HEADLANDS CENTER FOR THE ARTS
FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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INTRODUCTORY SECTION

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HEADLANDS CENTER FOR THE ARTS
Financial Statements
For the Years Ended December 31, 2023 and 2022

Table of Contents

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the Headlands Center for the Arts (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023, and 2022, respectively, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Headlands Center for the Arts, as of December 31, 2023, and 2022, respectively, 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 Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Center's ability to continue as a going concern for a reasonable period of time, generally within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility

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

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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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, 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 the Center's 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 the Center's 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 audit.

Report on Comparative Information

We have previously audited the Center's 2023 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report October 31, 2024. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maze & Associates

Pleasant Hill, California
October 31, 2024

HEADLANDS CENTER FOR THE ARTS
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 AND 2022

ASSETS	2023	2022
Current Assets:		
Cash and cash equivalents (Note 2D)	$262,351	$1,499,588
Grants receivable (Note 2G)		200,000
Current portion of pledges receivable (Note 3)	491,583	746,004
Inventory (Note 2H)	79,431	68,460
Prepaid expenses	33,016	35,343
Right of use asset (Note 11)		143,876
Miscellaneous receivables	520	6,827
Total Current Assets	866,901	2,700,098
Non-Current Assets:		
Artwork inventory (Note 2H)	18,000	18,000
Pledges receivable, net of current portion and present value discount (Note 3)	301,922	816,964
Equipment and leasehold improvements, net of accumulated depreciation of $4,000,571 and $3,802,496, respectively (Notes 2I and 4)	2,589,294	2,382,522
Work in process (Note 4)	1,604,528	1,251,521
Collections (Notes 2J)	21,290	21,290
Total Non-Current Assets	4,535,034	4,490,297
TOTAL ASSETS	$5,401,935	$7,190,395
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$133,165	$123,815
Deferred revenue (Note 2K)	6,000	32,250
Right of use liability (Note 11)		148,860
Total Current Liabilities	139,165	304,925
TOTAL LIABILITIES	139,165	304,925
NET ASSETS (Note 2A)		
Net assets without donor restrictions	4,341,516	4,211,345
Net assets with donor restrictions (Note 7)	921,254	2,674,125
TOTAL NET ASSETS	5,262,770	6,885,470
TOTAL LIABILITIES AND NET ASSETS	$5,401,935	$7,190,395

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Without Donor Restriction	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Contributions and grants	$2,199,190	$335,000	$2,534,190
In-kind contributions (Note 2E)	93,617		93,617
Other revenue	10,972		10,972
Total Public Support	2,303,779	335,000	2,638,779
Revenue:			
Admissions, sales, and miscellaneous, net of cost of goods sold of $584,568	(71,975)		(71,975)
Rental income	117,225		117,225
Event income, net of expenses of $6,482 (Note 6)	17,377		17,377
Net investment income	(63)		(63)
Total Revenue	62,564		62,564
Net assets released from restriction, purpose and/or time restrictions fulfilled	2,087,871	(2,087,871)	
TOTAL SUPPORT AND REVENUE	4,454,214	(1,752,871)	2,701,343
EXPENSES			
Program services	2,348,092		2,348,092
Supporting services	1,975,951		1,975,951
Total Expenses	4,324,043		4,324,043
Changes in Net Assets	130,171	(1,752,871)	(1,622,700)
Net Assets, Beginning of Year	4,211,345	2,674,125	6,885,470
Net Assets, End of Year	$4,341,516	$921,254	$5,262,770

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restriction	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Contributions and grants	$2,499,662	$1,665,000	$4,164,662
PPP conditional contribution (Note 5)	254,107		254,107
In-kind contributions (Note 2E)	152,755		152,755
Other revenue	50,372		50,372
Total Public Support	2,956,896	1,665,000	4,621,896
Revenue:			
Admissions, sales, and miscellaneous, net of cost of goods sold of $360,377	12,555		12,555
Rental income	136,556		136,556
Event income, net of expenses of $2,666 (Note 6)	15,057		15,057
Investment income	4,020		4,020
Total Revenue	168,188		168,188
Net assets released from restriction, purpose and/or time restrictions fulfilled	1,321,706	(1,321,706)	
TOTAL SUPPORT AND REVENUE	4,446,790	343,294	4,790,084
EXPENSES			
Program services	2,090,455		2,090,455
Supporting services	2,174,298		2,174,298
Total Expenses	4,264,753		4,264,753
Changes in Net Assets	182,037	343,294	525,331
Net Assets, Beginning of Year	4,029,308	2,330,831	6,360,139
Net Assets, End of Year	$4,211,345	$2,674,125	$6,885,470

