

**Marin Art and Garden Center**

Financial Statements

Year ended December 31, 2017

with

Report of Independent Auditors

Report of Independent Auditors

Board of Trustees  
Marin Art and Garden Center

We have audited the accompanying financial statements of the Marin Art and Garden Center (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities and changes in net assets, functional expenses 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 auditors' 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. 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 Marin Art and Garden Center as of December 31, 2017, 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.

**Report on Summarized Comparative Information**

We have previously audited the financial statements of the Marin Art and Garden Center as of and for the year ended December 31, 2016 and, in our report dated June 20, 2017, we expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which the management of the Marin Art and Garden Center derived it.

*Wilson Markle Stuckey Hardesty & Bott*  
Wilson Markle Stuckey Hardesty & Bott, LLP  
Larkspur, California  
November 6, 2018

**Marin Art and Garden Center**  
**Statement of Financial Position**  
**December 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,161,274	\$ 1,476,843
Investments, at fair value	<u>535,674</u>	<u>246,401</u>
<b>Total current assets</b>	1,696,948	1,723,244
<b>Property and equipment, at cost</b>		
Land	77,485	77,485
Buildings and improvements	2,243,637	2,194,290
Furniture and equipment	264,765	275,346
Construction in progress	<u>206,029</u>	<u>211,770</u>
	2,791,916	2,758,891
Accumulated depreciation	<u>(1,462,701)</u>	<u>(1,429,913)</u>
<b>Property and equipment, net</b>	<u>1,329,215</u>	<u>1,328,978</u>
<b>Total assets</b>	<u><u>\$ 3,026,163</u></u>	<u><u>\$ 3,052,222</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 29,193	\$ 29,902
Accrued expenses	39,935	39,933
Accrued commissions	16,876	17,821
Deferred revenue	238,156	258,656
Rental deposits	<u>7,100</u>	<u>7,100</u>
<b>Total current liabilities</b>	331,260	353,412
<b>Net assets</b>		
Unrestricted	2,680,943	2,677,350
Temporarily restricted	-	7,500
Permanently restricted	<u>13,960</u>	<u>13,960</u>
<b>Total net assets</b>	<u>2,694,903</u>	<u>2,698,810</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 3,026,163</u></u>	<u><u>\$ 3,052,222</u></u>

See accompanying notes.

**Marin Art and Garden Center**  
**Statement of Activities and Changes in Net Assets**  
**Year ended December 31, 2017**

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Totals	2016 Totals
Support and revenue					
Contributions	\$ 192,488	\$ 9,000	\$ -	\$ 201,488	\$ 145,038
Short-term rentals	584,377	-	-	584,377	527,540
Long-term rentals	200,440	-	-	200,440	193,762
Preschool tuition	332,914	-	-	332,914	327,243
Other program fees	109,790	-	-	109,790	43,856
Expense reimbursements	29,517	-	-	29,517	27,564
Investment income (loss), net	41,001	-	-	41,001	(2,220)
Special events, net	53,049	-	-	53,049	26,557
Other income	5,286	-	-	5,286	-
Net assets released from restrictions	16,500	(16,500)	-	-	-
<b>Total support and revenue</b>	<b>1,565,362</b>	<b>(7,500)</b>	<b>-</b>	<b>1,557,862</b>	<b>1,289,340</b>
Expenses					
Program services	1,144,506	-	-	1,144,506	952,627
Management and general	228,697	-	-	228,697	225,001
Fundraising and development	128,421	-	-	128,421	103,634
<b>Total expenses</b>	<b>1,501,624</b>	<b>-</b>	<b>-</b>	<b>1,501,624</b>	<b>1,281,262</b>
Change in net assets before depreciation expense	63,738	(7,500)	-	56,238	8,078
Depreciation expense	60,145	-	-	60,145	69,436
Change in net assets	3,593	(7,500)	-	(3,907)	(61,358)
Net assets, beginning of year	2,677,350	7,500	13,960	2,698,810	2,760,168
Net assets, end of year	<u>\$ 2,680,943</u>	<u>\$ -</u>	<u>\$ 13,960</u>	<u>\$ 2,694,903</u>	<u>\$ 2,698,810</u>

See accompanying notes.

