Livermore Valley Performing Arts Center

Financial Statements

December 31, 2016
(With Comparative Totals for 2015)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Livermore Valley Performing Arts Center
Livermore, California

We have audited the accompanying financial statements of Livermore Valley Performing Arts Center (a California nonprofit corporation) (the "Center"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, 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 (the "U.S."); 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 U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. 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 Livermore Valley Performing Arts Center 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 U.S.

Report on Summarized Comparative Information

We have previously audited Livermore Valley Performing Arts Center's 2015 financial statements, and our report dated April 28, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino[LLP]
San Jose, California

May 1, 2017

Livermore Valley Performing Arts Center
Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 408,064	$ 361,972
Contributions receivable	2,028,685	1,576,291
Accounts receivable	18,440	5,372
State of California settlement receivable	519,520	2,251,877
Inventory	14,401	-
Prepaid expenses and deposits	98,859	33,155
Property and equipment, net	16,687,526	17,365,366
Construction in progress	-	160,705
Total assets	$ 19,775,495	$ 21,754,738
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	$ 50,000	$ -
Accounts payable	181,809	98,229
Accrued expenses	167,653	107,124
Accrued interest	67,849	74,965
Deferred revenue	294,731	218,050
Notes payable	-	1,353,449
Present value of purchase option	1,448,058	1,448,058
Capitalized lease payable	103,314	-
Total liabilities	2,313,414	3,299,875
Net assets		
Unrestricted	14,532,611	15,973,948
Temporarily restricted	2,189,470	1,740,915
Permanently restricted	740,000	740,000
Total net assets	17,462,081	18,454,863
Total liabilities and net assets	$ 19,775,495	$ 21,754,738

Livermore Valley Performing Arts Center
Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and revenue					
Support					
Contributions	$ 787,530	$ 754,357	$ -	$ 1,541,887	$ 1,181,953
Special events	302,480	-	-	302,480	293,246
Special event direct expenses	(289,103)	-	-	(289,103)	(232,563)
Contributions in-kind	155,120	-	-	155,120	215,128
Net assets released from restriction	305,802	(305,802)	-	-	-
Total support	1,261,829	448,555	-	1,710,384	1,457,764
Revenue					
Ticket revenue - LVPAC presents	714,620	-	-	714,620	921,259
Theater rental revenue	315,267	-	-	315,267	324,209
Ticket services revenue	326,931	-	-	326,931	357,628
Concessions revenue	88,849	-	-	88,849	81,665
Bothwell Arts Center revenue	112,892	-	-	112,892	114,027
Other revenue	64,070	-	-	64,070	31,476
Interest income	17,681	-	-	17,681	53,890
Impairment loss	(160,705)	-	-	(160,705)	-
Total revenue	1,479,605	-	-	1,479,605	1,884,154
Total support and revenue	2,741,434	448,555	-	3,189,989	3,341,918
Functional expenses					
Program services	3,584,115	-	-	3,584,115	3,434,699
Support services					
Management and general	340,102	-	-	340,102	312,666
Fundraising	258,554	-	-	258,554	327,738
Total support services	598,656	-	-	598,656	640,404
Total functional expenses	4,182,771	-	-	4,182,771	4,075,103
Change in net assets (Note 2)	(1,441,337)	448,555	-	(992,782)	(733,185)
Net assets, beginning of year	15,973,948	1,740,915	740,000	18,454,863	19,188,048
Net assets, end of year	$ 14,532,611	$ 2,189,470	$ 740,000	$ 17,462,081	$ 18,454,863

