2022 with an anticipated lease to be signed before the expiration of the MOU. The Center and GGNRA are currently undergoing negotiations to establish this new long-term agreement, and have received commitment from GGNRA for a minimum term of 20 years and a maximum of 30 years, projected to begin in 2023.

In addition, two Special Use Permits supplement the MOU, granting Headlands use of the assigned lands and facilities for the purposes of either a) developing, maintaining, and administering an art center and programs for Buildings 934, 939, 940, 942, 944, 945, and 952, or b) completing the facilities maintenance and closeout return actions for Buildings 960 and 961.

HEADLANDS CENTER FOR THE ARTS
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

NOTE 12 CONCENTRATION AND RISKS

- The Center relies on a significant amount of funding received in the form of donations and grants from individuals and foundations to support its operations. In the event of a future global or domestic recession the level of funding provided by these funding sources may be adversely affected. Should such a recession occur management would take steps to address funding levels and reduce the Center's exposure to impact from these events.
- Four funders provided grants and donations totaling \$1,328,477, which was 43% of total income in 2021. \$300,000 of this was a grant receivable from one donor. Three funders provided grants and donations totaling \$703,789, which is 30% of total income in 2020. \$165,000 of this is accounts receivable.
- The Center has defined its financial instruments which are subject to credit risk as cash and cash equivalents. The Center maintains its cash in bank-deposit accounts which, at times, may exceed federally insured limits. The deposits at these financial institutions bear the credit risk associated with the institutions. The Center has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.
- Coronavirus Pandemic - In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, had declared a state of emergency and had issued shelter-in-place orders in response to the outbreak. The immediate impact to the Headlands' operations included restrictions on employees' ability to work in their regular capacities, and reductions or cancellation of artist programs and events. The economic pressures during the shelter-in-place and reduced ability to conduct program activities resulted in diminished revenue opportunities, impacting the Headlands' ability to fundraise or host revenue-generating events. It is anticipated that the impacts from this pandemic will continue for some time. To mitigate the volatility of Headlands' financial position, regular monthly COVID-19 updates were made to FY21 budget projections. The financial impact of the coronavirus outbreak resulted in a significant deficit rather than a planned net income exceeding \$2.5M.
- As of December 31, 2021, the Center had exceeded the federally insured cash limit of \$250,000 on its several depository accounts. At December 31, 2021, the Center had approximately \$1,105,000 on deposit in excess of federally insured limits.