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2023

	Programs Services			Supporting Services			
	Artists in Residence	General	Total Program Services	General Administration	Fundraising	Total Supporting Services	Total
Accounting				$237,335		$237,335	$237,335
Building expense	$62,474	$4	$62,478	14,767	$751	15,518	77,996
Cleaning and garbage	15,515		15,515	3,906	104	4,010	19,525
Contractors and interns	47,169	1,875	49,044	1,500	168,676	170,176	219,220
Depreciation and amortization	175,879		175,879	20,172	2,024	22,196	198,075
Dues and publications	372		372	1,649		1,649	2,021
Equipment, services and software	6,399		6,399	95,621	70,050	165,671	172,070
Fiscal sponsorship programs							
Food and kitchen expense	49,519		49,519	8,175	2,502	10,677	60,196
In-kind rents, goods and services				92,888		92,888	92,888
Insurance				55,248		55,248	55,248
Marketing	114,937		114,937	5,246	11,695	16,941	131,878
Merchandise - COGS	603		603		60,186	60,186	60,789
Miscellaneous	13,886	1,778	15,664	17,583	35,959	53,542	69,206
Auction Commissions - COGS				840	157,467	158,307	158,307
Salaries, taxes and benefits	895,292	67,664	962,956	382,347	483,116	865,463	1,828,419
Special events - Auction	3,635		3,635	221	368,701	368,922	372,557
Special events - Others	4,859		4,859	30	61,500	61,530	66,389
Stipends	500,501	1,807	502,308	2,409	2,824	5,233	507,541
Supplies	123,201		123,201	11,137	3,607	14,744	137,945
Taxes				39,261		39,261	39,261
Telephone and internet	2,433		2,433	66,501	30	66,531	68,964
Travel	69,993		69,993	2,752	2,728	5,480	75,473
Utilities and SDC	183,520	954	184,474	22,493	2,297	24,790	209,264
Vehicles	7,458		7,458	509	44	553	8,011
Uncollectible pledges					46,515	46,515	46,515
Total Expenses by Function	2,277,645	74,082	2,351,727	1,082,590	1,480,776	2,563,366	4,915,093
Less expenses included with revenues on the Statement of Activities							
Auction Event	(3,635)		(3,635)	(221)	(368,701)	(368,922)	(372,557)
Auction Commissions-COGS				(840)	(157,467)	(158,307)	(158,307)
Merchandise-COGS					(60,186)	(60,186)	(60,186)
Total Expenses	$2,274,010	$74,082	$2,348,092	$1,081,529	$894,422	$1,975,951	$4,324,043

