

**HEADLANDS CENTER FOR THE ARTS
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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INTRODUCTORY SECTION

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HEADLANDS CENTER FOR THE ARTS
Financial Statements
For the Years Ended December 31, 2024 and 2023

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents.....	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9

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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, 2024 and 2023, 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, 2024 and 2023, 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.

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 dated October 31, 2024. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mazze & Associates

Pleasant Hill, California
February 13, 2026

HEADLANDS CENTER FOR THE ARTS
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2024 AND 2023

ASSETS	<u>2024</u>	<u>2023</u>
Current Assets:		
Cash and cash equivalents (Note 2D)	\$448,512	\$262,351
Current portion of pledges receivable (Note 3)	428,158	491,583
Inventory (Note 2H)	79,431	79,431
Prepaid expenses	18,232	33,016
Miscellaneous receivables	<u>110</u>	<u>520</u>
Total Current Assets	<u>974,443</u>	<u>866,901</u>
Non-Current Assets:		
Artwork inventory (Note 2H)	18,000	18,000
Pledges receivable, net of current portion and present value discount (Note 3)	167,422	301,922
Equipment and leasehold improvements, net of accumulated depreciation of \$4,198,582 and \$4,000,571, respectively (Notes 2I and 4)	2,411,532	2,589,294
Work in process (Note 4)	1,678,404	1,604,528
Collections (Notes 2J)	<u>21,290</u>	<u>21,290</u>
Total Non-Current Assets	<u>4,296,648</u>	<u>4,535,034</u>
TOTAL ASSETS	<u><u>\$5,271,091</u></u>	<u><u>\$5,401,935</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$76,830	\$133,165
Deferred revenue (Note 2K)	<u>20,250</u>	<u>6,000</u>
Total Current Liabilities	<u>97,080</u>	<u>139,165</u>
TOTAL LIABILITIES	<u>97,080</u>	<u>139,165</u>
NET ASSETS (Note 2A)		
Net assets without donor restrictions	4,741,365	4,341,516
Net assets with donor restrictions (Note 6)	<u>432,646</u>	<u>921,254</u>
TOTAL NET ASSETS	<u>5,174,011</u>	<u>5,262,770</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$5,271,091</u></u>	<u><u>\$5,401,935</u></u>

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2024

	Without Donor Restriction	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Contributions and grants	\$2,101,601	\$235,000	\$2,336,601
In-kind contributions (Note 2E)	45,104		45,104
	2,146,705	235,000	2,381,705
Revenue:			
Admissions, sales, and miscellaneous, net of cost of goods sold of \$204,342	182,074		182,074
Rental income	85,600		85,600
Event income, net of expenses of \$6,617 (Note 5)	40,583		40,583
Net investment income	(199)		(199)
	308,058		308,058
Net assets released from restriction, purpose and/or time restrictions fulfilled	723,608	(723,608)	
	3,178,371	(488,608)	2,689,763
EXPENSES			
Program services	1,453,489		1,453,489
Supporting services	1,325,033		1,325,033
	2,778,522		2,778,522
Changes in Net Assets	399,849	(488,608)	(88,759)
Net Assets, Beginning of Year	4,341,516	921,254	5,262,770
Net Assets, End of Year	\$4,741,365	\$432,646	\$5,174,011

See accompanying notes to the financial statements

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>10,972</u>		<u>10,972</u>
Total Public Support	<u>2,303,779</u>	<u>335,000</u>	<u>2,638,779</u>
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	<u>(63)</u>		<u>(63)</u>
Total Revenue	<u>62,564</u>		<u>62,564</u>
Net assets released from restriction, purpose and/or time restrictions fulfilled	<u>2,087,871</u>	<u>(2,087,871)</u>	
TOTAL SUPPORT AND REVENUE	<u>4,454,214</u>	<u>(1,752,871)</u>	<u>2,701,343</u>
EXPENSES			
Program services	2,348,092		2,348,092
Supporting services	<u>1,975,951</u>		<u>1,975,951</u>
Total Expenses	<u>4,324,043</u>		<u>4,324,043</u>
Changes in Net Assets	130,171	(1,752,871)	(1,622,700)
Net Assets, Beginning of Year	<u>4,211,345</u>	<u>2,674,125</u>	<u>6,885,470</u>
Net Assets, End of Year	<u>\$4,341,516</u>	<u>\$921,254</u>	<u>\$5,262,770</u>

