

**SAUSALITO ART FESTIVAL FOUNDATION**

Audited Financial Statements

December 31, 2015

# SAUSALITO ART FESTIVAL FOUNDATION

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CERTIFIED PUBLIC ACCOUNTANTS

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Partners

Daniel J. Harrington, CPA

Bruce J. Wright, CPA

Michael J. Ellingson, CPA

Principal

Mitchell Richstone, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Sausalito Art Festival Foundation

We have audited the accompanying financial statements of Sausalito Art Festival Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2015, and the related Statements of Activities and Cash Flows for the year then ended, and the related Notes to the Financial Statements.

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

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

### **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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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 Sausalito Art Festival Foundation as of December 31, 2015, 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.



South San Francisco, California  
August 23, 2016

**SAUSALITO ART FESTIVAL FOUNDATION**

Statement of Financial Position

December 31, 2015

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 977,531
Accounts Receivable	54,522
Inventory	4,923
Prepaid Expenses	20,931
Total Current Assets	<u>1,057,907</u>

**NONCURRENT ASSETS**

Deposit	2,500
Property and Equipment - Net	7,305
Intangible Assets	887,922
Total Noncurrent Assets	<u>897,727</u>

Total Assets	<u>\$ 1,955,634</u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accrued Liabilities	\$ 82,532
Note Payable	76,290
Total Current Liabilities	<u>158,822</u>

**NONCURRENT LIABILITIES**

Note Payable	262,431
Total Liabilities	<u>421,253</u>

**NET ASSETS**

Unrestricted	
Designated as Scholarship Fund Corpus	217,783
Designated for Artists Teach Art Program	33,044
Undesignated	1,258,554
Total Unrestricted	1,509,381
Temporarily Restricted	25,000
Total Net Assets	<u>1,534,381</u>

Total Liabilities and Net Assets	<u>\$ 1,955,634</u>
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See Notes to Financial Statements

**SAUSALITO ART FESTIVAL FOUNDATION**  
Statement of Activities  
Year Ended December 31, 2015

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUE AND OTHER SUPPORT</b>			
Artist Fees	\$ 579,361	\$ -	\$ 579,361
Box Office Revenue	494,775	-	494,775
Beverage Sales	364,940	-	364,940
Gala Ticket Sales	240,450	-	240,450
Merchandise Sales	57,691	-	57,691
Sponsorship	112,881	-	112,881
Other Event Revenue	32,901	-	32,901
Food Booth Fees	15,000	-	15,000
Other Income	10,502	25,000	35,502
Interest Income	644	-	644
	1,909,145	25,000	1,934,145
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of Program Restrictions	-	-	-
Total Revenue and Other Support	1,909,145	25,000	1,934,145
<b>EXPENSES</b>			
<b>Direct Festival Expenses</b>			
Production	\$ 319,334	\$ -	\$ 319,334
Gala	262,590	-	262,590
Entertainers	186,207	-	186,207
Marketing	142,800	-	142,800
Beverages	112,547	-	112,547
Artist Expense	23,037	-	23,037
Security	46,785	-	46,785
Volunteer Development	36,945	-	36,945
Sales Tax	36,086	-	36,086
Merchandise	30,974	-	30,974
Hospitality	23,105	-	23,105
Parking and Shuttle Services	14,300	-	14,300
Event Labor	3,335	-	3,335
Total Direct Festival Expenses	1,238,045	-	1,238,045
<b>General and Administrative Expenses</b>			
Personnel Expenses	231,243	-	231,243
Nonpersonnel Expenses	96,582	-	96,582
Rent	38,512	-	38,512
Interest Expense	28,701	-	28,701
Banking and Credit Card Fees	36,468	-	36,468
Total General and Administrative Expenses	431,506	-	431,506
<b>Programs</b>			
Artists Teaching Art Program	100,857	-	100,857
Community Grants and Scholarships	76,902	-	76,902
	177,759	-	177,759
Total Expenses	1,847,310	-	1,847,310
<b>CHANGE IN NET ASSETS</b>	61,835	25,000	86,835
<b>NET ASSETS, Beginning of Year</b>	1,447,546	-	1,447,546
<b>NET ASSETS, End of Year</b>	\$ 1,509,381	\$ 25,000	\$ 1,534,381