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2022

	Programs Services			Supporting Services			
	Artists in Residence	General	Total Program Services	General Administration	Fundraising	Total Supporting Services	Total
Accounting				$138,134		$138,134	$138,134
Building expense	$12,536	$172,584	$185,120	41,799	$3,480	45,279	230,399
Cleaning and garbage	11,202	5,018	16,220	7,045	455	7,500	23,720
Contractors and interns	23,181	28,807	51,988		119,969	119,969	171,957
Depreciation and amortization		175,920	175,920	23,536	2,161	25,697	201,617
Dues and publications	210	527	737	1,023	180	1,203	1,940
Equipment, services and software	3,439	1,786	5,225	58,112	13,313	71,425	76,650
Fiscal sponsorship programs							
Food and kitchen expense	23,388	11,180	34,568	198		198	34,766
In-kind rents, goods and services		40,938	40,938	45,954	65,863	111,817	152,755
Insurance	6,759	4,061	10,820	38,880	17	38,897	49,717
Marketing	11,888	81,656	93,544		90,548	90,548	184,092
Merchandise - COGS					79,416	79,416	79,416
Miscellaneous	6,617	3,144	9,761	17,044	27,189	44,233	53,994
Auction Commissions - COGS					103,061	103,061	103,061
Salaries, taxes and benefits	159,312	660,723	820,035	506,923	539,175	1,046,098	1,866,133
Special events - Auction		5,341	5,341		175,225	175,225	180,566
Special events - Others	900	300	1,200		91,876	91,876	93,076
Stipends	163,295	256,144	419,439	2,487	4,141	6,628	426,067
Supplies	6,968	52,908	59,876	18,603	291	18,894	78,770
Telephone and internet	7,372	4,667	12,039	23,603	312	23,915	35,954
Travel	41,627	25,864	67,491	3,034	9	3,043	70,534
Utilities and SDC	4,038	79,609	83,647	49,678	976	50,654	134,301
Vehicles	1,887		1,887				1,887
Uncollectible pledges					238,290	238,290	238,290
Total Expenses by Function	484,619	1,611,177	2,095,796	976,053	1,555,947	2,532,000	4,627,796
Less expenses included with revenues on the Statement of Activities							
Auction Event		(5,341)	(5,341)		(175,225)	(175,225)	(180,566)
Auction Commissions-COGS					(103,061)	(103,061)	(103,061)
Merchandise-COGS					(79,416)	(79,416)	(79,416)
Total Expenses	$484,619	$1,605,836	$2,090,455	$976,053	$1,198,245	$2,174,298	$4,264,753

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	($1,622,700)	$525,331
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	198,075	201,617
Changes in assets and liabilities:		
Grants receivable	200,000	(199,108)
Pledges receivable	769,463	
Prepaid expenses	2,327	(28,001)
Inventory	(10,971)	(47,872)
Miscellaneous reveivables	6,307	(6,827)
Accounts payable and accrued expenses	9,350	(25,190)
Deferred revenue	(26,250)	(40,750)
PPP conditional contributions		(254,107)
Net cash provided (used) by operating activities	(474,399)	125,093
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(404,847)	(87,708)
Purchase of work in progress	(353,007)	(223,433)
Purchase of investments	(4,984)	
Proceeds from sale of investments		4,984
Net cash (used) by investing activities	(762,838)	(306,157)
Net decrease in cash and cash equivalents	(1,237,237)	(181,064)
Cash and cash equivalents, beginning of year	1,499,588	1,680,652
Cash and cash equivalents, end of year	$262,351	$1,499,588
SUPPLEMENTAL DISCLOSURES:		
Interest payments made	$1,658	
Income taxes paid	$39,261	
Non-cash transactions:		
In-kind contributions	$93,617	$152,755
Forgiveness of PPP conditional contribution		$245,482

See accompanying notes to the financial statements

NOTE 1 – ORGANIZATION AND PROGRAMS

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: artists in residence, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC), No. 958, *Financial Statements of Not-for-Profit Organizations*.

The Center is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions: Net assets available for use in general operations that are not subject to or are no longer subject to donor-imposed restrictions. The balance of net assets without donor restriction at December 31, 2023 and 2022, was $4,341,516 and $4,211,345, respectively.

Net Assets With Donor Restrictions: Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with 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. 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.

The Center is supported primarily through contributions and grants, facility rentals and special events. Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

B. Contributions and Grants

Contributions and grants are recorded as revenue with, or without, donor restrictions when received, or pledged when there is a reasonable expectation of collection. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of receipt. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

C. Revenues

The Center receives revenue from auction events, merchandise sales, and rental income. Rental activity includes mission and affiliate-related rentals, as well as rentals for weddings and special events. Revenue is recognized in the period in which the service is provided, or goods are sold.

D. Cash and Cash Equivalents

For purposes of reporting cash flows, the Center considers highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents were $262,351 and $1,499,588 as of December 31, 2023 and 2022, respectively.

E. In-Kind Contributions

The Center receives donations of equipment, supplies and volunteer services.

Donated services are reflected in the financial statements at the fair value of the services received only if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Donated rent and goods are recorded at their fair values on the Statement of Activities in the period received. In valuing these in-kind contributions, the Center estimates the fair value based on comparable costs.

