

**SAUSALITO ART FESTIVAL FOUNDATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2016**

**SAUSALITO ART FESTIVAL FOUNDATION**  
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**December 31, 2016**

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A Division of SingerLewak

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sausalito Art Festival Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sausalito Art Festival Foundation (the Organization), which comprise the statement of financial position as of December 31, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sausalito Art Festival Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*SingerLewak. LLP*

April 4, 2017

# SAUSALITO ART FESTIVAL FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31, 2016

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### ASSETS

#### Current assets

|                           |    |                |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 919,348        |
| Accounts receivable       |    | 17,974         |
| Inventory                 |    | 25,450         |
| Prepaid expenses          |    | <u>8,662</u>   |
| Total current assets      |    | <u>971,434</u> |

#### Noncurrent assets

|                         |  |                |
|-------------------------|--|----------------|
| Deposit                 |  | 2,500          |
| Equipment, net          |  | 4,054          |
| Intangible assets       |  | <u>887,922</u> |
| Total noncurrent assets |  | <u>894,476</u> |

|              |    |                  |
|--------------|----|------------------|
| Total assets | \$ | <u>1,865,910</u> |
|--------------|----|------------------|

### LIABILITIES AND NET ASSETS

#### Current liabilities

|                               |    |               |
|-------------------------------|----|---------------|
| Accounts payable              | \$ | 46,631        |
| Accrued liabilities           |    | 37,022        |
| Note payable, current portion |    | <u>81,630</u> |
| Total current liabilities     |    | 165,283       |

#### Noncurrent liabilities

|                                      |  |                |
|--------------------------------------|--|----------------|
| Note payable, net of current portion |  | <u>180,801</u> |
| Total liabilities                    |  | <u>346,084</u> |

#### Net assets

|  |  |                  |
|--|--|------------------|
| Unrestricted                             |  |                  |
| Designated as scholarship fund corpus    |  | 248,109          |
| Designated for Artists Teach Art program |  | 53,935           |
| Undesignated                             |  | <u>1,217,782</u> |
| Total net assets                         |  | <u>1,519,826</u> |

|                                  |    |                  |
|----------------------------------|----|------------------|
| Total liabilities and net assets | \$ | <u>1,865,910</u> |
|----------------------------------|----|------------------|

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

**SAUSALITO ART FESTIVAL FOUNDATION**

**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2016

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|---------------------|
| <b>REVENUE</b>                               |                     |                                   |                     |
| Artist fees                                  | \$ 560,029          | \$ -                              | \$ 560,029          |
| Box office revenue                           | 516,602             | -                                 | 516,602             |
| Beverage sales                               | 365,168             | -                                 | 365,168             |
| Gala ticket sales                            | 208,939             | -                                 | 208,939             |
| Merchandise sales                            | 64,375              | -                                 | 64,375              |
| Sponsorship                                  | 41,000              | -                                 | 41,000              |
| Other event revenue                          | 35,697              | -                                 | 35,697              |
| Food booth fees                              | 13,560              | -                                 | 13,560              |
| Other income                                 | 4,238               | -                                 | 4,238               |
| Interest income                              | 484                 | -                                 | 484                 |
|  | <u>1,810,092</u>    | <u>-</u>                          | <u>1,810,092</u>    |
| <b>Net assets released from restrictions</b> |                     |                                   |                     |
| Satisfaction of program restrictions         | <u>25,000</u>       | <u>(25,000)</u>                   | <u>-</u>            |
| Total revenue                                | <u>1,835,092</u>    | <u>(25,000)</u>                   | <u>1,810,092</u>    |
| <b>EXPENSES</b>                              |                     |                                   |                     |
| Direct festival expenses                     |                     |                                   |                     |
| Production                                   | \$ 343,194          | \$ -                              | \$ 343,194          |
| Gala   | 220,638             | -                                 | 220,638             |
| Entertainers                                 | 204,726             | -                                 | 204,726             |
| Marketing                                    | 123,680             | -                                 | 123,680             |
| Beverages                                    | 102,311             | -                                 | 102,311             |
| Security                                     | 58,893              | -                                 | 58,893              |
| Volunteer development                        | 50,213              | -                                 | 50,213              |
| Merchandise                                  | 37,283              | -                                 | 37,283              |
| Sales tax                                    | 35,912              | -                                 | 35,912              |
| Artist expense                               | 22,824              | -                                 | 22,824              |
| Hospitality                                  | 13,771              | -                                 | 13,771              |
| Parking and shuttle services                 | 12,524              | -                                 | 12,524              |
| Event labor                                  | 8,609               | -                                 | 8,609               |
| Total direct festival expenses               | <u>1,234,578</u>    | <u>-</u>                          | <u>1,234,578</u>    |
| General and administrative expenses          |                     |                                   |                     |
| Personnel expenses                           | 243,087             | -                                 | 243,087             |
| Nonpersonnel expenses                        | 110,135             | -                                 | 110,135             |
| Rent   | 40,406              | -                                 | 40,406              |
| Interest expense                             | 23,710              | -                                 | 23,710              |
| Banking and credit card fees                 | 20,509              | -                                 | 20,509              |
| Total general and administrative expenses    | <u>437,847</u>      | <u>-</u>                          | <u>437,847</u>      |
| Programs                                     |                     |                                   |                     |
| Artists Teaching Art program                 | 111,286             | -                                 | 111,286             |
| Community grants and scholarships            | 40,936              | -                                 | 40,936              |
| Total program expenses                       | <u>152,222</u>      | <u>-</u>                          | <u>152,222</u>      |
| Total expenses                               | <u>1,824,647</u>    | <u>-</u>                          | <u>1,824,647</u>    |
| <b>Change in net assets</b>                  | 10,445              | (25,000)                          | (14,555)            |
| <b>Net assets, beginning of year</b>         | <u>1,509,381</u>    | <u>25,000</u>                     | <u>1,534,381</u>    |
| <b>Net assets, end of year</b>               | <u>\$ 1,519,826</u> | <u>\$ -</u>                       | <u>\$ 1,519,826</u> |