**SAUSALITO ART FESTIVAL FOUNDATION**

Statement of Cash Flows  
Year Ended December 31, 2015

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 86,835
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	3,251
(Increase) Decrease in Operating Assets	
Accounts Receivable	(47,468)
Prepaid Expenses	(10,271)
Increase (Decrease) in Operating Liabilities	
Accrued Liabilities	<u>(5,456)</u>
Net Cash Provided by Operating Activities	<u>26,891</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Paid on Note Payable	<u>(71,299)</u>
Net Cash (Used) by Financing Activities	<u>(71,299)</u>

**NET (DECREASE) IN CASH** (44,408)

**CASH AND CASH EQUIVALENTS, Beginning of Year** 1,021,939

**CASH AND CASH EQUIVALENTS, End of Year** \$ 977,531

**SUPPLEMENTAL DISCLOSURES**

Operating Activities include cash paid for interest of: \$ 28,701

## SAUSALITO ART FESTIVAL FOUNDATION

Notes to Financial Statements

December 31, 2015

### 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.

### 2. **Summary of Significant Accounting Policies**

**Cash and Cash Equivalents** – The Foundation classifies all operating cash accounts, time deposits, and certificates of deposit as cash and cash equivalents.

**Property and Equipment** – All acquisitions of property and equipment in excess of \$1,500 are capitalized. Depreciation is computed using the straight-line method over the useful lives of the related assets.

**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. For the year ended December 31, 2015, the Foundation's revenue and direct festival expenses include \$36,086 of sales tax collected and remitted.

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

**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 1,900 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.



## SAUSALITO ART FESTIVAL FOUNDATION

Notes to Financial Statements

December 31, 2015

(Continued)

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

**Fair Value of Financial Instruments** – The carrying amount of cash and cash equivalents, accounts receivable, prepaid expenses and accrued liabilities, none of which are held for trading purposes, approximate the fair value due to the short-term maturities of those instruments. The carrying amount of the note payable approximates the fair value.

**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.

The Foundation's exempt organization returns are subject to examination by federal and state agencies for three and four years, respectively, after filing.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles 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.

### 3. Concentration of Credit Risk

Sausalito Art Festival Foundation maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2015, the Foundation's uninsured cash balances total \$77,275.

## SAUSALITO ART FESTIVAL FOUNDATION

Notes to Financial Statements

December 31, 2015

(Continued)

### 4. Property and Equipment

Equipment	\$ 16,253
Less: Accumulated Depreciation	<u>(8,948)</u>
Property and Equipment – Net	\$ <u>7,305</u>

Depreciation expense for year ended December 31, 2015 was \$3,251.

### 5. Intangible Asset Purchase

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 generally accepted accounting principles, using an interest rate of 7%, which resulted in a present value of \$887,922 at December 31, 2007. The carrying amount of the intangible asset is annually tested for impairment based upon gross revenue from the festival.

### 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.

**SAUSALITO ART FESTIVAL FOUNDATION**  
Notes to Financial Statements  
December 31, 2015  
(Continued)

6. **Note Payable (Continued)**

Maturities of the note are as follows:

<u>Year Ended December 31,</u>	
2016	\$ 76,290
2017	81,630
2018	87,344
2019	<u>93,457</u>
 Total	 <u>\$ 338,721</u>

7. **Related Party Transactions**

During 2015, the Foundation purchased \$25,182 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.

8. **Temporarily Restricted Net Assets**

Restricted as to Purpose:	
Artists Teaching Art Program	\$ <u>25,000</u>

8. **Lease Commitments**

The Foundation occupies leased office space in Sausalito for its operations. An extension agreement executed in 2012 provides for monthly lease payments of \$2,700 through March 31, 2015. In March 2015, the Foundation extended the lease agreement for an additional 48 month period with monthly payments of \$3,285 through March 31, 2019. Rent paid during the year ended December 31, 2015 was \$38,512. The Foundation also leases a copier under an operating lease which expired in April 2015 and became a month-to-month lease. Rent paid during the year ended December 31, 2015 was \$2,820.

**SAUSALITO ART FESTIVAL FOUNDATION**

Notes to Financial Statements

December 31, 2015

(Continued)

**8. Lease Commitments (Continued)**

Total future minimum rental payments due under the leases are:

<u>Year Ended December 31,</u>	
2016	\$ 39,420
2017	39,420
2018	39,420
2019	<u>9,855</u>
Total	\$ <u>128,115</u>

**9. License Agreement**

In January 2008, the Foundation entered into 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 initial term of the license agreement is five years and includes two options to extend for an additional five years each. In January 2013, the first five-year option was exercised and approved by the City of Sausalito.

**10. Subsequent Events**

Management has evaluated subsequent events to August 23, 2016, the date which the financial statements were available to be issued, and determined that no reportable events occurred.