During the years ended December 31, 2023 and 2022, the Center received $93,617 and $152,755, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Concentration of Credit Risk

The Federal Deposit Insurance Corporation ("FDIC") insures account balances at each insured institution. The Center maintains deposit accounts with financial institutions and frequently carries balances that exceed FDIC insurance limits. At various times during the year, cash at these institutions could exceed federally insured limits. The Center has not experienced any losses on its FDIC-insured accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

G. Grants and Contracts Receivable

The Center evaluates the collectability of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. As of December 31, 2023 and 2022, no allowance for doubtful accounts was considered necessary by management.

H. Inventory

Inventory - Inventory consisted of the following at December 31, 2023 and 2022:

- 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, $79,431 and $68,460, 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.

I. 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 9A) 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 computer hardware and software and is determined by the life of the lease for leasehold improvements.

J. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

K. 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 $6,000 and $32,250 as of December 31, 2023 and 2022, respectively.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Income Taxes

The Center is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes has been provided in these financial statements. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as a Center that is not a private association under Section 509(a)(1).

The Center has one source of unrelated business taxable income (UBTI) from rental income not directly related to the Center's mission. Federal taxes, including UBTI, are recorded in the financial statements in the year in which the payments are determined and made. For the years ended December 31, 2023 and 2022, the Center paid $39,261 and $0, respectively, in combined Federal and California State unrelated business income taxes.

Generally accepted accounting principles require the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the Center's tax returns. Management has determined that the Center does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Center's tax returns will not be challenged by the taxing authorities and that the Center will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Center tax returns remain open for federal income tax examination for three years from the date of filing.

N. Functional Allocation of Expenses

The costs of programs activities and supporting services have been summarized on a functional basis in the statement of functional expenses. The statement presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect costs such as general and administrative expenses include costs that are not directly identifiable with any specific program, but which provide the overall support and direction of the Center. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fair Value Measurements

The Center reports certain assets and liabilities at fair value in the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three tier hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

The three-tier hierarchy categorizes the inputs as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3: Unobservable inputs for the asset or liability. In these situations, the Center develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

P. Subsequent Events

The Center evaluated subsequent events for recognition and disclosure through October 31, 2024, the date which these financial statements were available to be issued. Management concluded that no material subsequent events occurred since December 31, 2023 that requires recognition or disclosure in the financial statements.

NOTE 3 – RECEIVABLES

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

	2023	2022
Current Portion	$491,583	$946,004
Net current portion	491,583	946,004
Long-term portion, collectible during the year ending December 31:		
2024		574,584
2025	223,500	190,000
2026	91,000	90,000
Less: present value discount	(12,578)	(37,620)
Net long-term portion	301,922	816,964
Total pledges receivable, net	$793,505	$1,762,968

NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	Balance as of January 1, 2023	Additions	Balance as of December 31, 2023
Depreciable assets:			
Furniture	$113,361		$113,361
Office Equipment	152,531		152,531
Computer Equipment	48,412		48,412
Autos	45,400		45,400
Leasehold Improvements	5,825,314	$404,847	6,230,161
Total depreciable assets	6,185,018		6,589,865
Less accumulated depreciation	(3,802,496)	(198,075)	(4,000,571)
Total property and equipment, net	$2,382,522	($198,075)	$2,589,294

NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

	Balance as of January 1, 2022	Additions	Balance as of December 31, 2022
Depreciable assets:			
Furniture	$113,361		$113,361
Office Equipment	152,531		152,531
Computer Equipment	48,412		48,412
Autos	45,400		45,400
Leasehold Improvements	5,737,606	$87,708	5,825,314
Total depreciable assets	6,097,310	87,708	6,185,018
Less accumulated depreciation	(3,600,879)	(201,617)	(3,802,496)
Total property and equipment, net	$2,496,431	($113,909)	$2,382,522

In accordance with the Memorandum of Understanding with the National Park Service, the Center has incurred $717,493 and $86,708 in campus improvement costs, which were capitalized or expensed, depending on their nature, during the years ended December 31, 2023 and 2022.

The total work-in-process at December 31, 2023 and 2022, was $1,604,528 and $1,251,521, respectively, the majority of which is comprised 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 depreciated accordingly.

NOTE 5 – PPP LOANS

On May 20, 2021, the Center entered into a second unsecured note payable to MUFG Union Bank as part of the Paycheck Protection Program. The loan was for $254,107, and was to mature on 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. 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 recognized as a contribution in 2022.

