

Marin Art and Garden Center, a Living Memorial

Financial Statements

Year ended December 31, 2012

with

Report of Independent Auditors

Report of Independent Auditors

Board of Directors
Marin Art and Garden Center, a Living Memorial

CERTIFIED PUBLIC
ACCOUNTANTS

DONALD WILSON
ALAN MARKLE
CHARLES STUCKEY
DAVID HARDESTY
DAVID BOTT
DAVID BAILEY
MICHAEL SMITH

We have audited the accompanying financial statements of the Marin Art and Garden Center, a Living Memorial (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012, and the related statements 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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, a Living Memorial as of December 31, 2012, 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.

The prior-year summarized comparative information has been derived from the organization's 2011 financial statements and, in our report dated July 19, 2012, we expressed an unqualified opinion on those financial statements.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott, LLP
June 12, 2013

Marin Art and Garden Center, a Living Memorial
Statement of Financial Position
December 31, 2012

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 53,640	\$ 46,991
Accounts receivable	19,702	41,293
Prepaid insurance	<u>5,320</u>	<u>-</u>
Total current assets	78,662	88,284
Property and equipment, at cost		
Land	77,485	77,485
Buildings and improvements	2,016,000	2,000,493
Furniture and equipment	<u>249,010</u>	<u>249,010</u>
	2,342,495	2,326,988
Accumulated depreciation	<u>(1,197,319)</u>	<u>(1,144,908)</u>
Property and equipment, net	<u>1,145,176</u>	<u>1,182,080</u>
Total assets	<u><u>\$ 1,223,838</u></u>	<u><u>\$ 1,270,364</u></u>
Liabilities and Net Assets		
Current liabilities		
Line of credit	\$ 40,000	\$ -
Accounts payable	10,782	44,086
Accrued expenses	4,929	14,294
Deferred revenue	2,175	-
Rental deposits	<u>17,250</u>	<u>15,475</u>
Total current liabilities	75,136	73,855
Net assets		
Unrestricted	1,134,902	1,174,049
Temporarily restricted	1,340	-
Permanently restricted	<u>12,460</u>	<u>22,460</u>
Total net assets	<u>1,148,702</u>	<u>1,196,509</u>
Total liabilities and net assets	<u><u>\$ 1,223,838</u></u>	<u><u>\$ 1,270,364</u></u>

See accompanying notes.

Marin Art and Garden Center, a Living Memorial
Statement of Activities and Changes in Net Assets
Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2012 Totals</u>	<u>2011 Totals</u>
Support and revenue					
Donations	\$ 111,116	\$ 1,740	\$ -	\$ 112,856	\$ 72,818
Memberships	3,860	-	-	3,860	2,875
Short-term rentals	225,559	-	-	225,559	289,135
Long-term rentals	172,106	-	-	172,106	142,837
Support group memberships and contributions	55,564	-	-	55,564	36,115
Interest and dividends	27	-	-	27	153
Other income	3,761	-	-	3,761	9,094
Net assets released from restrictions	10,400	(400)	(10,000)	-	-
Total support and revenue	582,393	1,340	(10,000)	573,733	553,027
Expenses					
Program services	491,227	-	-	491,227	636,953
Management and general	53,886	-	-	53,886	66,213
Fundraising and development	24,016	-	-	24,016	22,821
Total expenses	569,129	-	-	569,129	725,987
Change in net assets before depreciation expense	13,264	1,340	(10,000)	4,604	(172,960)
Depreciation expense	52,411	-	-	52,411	93,899
Change in net assets	(39,147)	1,340	(10,000)	(47,807)	(266,859)
Net assets, beginning of year	1,174,049	-	22,460	1,196,509	1,463,368
Net assets, end of year	<u>\$ 1,134,902</u>	<u>\$ 1,340</u>	<u>\$ 12,460</u>	<u>\$ 1,148,702</u>	<u>\$ 1,196,509</u>

See accompanying notes.

Marin Art and Garden Center, a Living Memorial
Statement of Functional Expenses
Year ended December 31, 2012

	Program services	Management and general	Fundraising and development	2012 Total	2011 Total
Salaries	\$ 198,660	\$ 12,957	\$ 4,319	\$ 215,936	\$ 283,824
Payroll taxes	19,472	1,271	424	21,167	23,660
Employee benefits	18,817	1,228	410	20,455	30,828
Facility maintenance and outside services	96,858	-	-	96,858	164,722
Utilities	23,364	-	-	23,364	26,446
Insurance	34,921	-	-	34,921	33,494
Interest	2,236	-	-	2,236	-
Professional services	18,963	23,386	-	42,349	39,472
Program supplies	9,370	-	-	9,370	30,148
Marketing and promotion	10,391	-	-	10,391	2,629
Office supplies and expenses	-	13,906	-	13,906	22,820
Telephone	8,627	-	-	8,627	9,153
Bank charges and fees	9,369	-	-	9,369	3,860
Fundraising	-	-	18,863	18,863	16,638
Property taxes	36,871	-	-	36,871	35,763
Other	3,308	1,138	-	4,446	2,530
	<u>\$ 491,227</u>	<u>\$ 53,886</u>	<u>\$ 24,016</u>	<u>\$ 569,129</u>	<u>\$ 725,987</u>

See accompanying notes.