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

Livermore Valley Performing Arts Center
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Program Services	Management and General	Fundraising	2016 Total	2015 Total
Salaries and benefits					
Salaries and wages	$ 741,357	$ 202,276	$ 165,818	$ 1,109,451	$ 1,055,384
Employee benefits	94,363	25,747	21,106	141,216	139,954
Payroll taxes	66,902	18,254	14,964	100,120	96,610
Total salaries and benefits	902,622	246,277	201,888	1,350,787	1,291,948
Depreciation and amortization	829,708	4,190	4,191	838,089	811,291
Artist fees	743,921	-	-	743,921	708,634
Advertising	317,132	-	-	317,132	274,385
Supplies	129,527	379	378	130,284	135,297
Information technology	95,849	8,457	8,458	112,764	74,276
Utilities	107,397	2,237	2,238	111,872	101,770
Facility and equipment expenses	102,297	-	-	102,297	112,039
Professional services	19,289	58,018	13,281	90,588	157,616
Insurance	78,493	2,898	2,898	84,289	73,941
Bank fees and payroll fees	65,447	1,101	479	67,027	64,654
Printing and publications	45,308	5,740	11,788	62,836	51,585
Interest	41,118	852	853	42,823	65,277
Telephone and telecommunications	29,310	2,586	2,586	34,482	29,496
Rent	21,123	440	440	22,003	16,147
Communications - public relations	19,920	-	-	19,920	22,184
Travel and meeting expenses	5,971	5,971	7,961	19,903	21,109
Other expenses	11,527	-	-	11,527	9,642
Postage, shipping and delivery	6,896	431	1,293	8,620	26,189
Production supplies	7,288	-	-	7,288	12,754
Volunteer events	3,972	-	-	3,972	2,584
Recruitment	-	357	-	357	11,000
Office	-	168	-	168	-
Bad debt expense	-	-	(178)	(178)	1,285
	$ 3,584,115	$ 340,102	$ 258,554	$ 4,182,771	$ 4,075,103
Percentage of total	85.7 %	8.1 %	6.2 %	100.0 %	

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

Livermore Valley Performing Arts Center
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (992,782)	$ (733,185)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	838,089	811,291
Non cash contribution of construction in progress	-	(57,037)
Amortization of discount on State of California settlement gain	(17,643)	(53,887)
Impairment loss	160,705	-
Changes in operating assets and liabilities		
Contributions receivable	(452,394)	(138,660)
Grants receivable	-	1,000
Accounts receivable	(13,068)	(3,392)
Inventory	(14,401)	-
Prepaid expenses and deposits	(65,704)	(4,719)
Accounts payable	83,580	(444,571)
Accrued expenses	60,529	(1,215)
Accrued interest	(7,116)	61,944
Deferred revenue	76,681	(90,586)
Net cash used in operating activities	(343,524)	(653,017)
Cash flows from investing activities		
Proceeds from settlement	1,750,000	1,475,000
Purchase of property and equipment	(36,918)	(39,830)
Construction in progress expenditures	-	(103,668)
Net cash provided by investing activities	1,713,082	1,331,502
Cash flows from financing activities		
Repayments of notes payable	(1,353,449)	(646,551)
Proceeds from line of credit	50,000	-
Repayments of capitalized leases	(20,017)	-
Net cash used in financing activities	(1,323,466)	(646,551)
Net increase in cash and cash equivalents	46,092	31,934
Cash and cash equivalents, beginning of year	361,972	330,038
Cash and cash equivalents, end of year	$ 408,064	$ 361,972

Supplemental disclosure of cash flow information

Cash paid during the year interest	$ 49,939	$ 12,650

Supplemental schedule of noncash investing and financing activities

Construction in progress - contribution of solar panels	$ -	$ 57,037
Non cash capitalized leases	$ 123,331	$ -

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

Livermore Valley Performing Arts Center
Notes to Financial Statements
December 31, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

The Livermore Valley Performing Arts Center (the "Center" or "LVPAC") is a California nonprofit public benefit corporation recognized by the Internal Revenue Service as a charitable, tax exempt organization pursuant to section 501(c)(3) of the Internal Revenue Code. LVPAC was organized in August 1998 as the Livermore Valley Conference and Cultural Center and changed its name to the Livermore Valley Performing Arts Center in November 2004. LVPAC's mission is to establish and operate a world-class performing arts center that promotes and encourages the presentation and creation of visual and performing arts; enhances the public's appreciation, enjoyment, and understanding of the arts; and serves as a catalyst for the continued economic enhancement of both the City of Livermore and the surrounding Tri-Valley region.

LVPAC completed the construction of the 500-Seat Bankhead Theater in downtown Livermore in September 2007 and has now presented/hosted nine successful seasons of local, national and international performing arts events. In 2011, design work for a 2000-Seat (Regional) Performing Arts Theater was brought to completion and the initial building permit was issued. Also, in 2011, the State of California adopted legislation that dissolved the State's redevelopment agencies. This action, which was beyond the Center's control, has made the future of LVPAC's Regional Theater impossible, and in 2014 management concluded that LVPAC would not proceed with the Regional Theater (see Note 17). In addition to the Bankhead Theater, LVPAC operates the Bothwell Arts Center, a multi-purpose facility for the support of local visual and performing artists and organizations, under a lease agreement with the Livermore Area Recreation and Park District; and the Downtown Art Studios, a refurbished commercial building owned by the City of Livermore, which provides studio space for local visual artists.