See accompanying notes to the financial statements

**HEADLANDS CENTER FOR THE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024**

	Program Services			Supporting Services			Total
	Artists in Residence	General	Total Program Services	General Administration	Fundraising	Total Supporting Services	
Accounting				\$143,402		\$143,402	\$143,402
Building expense	\$49,473	\$9	\$49,482		\$667	16,290	65,772
Cleaning and garbage	15,467		15,467	1,885	116	2,001	17,468
Contractors and interns	10,100		10,100		55,210	55,210	65,310
Depreciation and amortization (Note 4)	160,653		160,653	35,184	2,174	37,358	198,011
Dues and publications				772	89	861	861
Equipment, services and software	9,007		9,007	18,908	640	19,548	28,555
Food and kitchen expense	39,153		39,153	5,264	2,124	7,388	46,541
In-kind goods and services (Note 2E)		12,700	12,700	1,500	30,904	32,404	45,104
Insurance				53,134		53,134	53,134
Marketing				1,145	3,717	4,862	50,908
Merchandise - COGS					16,564	16,564	18,261
Miscellaneous		1,539	1,539	285	8,852	9,137	80,908
Auction Commissions - COGS					128,370	128,370	128,370
Salaries, taxes and benefits	479,328		561,749	353,184	416,549	769,733	1,331,482
Special events - Auction	10,408		10,408	35	53,885	53,920	64,328
Special events - Others	1,809		1,809	3,870	32,689	36,559	38,368
Stipends	311,660	526	312,186	2,080	4,235	6,315	318,501
Supplies	69,279		69,279	5,638	465	6,103	75,382
Taxes				12,616		12,616	12,616
Telephone and internet	753		753	44,801	11,188	55,989	56,742
Travel	42,008		42,008	185	4,115	4,300	46,308
Utilities and SDC	45,403		45,403	9,941	611	10,552	55,955
Vehicles	5,923		5,923	1,197	74	1,271	7,194
Bad debt expense				40,000		40,000	40,000
Total Expenses by Function	1,368,399	97,195	1,465,594	750,649	773,238	1,523,887	2,989,481
Less expenses included with revenues on the Statement of Activities							
Auction Event	(10,408)		(10,408)	(35)	(53,885)	(53,920)	(64,328)
Auction Commissions-COGS					(128,370)	(128,370)	(128,370)
Merchandise-COGS	(1,697)		(1,697)		(16,564)	(16,564)	(18,261)
Total Expenses	\$1,356,294	\$97,195	\$1,453,489	\$750,614	\$574,419	\$1,325,033	\$2,778,522

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			Total
	Artists in Residence	General	Total Program Services	General Administration	Fundraising	Total Supporting Services		
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 (Note 4)	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	
Food and kitchen expense	49,519		49,519	8,175	2,502	10,677	60,196	
In-kind goods and services (Note 2E)				93,617		93,617	93,617	
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	16,854	35,959	52,813	68,477	
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	372,336	372,337	
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	<u>2,277,645</u>	<u>74,082</u>	<u>2,351,727</u>	<u>1,082,590</u>	<u>1,480,776</u>	<u>2,563,366</u>	<u>4,915,093</u>	
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	<u>\$2,274,010</u>	<u>\$74,082</u>	<u>\$2,348,092</u>	<u>\$1,081,529</u>	<u>\$894,422</u>	<u>\$1,975,951</u>	<u>\$4,324,043</u>	

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	(\$88,759)	(\$1,622,700)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	198,011	198,075
Changes in assets and liabilities:		
Grants receivable	-	200,000
Pledges receivable	197,925	769,463
Prepaid expenses	14,784	2,327
Inventory	-	(10,971)
Miscellaneous receivables	410	6,307
Accounts payable and accrued expenses	(56,335)	9,350
Deferred revenue	<u>14,250</u>	<u>(26,250)</u>
Net cash provided (used) by operating activities	<u>280,286</u>	<u>(474,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(20,249)	(404,847)
Purchase of work in progress	(73,876)	(353,007)
Purchase of investments	<u>-</u>	<u>(4,984)</u>
Net cash (used) by investing activities	<u>(94,125)</u>	<u>(762,838)</u>
Net increase (decrease) in cash and cash equivalents	186,161	(1,237,237)
Cash and cash equivalents, beginning of year	<u>262,351</u>	<u>1,499,588</u>
Cash and cash equivalents, end of year	<u><u>\$448,512</u></u>	<u><u>\$262,351</u></u>
SUPPLEMENTAL DISCLOSURES:		
Interest payments made	<u>-</u>	<u>\$1,658</u>
Income taxes paid	<u>\$12,616</u>	<u>\$39,261</u>
Non-cash transactions:		
In-kind contributions	<u>\$45,104</u>	<u>\$93,617</u>

See accompanying notes to the financial statements

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

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, 2024 and 2023, was \$4,741,365 and \$4,341,516, 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.

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.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$448,512 and \$262,351 as of December 31, 2024 and 2023, 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, 2024 and 2023, the Center received \$45,104 and \$93,617, respectively.

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.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2024 and 2023, no allowance for doubtful accounts was considered necessary by management.

H. *Inventory*

Inventory consisted of the following at December 31, 2024 and 2023:

- 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.
- 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 8A) 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.

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 \$20,250 and \$6,000 as of December 31, 2024 and 2023, respectively.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2024 and 2023, the Center paid \$12,616 and \$39,261, 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.