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

# SAUSALITO ART FESTIVAL FOUNDATION

## STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

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|   |                          |
|---|--------------------------|
| <b>Cash flows from operating activities</b>   |                          |
| Change in net assets  | \$ (14,555)              |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities |                          |
| Depreciation  | 3,251                    |
| Change in operating assets and liabilities  |                          |
| Accounts receivable   | 36,548                   |
| Inventory   | (20,527)                 |
| Prepaid expenses  | 12,269                   |
| Accounts payable  | (349)                    |
| Accrued liabilities   | <u>1,470</u>             |
| Net cash provided by operating activities   | <u>18,107</u>            |
| <br><b>Cash flows from financing activities</b>   |                          |
| Principal paid on note payable  | <u>(76,290)</u>          |
| Net cash used by financing activities   | <u>(76,290)</u>          |
| <br><b>Net change in cash and cash equivalents</b>  | (58,183)                 |
| <br><b>Cash and cash equivalents, beginning of year</b>                                       | <u>977,531</u>           |
| <br><b>Cash and cash equivalents, end of year</b>   | <u><u>\$ 919,348</u></u> |
| <br><b>Supplemental disclosures</b>   |                          |
| Operating activities include cash paid for interest of:                                       | <u>\$ 23,710</u>         |

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

**NOTE 1 – NATURE OF ACTIVITIES**

Sausalito Art Festival Foundation (the Foundation) is a non-profit corporation whose mission is to encourage, promote and support arts for the community. The Foundation's annual income is materially based on three days of revenue generated through the annual festival held Labor Day Weekend.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), which reflects revenues when earned and expenses as incurred.

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation has no temporarily restricted or permanently restricted net assets as of December 31, 2016.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all unrestricted highly liquid investments with a maturity of three months or less at the purchase date to be cash equivalents.

Equipment

All acquisitions of equipment in excess of \$1,500 are capitalized. Depreciation is computed using the straight-line method over the useful lives of the related assets, which is five years.

Sales Tax

The State of California imposes a sales tax on all of the Foundation's sales to nonexempt customers. The Foundation collects that sales tax from customers and remits the entire amount to the state. The Foundation's accounting policy is to include the tax collected and remitted to the State in revenue and direct festival expenses.

Advertising

The Foundation uses advertising to promote its festival. The production cost of advertising is expensed as incurred.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Donated Services

The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation. The Foundation has approximately 1,660 volunteers who help during the year. No amounts have been reflected in these financial statements for donated services.

Donated Advertising

The Foundation receives advertising free of charge from several local media outlets leading up to the time of the festival. The value of this advertising is not readily determinable and, therefore, is not reflected in these financial statements.

Income Taxes

The Foundation is exempt from paying income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation is also classified as an organization that is not a private foundation under Section 509(a)(2).