2. CHANGE IN NET ASSETS

During the year ended December 31, 2016, Livermore Valley Performing Arts Center experienced an operational loss of $1,441,337 as noted in the "Unrestricted" column of the Statement of Activities. A significant amount of the loss can be attributed to depreciation and amortization.

Change in net assets excluding the impairment loss, interest expense, interest income and depreciation and amortization is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in net assets	$(1,441,337)	$ 448,555	$ -	$ (992,782)
Add impairment loss	160,705	-	-	160,705
Add interest expense	42,823	-	-	42,823
Less interest income	(17,681)	-	-	(17,681)
Add depreciation and amortization	838,089	-	-	838,089
	$ (417,401)	$ 448,555	$ -	$ 31,154

3. PROGRAM SERVICES

The Bankhead Theater serves as home for many of the area's finest performing arts organizations. These include Del Valle Fine Arts, the Livermore Valley Opera, the Livermore-Amador Symphony, Valley Dance Theater, Tri-Valley Repertory Theater, Livermore School of Dance, Lamplighters Music Theatre, Rae Dorough Speakers Series and the Pacific Chamber Symphony. The Bothwell Arts Center and Downtown Art Studios function as incubator spaces and provides studios, classrooms, performance, and rehearsal space for many of the City's arts organizations and artists.

LVPAC provides the Bankhead on a rental basis to both resident and visiting performance companies, and functions as a presenter in its own right, bringing to Livermore artists of national and international stature. Finally, LVPAC provides student matinee performances and artists' classroom workshops for school children across the Tri-Valley.

During 2016, over 170 public events took place in the Bankhead Theater; more than 70,000 attendees enjoyed performances by such attractions as the Livermore Valley Opera, California Theatre Center, Tri-Valley Repertory Theatre, the Livermore-Amador Symphony, Valley Dance Theater, The Capitol Steps, Russian Ballet, Diavolo, Judy Collins, Murder on the Nile, Dakha Braka and Well Strung. LVPAC again hosted its annual Artwalk Festival, which brought visitors to downtown Livermore. A cornerstone of Livermore's downtown revitalization, the Livermore Valley Performing Arts Center and the Bankhead Theater play a vibrant role in the cultural and economic life of the City of Livermore and the surrounding Tri-Valley region.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of Livermore Valley Performing Arts Center have been prepared on the accrual basis of accounting.

Basis of presentation

In accordance with accounting principles generally accepted in the United States of America, the Center reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Center. Under this category, the Center maintains an operating fund, property and equipment fund plus any net assets designated by the Board for specific purposes.
- *Temporarily restricted net assets* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Fair value measurements

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."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Center. Unobservable inputs reflect the Center's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Center's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Contributions and grants receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. For promises expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the promise as adjusted for credit and other donor specific risks. The Center uses a specific identification method to estimate its allowance for doubtful contributions and grants receivable.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Accounts receivable

Accounts receivable represent amounts due and are stated at the amount the Center expects to collect. A provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Center determines that payments will not be received. Any subsequent receipts are credited to the allowance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over $2,500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 4 to 30 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of December 31, 2016 and 2015, and is included in "accrued expenses" in the statement of financial position. The accrued vacation balance as of December 31, 2016 and 2015 was $62,442 and $43,600, respectively.

Revenue recognition

The Center recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions in-kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Center would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Center also receives donated services that do not require specific expertise but which are nonetheless central to the Center's operations. These contributed services are not reflected in the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Indirect expense allocations are based on salary expense, square footage or asset usage.

Income taxes

Livermore Valley Performing Arts Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in income taxes

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Center in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

The Center files information returns in the U.S. federal jurisdiction and state of California. The Center's federal returns for the tax years 2013 and beyond remain subject to possible examination by the Internal Revenue Service. The Center's California returns for the tax years 2012 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising costs

The Center's policy is to expense advertising costs as the costs are incurred. Advertising expenses for the years ended December 31, 2016 and 2015 totaled $317,132 and $274,385, respectively.