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.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fair Value Measurements (Continued)

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. Lease Accounting

The Center recognizes and measures its leases in accordance with FASB ASC 842, Leases. The Center determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of the existing contract are changed. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a discount rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Center uses its incremental borrowing rate. As of December 31, 2024 and 2023, respectively, none of the Center's leases met the criteria to be recognized.

Q. Subsequent Events

The Center evaluated subsequent events for recognition and disclosure through February 13, 2026, the date which these financial statements were available to be issued. Management concluded that no material subsequent events occurred since December 31, 2024 that requires recognition or disclosure in the financial statements.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 3 – RECEIVABLES

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

	2024	2023
Current portion	\$428,158	\$491,583
Long-term portion, collectible during the year ending December 31:		
2025		223,500
2026	150,000	91,000
2027	30,000	
Less: present value discount, 4%	(12,578)	(12,578)
Net long-term portion	167,422	301,922
 Total contributions, grants, and accounts receivable	 \$595,580	 \$793,505

NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	Balance as of January 1, 2024	Additions	Balance as of December 31, 2024
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	6,230,161	\$20,249	6,250,410
Total depreciable assets	6,589,865		6,610,114
 Less accumulated depreciation	 (4,000,571)	 (198,011)	 (4,198,582)
 Total property and equipment, net	 \$2,589,294	 (\$198,011)	 \$2,411,532

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

	<u>Balance as of January 1, 2023</u>	<u>Additions</u>	<u>Balance as of December 31, 2023</u>
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	<u>6,185,018</u>	<u>404,847</u>	<u>6,589,865</u>
Less accumulated depreciation	<u>(3,802,496)</u>	<u>(198,075)</u>	<u>(4,000,571)</u>
Total property and equipment, net	<u><u>\$2,382,522</u></u>	<u><u>\$206,772</u></u>	<u><u>\$2,589,294</u></u>

In accordance with the Memorandum of Understanding with the National Park Service, the Center has incurred \$94,125 and \$717,493 in campus improvement costs, which were capitalized or expensed, depending on their nature, during the years ended December 31, 2024 and 2023, respectively.

The total work-in-process at December 31, 2024 and 2023, was \$1,678,404 and \$1,604,528, 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 – SPECIAL EVENTS

During the years ended December 31, 2024 and 2023, respectively, the Center held special events resulting in net income as follows:

	<u>2024</u>	<u>2023</u>
Donations shown as contributons on the Statement of Activities	<u>\$334,609</u>	<u>\$527,762</u>
Ticket and auction sales	47,200	23,859
Less: direct expenses	<u>(6,617)</u>	<u>(6,482)</u>
Net special event earned income	\$40,583	\$17,377
Less: in-kind event expenses	<u>(30,904)</u>	<u>(92,888)</u>
Total event net income	<u><u>\$344,288</u></u>	<u><u>\$452,251</u></u>

**HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023**

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2024 and 2023, respectively, are restricted for the following purposes:

	2024	2023
Artists in residence	\$155,000	\$555,717
Capital campaign	60,646	71,896
Comprehensive campaign	-	37,500
Time-restricted	217,000	256,141
	\$432,646	\$921,254

Net assets released from donor restrictions during the years ended December 31, 2024 and 2023, respectively were as follows:

	2024	2023
Artists in residence	\$125,000	\$673,940
Capital campaign	60,464	478,104
Comprehensive campaign	37,500	276,667
Time-restricted	500,644	659,160
	\$723,608	\$2,087,871

NOTE 7 – RETIREMENT PLAN

The Center offers a 401 (k) retirement plan for all employees made available immediately upon hire. The Center contributed \$10,381 and \$17,067, respectively, in 2024 and 2023 to the plan.

NOTE 8 – 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.

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 in the agreement. On April 30, 2025, both parties agreed to terminate this lease upon execution of a new special use permit.

HEADLANDS CENTER FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

The Center and NPS entered into a new special use permit agreement on April 30, 2025 for Facility Occupancy until January 31, 2026. Under the terms of the new agreement, the Center, designated as the “Park Partner”, occupies certain GGNRA buildings and grounds used to administer an art center and associated programming. Facility occupancy, programmatic activities, and facility maintenance responsibilities are all authorized under the agreement. NPS has waived all fees related to the permit. NPS may provide certain services to support the Center and adhere to statutory requirements for the property. NPS will invoice the Center for the costs for these services when applicable.

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 9 – 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:

	2024	2023
Current financial assets:		
Cash and cash equivalents	\$448,512	\$262,351
Contributions, grants and accounts receivables	428,158	491,583
Miscellaneous receivables	110	520
Total current financial assets	876,780	754,454
Contractual or donor-imposed restrictions:		
Donor imposed purpose restrictions	(432,646)	(665,113)
Financial assets available to meet cash needs for expenditures within one year	\$444,134	\$89,341

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 \$167,422 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.

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