NOTE 6 – SPECIAL EVENTS

During the years ended December 31, 2023 and 2022 respectively, the Center held special events resulting in net income as follows:

	2023	2022
Donations shown as contributons on the Statement of Activities	$527,762	$218,618
Ticket and auction sales	23,859	17,723
Less: direct expenses	(6,482)	(2,666)
Net special event earned income	$17,377	$15,057
Less: in-kind event expenses	(92,888)	(30,579)
Total event net income	$452,251	$203,096

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2023 and 2022 respectively, are designated for the following purposes:

	2023	2022
Artists in residence	$555,717	$1,111,263
Bay area fellowship		280,060
Capital campaign	71,896	560,000
Comprehensive campaign	37,500	50,000
Education/public forums		25,000
Innovating with artists		10,000
Time-restricted	256,141	610,115
Threshold		27,687
	$921,254	$2,674,125

NOTE 8 – RETIREMENT PLAN

The Center offers a 401 (k) retirement plan for all employees made available immediately upon hire. The Center contributed $307 and $0, respectively, in 2023 and 2022 to the plan.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. National Park Service Memorandums 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, the Center, designated as a "Park Partner," occupies certain GGNRA buildings and grounds until December 31, 2023.

In October 2023, the Center executed a new Memorandum of Understanding (MOU) with the NPS, effective beginning January 1, 2024. The MOU allows the Center use of the assigned facilities and surrounding lands at Buildings 934, 939, 940, 942, 944, 945 and 952 for the purposes of carrying out programs set forth in the MOU. The MOU is for a term of 30 years, expiring December 31, 2053. However, the MOU can be terminated after 10 years, at the NPS' sole discretion, or if the Center achieves certain construction milestones outlined below.

The following financial commitments are specified in the MOU:

- The Center must pay the NPS reimbursements for certain services the NPS provides to the specified areas of the lease. The payments are to be made in advance in equal quarterly installments on the first day of each quarter. The annual payments are as follows:

First lease year	$151,514
Second lease year	$162,120
Third lease year	$173,468
All subsequent lease years	Adjusted for CPI

  During the construction period detailed below, the NPS reimbursement payments shall be reduced by two thirds (2/3).

- In lieu of the Center paying the NPS base rent for the premises, the Center has agreed to commence and engage diligently in the Campus Improvement Project (Project). The Project is for the rehabilitation and addition of certain buildings within the premises, broken down into two phases. Construction on phase 1 of the Project is to begin by the start of the eighth year of the MOU, and both phases of construction must be completed no later than December 31, 2038. NPS may terminate the MOU if the Center fails to begin construction by the beginning of the eighth year or if the Center fails to meet certain construction milestones set forth in the MOU. Both parties agreed that the estimated value of the base rent to be $18.9 million. The estimate is based on estimated future construction costs for the Project.

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Concentrations 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.

NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date, consisted of the following at December 31:

	2023	2022
Current financial assets:		
Cash and cash equivalents	$262,351	$1,499,588
Contributions, grants and accounts receivables	491,583	946,004
Miscellaneous receivables	520	6,827
Total current financial assets	754,454	2,452,419
Contractual or donor-imposed restrictions:		
Donor imposed purpose restrictions	(665,113)	(2,064,010)
Financial assets available to meet cash needs for expenditures within one year	$89,341	$388,409

The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Center also has $301,922 in long-term receivables expected to be received in the future. In January 2024, the Center reduced some of its programming and operational expenses and paused work on certain capital campus improvement projects.

NOTE 11 – LEASES

In exchange for the use of the assigned lands and facilities outlined the special use permits described in Note 9A, the Center paid in advance, on a quarterly basis, amounts ranging from $10,802 to $43,212. The last payment was due on October 15, 2023. The payments were classified as operating lease payments. The special use permits did not provide an implicit rate, therefore the Center elected to use the risk-free rate of return of .78% as its incremental borrowing rate, based on the information available at the commencement date in determining the present value of lease payments. The lease term ended on December 31, 2023. The Organization has entered into a new 30-year MOU with the National Park Services (see Note 9A), however, the lease does not meet the criteria for being recorded on the Statement of Financial Position.