Subsequent events

Management of the Center has evaluated events and transactions subsequent to December 31, 2016 for potential recognition or disclosure in the financial statements. The Center did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended December 31, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, May 1, 2017.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	2016	2015
Receivable in one year or less	$ 308,812	$ 265,869
Receivable in one to five years	1,007,500	650,499
Receivable in more than five years	940,000	900,000
	2,256,312	1,816,368
Less discounts to net present value	(227,627)	(240,077)
	$ 2,028,685	$ 1,576,291

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as contributions receivable and support in the appropriate net asset category. For promises expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the promise as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on contributions receivable as of December 31, 2016 ranged between 1.7% and 2.7%.

The Center uses a specific identification method to estimate its allowance for doubtful contributions receivable.

6. STATE OF CALIFORNIA SETTLEMENT RECEIVABLE

During the year ended December 31, 2014, the Center reached an agreement with the State of California Department of Finance, et al. Per the agreement, the Center agreed to settle any and all claims against the State and other defending parties regarding the Amended and Restated Disposition and Development Agreement (relating to the development of a Regional Theater) in exchange for the payment to the Center of $3,750,000. The settlement receivable of $3,750,000 less the present value discount of $88,807 equaled the settlement gain of $3,661,193 for the year ended December 31, 2014. During the year ended December 31, 2016, the Center received a payment on the settlement of $1,750,000. In January 2017 the Center received the final payment of $525,000.

6. STATE OF CALIFORNIA SETTLEMENT RECEIVABLE (continued)

State of California Settlement Receivable consist of the following:

	2016	2015
Receivable in one year or less	$ 525,000	$ 1,700,000
Receivable in one to five years	-	575,000
	525,000	2,275,000
Less discounts to net present value	(5,480)	(23,123)
	(5,480)	(23,123)
	$ 519,520	$ 2,251,877

For receivables expected to be collected in more than one year a present value discount is estimated based on the risk free rate (appropriate U.S. Treasury Bond Rate) at the time of the settlement as adjusted for credit and other risks. The risk-adjusted discount rate on the settlement receivable was 2.2%.

7. PROPERTY, EQUIPMENT AND CONSTRUCTION IN PROGRESS

Property, equipment and construction in progress consist of the following:

	2016	2015
Building	$ 22,576,090	$ 22,570,795
Furniture, fixtures and equipment	1,064,065	909,112
Land	740,000	740,000
Leasehold improvements	21,729	21,729
Construction in progress	-	160,705
	24,401,884	24,402,341
Accumulated depreciation	(7,714,358)	(6,876,270)
	$ 16,687,526	$ 17,526,071

Depreciation and amortization for the years ended December 31, 2016 and 2015 was $838,089 and $811,291, respectively.

8. LINE OF CREDIT

On August 21, 2015 the Center entered into a $250,000 revolving line of credit with a bank. The line has a maturity date of September 3, 2017 and requires monthly payments of variable interest based on the prime rate as published in the Wall Street Journal plus 1%. The interest rate at December 31, 2016 was 4.75%. The revolving line of credit is secured by a general security interest in the assets of the Center. There were $50,000 in borrowings on the line as of December 31, 2016.

9. NOTES PAYABLE

City of Livermore

During the year ended December 31, 2013, the Center signed an unsecured note payable to the City of Livermore in the amount of $475,000. Interest on the note accrued at a rate equal to the quarterly apportionment rate on the California Local Agency Investment Fund (LAIF), which was at 0.37% for the quarter ended December 31, 2015. Accrued interest was payable on March 1 of each year commencing March 1, 2014. The balance of unpaid principal and interest was due and payable on December 31, 2015, but was paid in full in January 2016.

Member of Board of Directors

During the year ended December 31, 2013, the Center signed an unsecured note payable to a member of the Board of Directors in the amount of $125,000. Interest on the note accrued at a rate of 2% per annum, compounded monthly. The balance of unpaid principal and interest was due and payable in twenty-four consecutive monthly installments of $5,735 commencing March 1, 2016, but $15,000 of principal was paid during 2015 and the remaining balance of $110,000 was paid in full in January 2016.

Fallon Enterprises, Inc.