**Marin Art and Garden Center**  
**Statement of Functional Expenses**  
**Year ended December 31, 2017**

	Program services	Management and general	Fundraising and development	2017 Total	2016 Total
Salaries	\$ 511,987	\$ 165,235	\$ 79,526	\$ 756,748	\$ 677,636
Payroll taxes	43,940	13,638	6,286	63,864	62,266
Employee benefits	23,285	12,769	442	36,496	28,852
Facility maintenance	168,979	2,000	2,000	172,979	174,559
Utilities	46,237	2,000	1,000	49,237	43,532
Insurance	65,744	4,370	-	70,114	64,306
In-kind expense	16,771	-	2,484	19,255	-
Professional services	120,680	21,796	19,140	161,616	97,878
Supplies	63,725	832	9,428	73,985	43,141
Marketing and promotion	13,016	29	1,904	14,949	12,915
Bank charges and fees	13,648	1,020	1,031	15,699	10,558
Information technology	2,419	304	284	3,007	10,526
Travel and entertainment	19,039	3,918	3,511	26,468	19,144
Property taxes	30,660	-	-	30,660	31,041
Other	4,376	786	1,385	6,547	4,908
	<u>\$ 1,144,506</u>	<u>\$ 228,697</u>	<u>\$ 128,421</u>	<u>\$ 1,501,624</u>	<u>\$ 1,281,262</u>

See accompanying notes.

**Marin Art and Garden Center**  
**Statement of Cash Flows**  
Year ended December 31, 2017

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (3,907)	\$ (61,358)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	60,145	69,436
Unrealized (gain) loss on investments	(22,510)	6,685
Changes in operating assets and liabilities		
Contribution receivable	-	1,413,000
Accounts payable	(709)	12,039
Accrued expenses	2	25,899
Accrued commissions	(945)	(36,185)
Deferred revenue	(20,500)	(11,371)
Rental deposits	-	(1,500)
	<u>11,576</u>	<u>1,416,645</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(60,382)	(211,770)
Purchase of investments	(340,845)	(252,553)
Proceeds from sale of investments	90,685	3,212
Interest and dividends reinvested	(16,603)	(3,745)
	<u>(327,145)</u>	<u>(464,856)</u>
Net cash used by investing activities		
Net (decrease) increase in cash and cash equivalents	(315,569)	951,789
Cash and cash equivalents, beginning of year	<u>1,476,843</u>	<u>525,054</u>
Cash and cash equivalents, end of year	<u>\$ 1,161,274</u>	<u>\$ 1,476,843</u>

See accompanying notes.

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 1 – Description of operations

Organization

The Marin Art and Garden Center (MAGC), is a non-profit corporation organized under the laws of the State of California. MAGC consists of eleven acres of gardens that include ancient trees, rolling lawns, a butterfly habitat and herb and native plant gardens and facilities that serve as a venue for educational programs for all ages including classes for the home gardener, children's camps, theater, and dance. MAGC was established in 1945 and its facilities are located in Ross, California. In addition, MAGC operates a licensed preschool (Garden School).

Note 2 - Summary of significant accounting policies

Basis of accounting

MAGC prepares its financial statements using accounting principles generally accepted in the United States of America (US-GAAP). MAGC recognizes contributions when promised, revenue when earned and expenses when incurring the related obligation.

Fair value

MAGC uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority.

MAGC uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, MAGC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. MAGC only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.



**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 2 - Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consists of amounts on hand and on deposit with a commercial bank, available within 90 days of demand.

Investments

Investments include debt (bonds), equity (common and preferred stock) securities, and cash held for investment purposes. MAGC reports the fair value of investments in debt and equity securities with readily determinable fair values. MAGC reports all other investments at cost. Net investment income consists of interest, dividends, gain or loss on the sale of investments, and appreciation or depreciation of holding investments, net of investment management fees. MAGC recognizes net investment income when earned. One entity holds all of the investments of MAGC.

Allowance for uncollectible receivables

MAGC uses the allowance method to account for uncollectible receivables. Under this method, MAGC reviews all receivables for any problems with collectability. If MAGC feels that there may be a problem with collections, an allowance is provided for the receivable. When attempts to collect a specific receivable are unsuccessful, the account is considered uncollectible and is written off against the allowance. As of December 31, 2017, the management of MAGC concluded that an allowance for doubtful accounts was not material to the financial position of MAGC.

Property and equipment

MAGC records purchased property and equipment at acquisition cost. Donated land and facilities are valued at the estimated fair value at the time of receipt. MAGC records depreciation using the straight-line method over estimated useful lives of from five to thirty-nine years. MAGC generally capitalizes outlays of \$5,000 and above. Amounts expended for maintenance and repairs that do not improve or extend the lives of the respective assets are recorded as expenses.

Deferred revenue

Deferred revenue consists principally of Garden School tuition and short-term rental income received in advance.

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 2 - Summary of significant accounting policies (continued)

Revenue

MAGC earns revenue from its various educational programs, including the Garden School. MAGC recognizes program revenue when the related program occurs.

For long-term rental, MAGC recognizes revenue when due under the related lease agreements, instead of on the straight-line rent method as it would be required by US-GAAP. The difference is not material to the financial position of MAGC. In addition, tenants are required to reimburse MAGC for their share of operating expenses, including common area maintenance, insurance and other direct expenses. Tenants are billed for their share of operating expenses in accordance with their respective lease agreements. MAGC recognizes expense reimbursement revenue when earned.