Marin Art and Garden Center, a Living Memorial
Statement of Cash Flows
Year ended December 31, 2012

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (47,807)	\$ (266,859)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	52,411	93,899
Changes in operating assets and liabilities		
Accounts receivable	21,591	(4,105)
Prepaid insurance	(5,320)	-
Accounts payable	(33,304)	44,004
Accrued liabilities	(9,365)	10,514
Deferred revenue	2,175	-
Rental deposits	1,775	(5,931)
Net cash used by operating activities	(17,844)	(128,478)
Cash flows from investing activities		
Purchase of property and equipment	(15,507)	-
Net cash used by investing activities	(15,507)	-
Cash flows from financing activities		
Borrowings from line of credit	40,000	-
Net cash provided by financing activities	40,000	-
Net increase (decrease) in cash and cash equivalents	6,649	(128,478)
Cash and cash equivalents, beginning of year	46,991	175,469
Cash and cash equivalents, end of year	<u>\$ 53,640</u>	<u>\$ 46,991</u>
Cash paid for interest	<u>\$ 2,236</u>	<u>\$ -</u>

See accompanying notes.

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 1 - Summary of significant accounting policies

Basis of presentation

The Marin Art and Garden Center, a Living Memorial dba 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 1943 and its facilities are located in Ross, California.

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting. MAGC records revenues when earned and expenses when incurring the related obligation.

Use of estimates

MAGC prepares its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts and notes reported in these financial statements. Actual results could differ from those estimated.

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.

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 1 - 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 years ended December 31, 2012 and 2011, 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.

Allocations of functional expenses

MAGC allocates certain costs among production, general and administrative and marketing and promotion based on estimates of usage and benefit. MAGC evaluates and updates those estimates as needed.

Cash and cash equivalents

Cash and cash equivalents consists of amounts on hand and on deposit with a commercial bank in a non-interest bearing account, available on demand.

Allowance for uncollectible accounts receivable

MAGC uses the allowance method to account for uncollectible accounts receivable. 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. At December 31, 2012 and 2011, MAGC concluded that an allowance for doubtful accounts was not necessary.

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 \$1,000 and above. Amounts expended for maintenance and repairs that do not improve or extend the lives of the respective assets are recorded as expenses.

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 1 - Summary of significant accounting policies (continued)

Deferred revenue

Deferred revenue consists of rent payments received in advance.

Prior year totals

The columns on the accompanying financial statements captioned 2011 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 with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MAGC's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

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.

MAGC follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. Adoption of these provisions did not have any impact on MAGC's liability for unrecognized tax liabilities. Management believes that MAGC has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2009 to 2012 are open for examination by the Internal Revenue Service and years 2008 to 2012 by the California Franchise Tax Board.

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 1 - Summary of significant accounting policies (continued)

Fair value measurements

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.

Management of MAGC estimates that the aggregate net fair value of financial instruments recognized (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Subsequent events

MAGC evaluated subsequent events for recognition and disclosure through June 12, 2013, the date on which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2012 that required recognition or disclosure in such financial statements

Note 2 – Temporarily restricted net assets

As of and during the year ended December 31, 2012, temporarily restricted net assets reconcile as follows:

<u>Activity</u>	<u>2011</u>	<u>Additions</u>	<u>Releases</u>	<u>2012</u>
Edible Garden Fund	\$ -	\$ 740	\$ -	\$ 740
Computer equipment	-	1,000	(400)	600
Total	<u>\$ -</u>	<u>\$ 1,740</u>	<u>\$ (400)</u>	<u>\$ 1,340</u>

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 3 - Endowments

Permanently restricted net assets consist of funds from several donors with the income earned on the funds added to the fund.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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
8. The limitation under California state law of appropriations to seven percent of the fair value of the endowment funds.

As of December 31, 2012, the value of investment assets related to donor restricted endowment funds was not less than the amount required to be restricted by the donor or in accordance with CA-UPMIFA, absent donor restrictions.

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 3 – Endowments (continued)

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. Endowment assets include those assets of donor-restricted funds that MAGC must hold in perpetuity or for a donor-specified period and board-designated funds.

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.

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. Maximize return on investments while meeting objectives 1 and 2 above

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	Permanently restricted	Total
Endowment net assets, at December 31, 2010	\$ 22,460	\$ 22,460
Contributions	-	-
Dividends and interest	-	-
Appropriations for expenditure	-	-
Board designations (undesignations)	-	-
Endowment net assets, at December 31, 2011	22,460	22,460
Contributions	-	-
Dividends and interest	-	-
Appropriations for expenditure	(10,000)	(10,000)
Board designations (undesignations)	-	-
Endowment net assets, at December 31, 2012	\$ 12,460	\$ 12,460

Marin Art and Garden Center, a Living Memorial
Notes to Financial Statements
December 31, 2012

Note 4 – 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:

2013	\$ 128,660
2014	106,529
2015	84,261
2016	77,888
2017	<u>80,018</u>
Total future minimum rental payments receivable	<u>\$ 477,356</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, 2017.

Note 5 – Line of credit

One February 10, 2012, MAGC entered into a \$100,000 line of credit agreement with an individual. The line of credit is due February 10, 2015. The line of credit bears interest of 10% per annum and is unsecured. During 2012, MAGC drew \$40,000 from the line of credit.