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management continuously evaluates tax positions reflected in the Foundation's tax filings and does not believe that any material uncertain tax positions exist.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor-specified restriction expires (that is when a stipulated time restriction ends or purpose restrictions is accomplished), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

Intangible Asset

The carrying amount of the intangible asset is annually tested for impairment based upon gross revenue from the festival. For the year ended December 31, 2016, management has determined that there has been no impairment.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements. The Foundation currently expects that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized in the balance sheet in amounts that will be material.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Foundation for fiscal years beginning after December 15, 2018. The Foundation does not believe the adoption of the new financial instruments standard will have a material impact on its consolidated financial statements. The Foundation elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

**SAUSALITO ART FESTIVAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

**NOTE 3 – CONCENTRATION OF CREDIT RISK**

The Foundation maintains cash balances at several financial institutions. Accounts at each institution are insured up to \$250,000. At December 31, 2016, the Foundation's uninsured cash balances totaled \$120,315. The Foundation does not believe that it is exposed to any significant risk in connection with these cash balances.

**NOTE 4 - EQUIPMENT**

|                                |                 |
|--------------------------------|-----------------|
| Equipment                      | \$ 16,253       |
| Less: Accumulated Depreciation | <u>(12,199)</u> |
| Equipment, net                 | <u>\$ 4,054</u> |

**NOTE 5 – INTANGIBLE ASSET**

In December 2007, the Foundation issued a non-interest bearing note in the amount of \$1,300,000 for the Sausalito Chamber of Commerce's copyright in the trademark "The Sausalito Art Festival" and all related marks, proprietary information and trade secrets used for the production of the festival. The Foundation has discounted the face value of the note in accordance with U.S. GAAP, using an interest rate of 7%, which resulted in a present value of \$887,922 at December 31, 2007.

**SAUSALITO ART FESTIVAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**NOTE 6 – NOTE PAYABLE**

As stated in Note 5, the Foundation issued a non-interest bearing note payable to the Sausalito Chamber of Commerce with a face value of \$1,300,000 in exchange for the assets purchased as described in Note 5. The Foundation has discounted the note using an interest rate of 7%, resulting in a discount of \$412,078 and a present value of \$887,922 at December 31, 2007. The payment terms of the note are one payment of \$100,000 due at the time the purchase agreement was executed and twelve annual payments of \$100,000, ending January 31, 2020. The terms of the note stipulate that the amount of any unpaid annual payment amount is added to the subsequent year's payment, but in no event is the annual payment required to exceed \$100,000, which may require the Foundation to make payments beyond the thirteen-year period.

Maturities of the note are as follows:

| <u>Year Ended December 31,</u> |                          |
|--------------------------------|--------------------------|
| 2017                           | \$ 81,630                |
| 2018                           | 87,344                   |
| 2019                           | <u>93,457</u>            |
| Total                          | <b>\$ <u>262,431</u></b> |

**NOTE 7 – RELATED PARTY TRANSACTIONS**

During 2015, the Foundation purchased \$23,142 in goods and services from businesses affiliated or controlled by members of the board of directors of the Foundation. These purchases were made under the same terms of arm's length transactions in the operation of those businesses.

**SAUSALITO ART FESTIVAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**NOTE 8 – LEASE COMMITMENTS**

The Foundation occupies office space in Sausalito for its operations under a facilities lease providing for monthly lease payments of \$3,285 with annual increases based on prevailing CPI through March 31, 2019.

The Foundation leases a copier under a five year operating lease agreement with monthly lease payments of \$185 through June 2021. Equipment lease expenses for the year ended December 31, 2016 totaled \$3,222 and is included in nonpersonnel expenses in the statement of activities.

Future minimum lease payments are as follows:

| <u>Year Ended December 31,</u> | <u>Amount</u>            |
|--------------------------------|--------------------------|
| 2017                           | \$ 43,736                |
| 2018                           | 44,982                   |
| 2019                           | 12,989                   |
| 2020                           | 2,220                    |
| 2021                           | <u>925</u>               |
| Total                          | <b><u>\$ 104,852</u></b> |

**NOTE 9 – LICENSE AGREEMENT**

The Foundation has a license agreement with the City of Sausalito that allows it to use the real property on which the art festival is held annually in exchange for collecting and remitting the business license fees for the artists and vendors participating in the festival. The term of the license agreement extends through January 2018 and includes an option to extend for an additional five years each through January 2023.

**NOTE 10 – SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through April 4, 2017, the date which the financial statements were available to be issued, and determined that no reportable events occurred.