For short-term rental, MAGC recognizes revenue when the event takes place. Rental payments received prior to the event are included in deferred revenue.

Contributions and net assets

MAGC recognizes contributions when a donor makes an unconditional promise to provide support. Net assets include cumulative unrestricted, temporarily restricted and permanently restricted net assets, net of cumulative expenses. Unrestricted net assets consist of revenue and contributions not restricted to a particular purpose or time by the donor, net of expenses. Temporarily restricted net assets consist of contributions restricted by the donor to a particular purpose or time. Temporarily restricted net assets become unrestricted net assets when MAGC meets the donor purpose or time restriction. Permanently restricted net assets consist of contributions restricted by the donor for MAGC to hold permanently, allowing for only use of the income generated by the contribution.

Special events

Special events revenue, net of direct donor benefit costs, is recognized when the fundraising event takes place.

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 2 - Summary of significant accounting policies (continued)

Contributed services

Accounting principles generally accepted in the United States require the valuation and recordation of services that meet two criteria: The services require specialized skills and MAGC would purchase the services if not contributed. During the year ended December 31, 2017, MAGC did not receive material services meeting the requirements for valuation and recordation. MAGC makes significant use of the services of volunteers; however, these services do not meet the criteria for valuation and recordation.

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved MAGC as exempt from federal income tax under the Internal Revenue Code (IRC) and from California bank and corporation taxes under the California Revenue and Taxation Code. In addition, the IRS approved MAGC to receive contributions that qualify for the charitable contribution deduction under the IRC and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of MAGC concluded that no activities of MAGC jeopardized its exemption from income taxes, its classification as a "public charity" or subjected MAGC to taxes on unrelated business income. Consequently, MAGC did not provide for any income taxes.

The management of MAGC is required to report information regarding its exposure to various tax positions taken by MAGC and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold. Management believes that MAGC has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2015 to 2017 are open for examination by the Internal Revenue Service and years 2014 to 2017 by the California Franchise Tax Board.

Use of estimates

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

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 2 - Summary of significant accounting policies (continued)

Functional expenses

MAGC summarizes the costs of providing the various programs and other activities on a functional basis in the accompanying statement of activities and changes in net assets and in the statement of functional expenses. Accordingly, MAGC allocates certain costs among the programs and supporting services based on estimates of time and usage. MAGC evaluates and updates those estimates as needed.

Prior year totals

The columns on the accompanying financial statements captioned 2016 totals represent certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity US-GAAP. Accordingly, such information should be read in conjunction with MAGC's financial statements for the year ended December 31, 2016, from which the summarized information was derived. MAGC has reclassified certain prior year amounts to conform to the current year presentation.

Subsequent events

MAGC evaluated subsequent events for recognition and disclosure through November 6, 2018, the date on which these financial statements were available to be issued.

Note 3 – Investments

As of December 31, 2017, investments total as follows:

<u>Class and type</u>	<u>Totals</u>	<u>Level 1</u>
Cash	\$ 51,529	\$ -
Equities		
Common Stock	260,027	260,027
Preferred Stock	66,463	66,463
Fixed income		
Bonds	<u>157,655</u>	<u>157,655</u>
Total investments	<u>\$ 535,674</u>	<u>\$ 484,145</u>

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 3 – Investments (continued)

During the year ended December 31, 2017, MAGC did not transfer any investments among the different fair value input levels.

During the year ended December 31, 2017, net investment income totals as follows:

Interest	\$ 867
Dividends	20,141
Realized losses	(2,517)
Unrealized appreciation	<u>22,510</u>
Investment income, net	<u><u>\$ 41,001</u></u>

Note 4 – Temporarily restricted net assets

As of and during the year ended December 31, 2017, temporarily restricted net assets reconcile as follows:

<u>Activity</u>	<u>2016</u>	<u>Additions</u>	<u>Releases</u>	<u>2017</u>
Livermore AV system	\$ 5,000	\$ -	\$ (5,000)	\$ -
Miscellaneous	<u>2,500</u>	<u>9,000</u>	<u>(11,500)</u>	<u>-</u>
Total	<u><u>\$ 7,500</u></u>	<u><u>\$ 9,000</u></u>	<u><u>\$ (16,500)</u></u>	<u><u>\$ -</u></u>

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 5 – Endowment Funds

Endowment funds consist of several individual funds established for a variety of purposes. Endowment funds include both donor-restricted funds that MAGC must hold in perpetuity or for a donor-specified period and board-designated funds.