During the year ended December 31, 2014, the Center signed an unsecured note payable to Fallon Enterprises, Inc., a company owned by a member of the Board of Directors, in the amount of $1,000,000 to fund a portion of the Center's contribution to the redemption of the bonds payable. Interest on the note accrued at a rate of 3% per annum, compounded monthly. Principal payments totaling $400,000 were due during the year ending December 31, 2016 and the balance of unpaid principal and interest was due and payable on January 31, 2017, but the balance was paid in full in January 2016.

10. PRESENT VALUE OF PURCHASE OPTION

During the year ended December 31, 2014, the Center transferred ownership of the Bankhead Theater to the City of Livermore. In accordance with the terms of the agreement, the Center is leasing the Bankhead Theater from the City for $1 per year for an initial term of 7 years with the option to extend for two additional successive terms of 10 and 13 years (total of 30 years), respectively. In accordance with the terms of the lease agreement, the Center has the option to purchase back the Bankhead Theater in September 2044 for $2,800,000.

Present value of purchase option consist of the following:

	2016	2015
Purchase option - 2044	$ 2,800,000	$ 2,800,000
Less discount to present value	(1,351,942)	(1,351,942)
	$ 1,448,058	$ 1,448,058

The capitalized cost of the Bankhead Theater included in property and equipment at December 31, 2016 was $15,601,901, net of accumulated amortization of $6,963,894.

The capitalized cost of the Bankhead Theater included in property and equipment at December 31, 2015 was $16,363,591, net of accumulated amortization of $6,207,204.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Education fund	$ 165,848	$ 168,793
LVPAC Presents	12,500	6,000
Assistive listening devices	-	15,000
Solar project	-	6,200
Film festival	-	1,000
	178,348	196,993
General operating support in future periods (See Note 5)	2,011,122	1,543,922
	$ 2,189,470	$ 1,740,915

11. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

	2016	2015
General operating support in future periods	$ 122,801	$ 31,500
Education fund	103,590	43,350
LVPAC Presents	31,500	18,000
Film festival	22,000	-
Assistive listening devices	15,000	-
Solar project	6,200	93,800
Bricks and seats	2,175	-
Ticket advertising	1,500	3,000
Student ticket sponsorship	425	2,100
Artwalk 2016	425	-
Other	186	450
Artwalk 2015	-	4,700
Lobster clambake	-	2,500
Regional Theater	-	1,000
	$ 305,802	$ 200,400

12. PERMANENTLY RESTRICTED NET ASSETS

As of December 31, 2016 and 2015, permanently restricted net assets, which consisted of land acquired by the Center as a site for the sole purpose of building the 500-Seat (Community) Theater (see Note 17) totaled $740,000.

The land was acquired in 2005 when Livermore Valley Performing Arts Center entered into a purchase agreement (the "Agreement") with the City of Livermore (the "City") for the site upon which the Bankhead Theater is constructed. Under the terms of the Agreement, the Center paid the City the sum of $1 in exchange for the property, subject to certain limitations including specified restrictions relating to the future use and disposition of the property. In connection with the purchase, the Center recognized a permanently restricted contribution totaling $740,000 which represented the excess of the estimated fair value of the property over the consideration paid at the date of purchase.

13. CONTRIBUTIONS IN-KIND

The estimated fair value of supplies, advertising, services and construction in progress received are recorded as contributions.

13. CONTRIBUTIONS IN-KIND (continued)

During the years ended December 31, 2016 and 2015, in-kind contributions consist of the following:

	2016	2015
Contributions in-kind for operations		
Advertising	$ 153,250	$ 154,551
Supplies	1,870	2,340
Construction in progress	-	57,037
Services	-	1,200
	155,120	215,128
Contributions in-kind for special events		
Special event auction items to be sold	67,213	120,433
Special event advertising	31,035	13,728
Special event supplies	7,841	957
	106,089	135,118
Total contributions in-kind	$ 261,209	$ 350,246

14. CONFLICT OF INTEREST POLICY

Included among the Center's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Center in the development of policies and programs and in the evaluation of business transactions. The Center has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

15. CONTINGENCIES

Grants and contributions

Grants and contributions awarded to Livermore Valley Performing Arts Center are subject to the funding agencies' criteria, grant terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Center could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Center would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