MAGC has interpreted the CA-UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Under this interpretation, MAGC classifies as permanently restricted net assets the original fair value of gifts to permanently restricted endowment funds, the original fair value of subsequent gifts and accumulations made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation. The remaining portions of donor-restricted endowment funds that MAGC has not classified as permanently restricted net assets, MAGC classifies as temporarily restricted net assets until MAGC appropriates those amounts for expenditure in a manner consistent with the standards of prudence prescribed by the CA-UPMIFA. In accordance with the CA-UPMIFA, MAGC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment funds
2. The purposes of MAGC and the endowment funds
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of MAGC
7. The investment policy of MAGC

MAGC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets.

The investment policy of MAGC is to preserve and protect assets of the organization while earning an appropriate rate of return of each category of assets.

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 5 – Endowments (continued)

The goals that will govern MAGC’s investment activities are, in order of priority:

1. Safety and preservation of principal
2. Liquidity of investments sufficient to meet cash flow requirements
3. To maximize return on investments while meeting objectives 1 and 2 above

Board designated endowment funds are subject to redesignations at any time, including redesignations as other than endowment funds.

As of December 31, 2017, endowment funds total as follows:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor designated	\$ -	\$ 13,960	\$ 13,960
Board designated	<u>535,674</u>	<u>-</u>	<u>535,674</u>
Total endowment funds	<u>\$ 535,674</u>	<u>\$ 13,960</u>	<u>\$ 549,634</u>

During the year ended December 31, 2017, endowment funds reconcile as follows:

	<u>Unrestricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment net assets, at December 31, 2016	\$ 246,401	\$ 13,960	\$ 260,361
Contributions	-	-	-
Dividends and interest	20,643	-	20,643
Realized losses	(2,517)	-	(2,517)
Unrealized appreciation	22,510	-	22,510
Investment expenses	(1,363)	-	(1,363)
Appropriations for expenditure	-	-	-
Board designations (undesignations)	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Endowment net assets, at December 31, 2017	<u>\$ 535,674</u>	<u>\$ 13,960</u>	<u>\$ 549,634</u>

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 6 – Rental income

MAGC rents certain of its facilities on a short-term or daily use basis or under long-term arrangements with terms of up to five years. Long-term arrangements may include an option to renew for five additional years. Under the terms of the operating leases, MAGC expects to receive minimum rental payments during the years ending December 31, totaling as follows:

2018	\$ 148,554
2019	134,441
2020	125,195
2021	51,295
2022	<u>6,120</u>
Total future minimum rental payments receivable	<u>\$465,605</u>

Operating leases also require additional payments for each tenant's proportionate share of certain building operating expenses. Operating leases expire variously through December 31, 2022.

Note 7 – Retirement plan

Effective January 1, 2016, MAGC adopted a qualified 403(b) retirement plan (Plan) and eligible employees may elect to defer a portion of their annual compensation, up to the maximum allowed by the Internal Revenue Service. The Plan provides for discretionary matching contributions determined annually by the Board. Employees eligible for the match vest immediately for the match. During the year ended December 31, 2017, MAGC contributed \$5,373 to the 403(b) plan.



**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 8 – Special events

Special events net revenue for the year ended December 31, 2017, consists of the following:

	<u>Harvest dinner</u>	<u>Garden School</u>	<u>Other</u>	<u>Total</u>
Support and revenue	\$ 23,150	\$ 34,221	\$ 13,292	\$ 70,663
Direct donor benefit costs	<u>10,501</u>	<u>4,998</u>	<u>2,115</u>	<u>17,614</u>
Net	<u>\$ 12,649</u>	<u>\$ 29,223</u>	<u>\$ 11,177</u>	<u>\$ 53,049</u>

Note 9 – Concentrations, credit and market risk

Cash and cash equivalents held by commercial banks exceeded federal deposit insurance limits at various times during the year ended December 31, 2017.

One investment firm holds all the investments of MAGC and makes investment decisions for MAGC, based on investment policies approved by the board of directors of MAGC.

Investments are subject to credit, interest rate and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Interest rate risk is the risk that interest rates in the market will change relative to the interest rates earned on MAGC investments. Market risk is the inherent change in the fair value of an investment due to changes in conditions. MAGC manages risk to its investments by periodically reviewing investments for compliance with their investment policy and investment returns for comparability to the general market and specific investment class returns.

**Marin Art and Garden Center**  
Notes to Financial Statements  
December 31, 2017

Note 9 – Concentrations, credit and market risk (continued)

In the normal course of its business, MAGC enters into leases with tenants where it is exposed to potential loss due to changes in economic conditions (market risk) or failure of the other party to perform (credit risk). The policy of MAGC is to continuously monitor its exposure to market and credit risk using a variety of reporting and control procedures. In addition, MAGC reviews the credit standing of each tenant and retains a security deposit. Historical losses have not been material to the financial position of MAGC.

MAGC receives certain support and revenue that may be subject to audit or review by the donors. The management of MAGC concluded that MAGC complied with all aspects of related grant provisions and that disallowed costs, if any, would be immaterial to the financial position of MAGC.