16. OPERATING LEASE COMMITMENTS

In December 2006, LVPAC entered into an agreement with Livermore Area Recreation and Park District (LARPD) for the lease of office space for the Bothwell Arts Center in Livermore beginning September 1, 2006 and expiring August 31, 2011. LVPAC elected to exercise its option to extend the terms for an additional period of 5 years on the same terms and conditions. The first lease extension was acknowledged by LARPD on April 12, 2011. LVPAC has elected to exercise its option to extend the terms for an additional period of 5 years. This lease extension was acknowledged by LARPD on February 1, 2017. The lease provides for increases in the base rent based on the consumer price index.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,	
2017	$ 13,750
2018	15,000
2019	15,000
2020	15,000
2021	15,000
Thereafter	1,250
	$ 75,000

17. RELATED PARTY TRANSACTIONS

Concentrations

The Center recognized contributions, including promises to give, from members of its Board totaling $950,602 and $674,709 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, there was $2,007,372 and $1,519,924 in contributions receivable from members of the Board, respectively.

Relationship with the City of Livermore

LVPAC and the City of Livermore have entered into four agreements providing for grant funds and the acquisition and development of the 500-Seat (Community) and 2000-Seat (Regional) Theaters (the "Theaters").

In November 2002 and amended during January 2003, LVPAC and the City approved a grant agreement (the "Grant Agreement") to authorize the transfer of funds received by the City to LVPAC for purposes of payment of the planning and development costs of the Theaters. The funds available pursuant to the Grant Agreement consist of the City's Major Attraction Fees and Host Community Impact Account Fees received as part of the City and County's Altamont Settlement Agreement.

17. RELATED PARTY TRANSACTIONS (continued)

Relationship with the City of Livermore (continued)

In May 2004, LVPAC, the City of Livermore Redevelopment Agency (the "Agency") and the City of Livermore entered into a Disposition and Development Agreement (the "DDA") providing for site acquisition by the City and Agency and subsequent lease to LVPAC of both Theater sites. LVPAC, the Redevelopment Agency and the City entered into a second DDA in July of 2005. The second DDA provided for the sale of the 500-Seat (Community) Theater site to LVPAC for consideration of $1 (see Note 12) and includes requirements for the Theater's development. The second DDA supersedes the first DDA on all matters relating to the 500-Seat (Community) Theater. The May 2004 DDA continues to pertain to the 2000-Seat (Regional) Theater. In 2009 the City and the Livermore Redevelopment Agency purchased a site for the Regional Theater.

The Center previously received Host Community Impact Account Fees as part of the City and County's Altamont Settlement Agreement. While the actual amount of the funds to be ultimately received cannot be determined at this time, the value of the fees was projected by the City in 2004, and subsequently updated in 2008, through a study developed by an outside consultant which estimated that the revenue stream is projected to generate undiscounted amounts in excess of $25,000,000 between 2000 and 2041. During the year ended December 31, 2014 LVPAC assigned all future HCIAF fees to the City of Livermore in exchange for a payment of $9,200,000 towards LVPAC's bond debt. During the years ended December 31, 2016 and 2015, the Center received Host Community Impact Account Fees totaling $0 and $8,940, respectively, as part of the City and County's Altamont Landfill Settlement Agreement.

On March 18, 2013, the Livermore City Council voted to provide the loan requested by LVPAC for up to $475,000 through the end of 2013. Interest on the note accrued at a rate equal to the quarterly apportionment rate on the California Local Agency Investment Fund (LAIF), which was at 0.37% for the quarter ended December 31, 2015. Accrued interest was payable on March 1 of each year commencing on March 1, 2014. The balance of unpaid principal and interest was due and payable on December 31, 2015, but was paid in full in January 2016.

In 2011, the State of California adopted legislation that dissolved the State's redevelopment agencies. This action, which was beyond the Center's control, has made the future of LVPAC's Regional Theater project impossible. In 2014, management concluded that LVPAC would not proceed with the Regional Theater (see Note 1).

Transactions with Members of Board of Directors

The Center had a note payable to a member of the Board of Directors with a balance of $110,000 at December 31, 2015. In addition, the Center had a note payable to a company owned by a member of the Board of Directors with a balance of $768,449 at December 31, 2015. Both notes payable were paid off during 2016 (see Note 9).