

Livermore Valley Performing Arts Center

Financial Statements

June 30, 2018



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16



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 June 30, 2018, 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; 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 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 June 30, 2018, 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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

October 1, 2018

Livermore Valley Performing Arts Center
Statement of Financial Position
June 30, 2018

ASSETS

Cash and cash equivalents	\$	360,135
Restricted cash		450,000
Contributions receivable, net		2,125,688
Accounts receivable		14,706
Inventory		12,333
Prepaid expenses and deposits		59,398
Property and equipment, net		15,602,351
Construction in progress		<u>5,000</u>
 Total assets	 \$	 <u><u>18,629,611</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$	91,466
Accrued expenses		185,549
Deferred revenue		324,859
Present value of purchase option		1,566,658
Capitalized lease payable		<u>77,448</u>
Total liabilities		<u><u>2,245,980</u></u>
 Net assets		
Unrestricted		12,874,901
Temporarily restricted		2,768,730
Permanently restricted		<u>740,000</u>
Total net assets		<u><u>16,383,631</u></u>
 Total liabilities and net assets	 \$	 <u><u>18,629,611</u></u>

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

Livermore Valley Performing Arts Center
Statement of Activities
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Support				
Contributions	\$ 446,355	\$ 1,050,895	\$ -	\$ 1,497,250
Special events	236,160	-	-	236,160
Special events direct expenses	(293,763)	-	-	(293,763)
Contributions in-kind	103,644	-	-	103,644
Net assets released from restriction	<u>628,125</u>	<u>(628,125)</u>	-	-
Total support	<u>1,120,521</u>	<u>422,770</u>	-	<u>1,543,291</u>
Revenue				
Ticket revenue - LVPAC presents	817,805	-	-	817,805
Ticket services revenue	374,614	-	-	374,614
Theater rental revenue	334,229	-	-	334,229
Concessions revenue	93,846	-	-	93,846
Bothwell Arts Center revenue	158,662	-	-	158,662
Other revenue	40,458	-	-	40,458
Interest income	460	-	-	460
Total revenue	<u>1,820,074</u>	<u>-</u>	<u>-</u>	<u>1,820,074</u>
Total support and revenue	<u>2,940,595</u>	<u>422,770</u>	<u>-</u>	<u>3,363,365</u>
Functional expenses				
Program services	<u>3,399,037</u>	<u>-</u>	<u>-</u>	<u>3,399,037</u>
Support services				
Management and general	343,484	-	-	343,484
Fundraising	<u>277,997</u>	<u>-</u>	<u>-</u>	<u>277,997</u>
Total support services	<u>621,481</u>	<u>-</u>	<u>-</u>	<u>621,481</u>
Total functional expenses	<u>4,020,518</u>	<u>-</u>	<u>-</u>	<u>4,020,518</u>
Change in net assets (Note 2)	(1,079,923)	422,770	-	(657,153)
Net assets, beginning of year	<u>13,954,824</u>	<u>2,345,960</u>	<u>740,000</u>	<u>17,040,784</u>
Net assets, end of year	<u>\$ 12,874,901</u>	<u>\$ 2,768,730</u>	<u>\$ 740,000</u>	<u>\$ 16,383,631</u>

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

Livermore Valley Performing Arts Center
Statement of Functional Expenses
For the Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits				
Salaries and wages	\$ 782,429	\$ 217,956	\$ 153,814	\$ 1,154,199
Employee benefits	101,480	28,269	19,949	149,698
Payroll taxes	<u>70,603</u>	<u>19,667</u>	<u>13,880</u>	<u>104,150</u>
Total salaries and benefits	954,512	265,892	187,643	1,408,047
Depreciation and amortization	830,688	4,195	4,195	839,078
Artist fees	668,226	-	-	668,226
Advertising	222,039	-	-	222,039
Facility and equipment expenses	135,835	-	-	135,835
Professional services	12,019	47,844	53,453	113,316
Supplies	108,143	178	178	108,499
Utilities	103,188	2,150	2,150	107,488
Information technology	68,487	6,043	6,043	80,573
Bank fees and payroll fees	64,935	819	571	66,325
Printing and publications	41,885	5,985	10,823	58,693
Insurance	52,584	1,816	1,816	56,216
Interest	41,755	870	870	43,495
Telephone and telecommunications	21,456	1,893	1,893	25,242
Production supplies	22,170	-	-	22,170
Rent	14,851	309	309	15,469
Other expenses	14,920	151	107	15,178
Travel and meeting expenses	4,562	4,562	6,084	15,208
Postage, shipping and delivery	9,927	620	1,862	12,409
Communications - public relations	3,925	-	-	3,925
Volunteer events	2,930	-	-	2,930
Office	-	79	-	79
Recruitment	<u>-</u>	<u>78</u>	<u>-</u>	<u>78</u>
	<u>\$ 3,399,037</u>	<u>\$ 343,484</u>	<u>\$ 277,997</u>	<u>\$ 4,020,518</u>
Percentage of total	<u>84.6 %</u>	<u>8.5 %</u>	<u>6.9 %</u>	<u>100.0 %</u>

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

Livermore Valley Performing Arts Center
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Change in net assets	\$ (657,153)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	839,078
Amortization of present value of purchase option	34,060
Changes in operating assets and liabilities	
Contributions receivable	(15,015)
Accounts receivable	6,808
Inventory	1,618
Prepaid expenses and deposits	7,410
Accounts payable	(31,432)
Accrued expenses	48,116
Deferred revenue	74,819
Net cash provided by operating activities	<u>308,309</u>
Cash flows from investing activities	
Purchase of property and equipment	(67,312)
Construction in progress expenditures	(5,000)
Net cash used in investing activities	<u>(72,312)</u>
Cash flows from financing activities	
Repayments of notes payable	(14,287)
Repayments of line of credit	(150,000)
Net cash used in financing activities	<u>(164,287)</u>
Net increase in cash, cash equivalents and restricted cash	71,710
Cash, cash equivalents and restricted cash, beginning of year	<u>738,425</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 810,135</u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 360,135
Restricted cash	<u>450,000</u>
	<u>\$ 810,135</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 9,435

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

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

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 offer a broad range of arts opportunities and experiences to engage our diverse community. LVPAC also strives to enhance the public's appreciation, enjoyment, and understanding of the arts; and serve 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 eleven successful seasons of local, national and international performing arts events. 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.

2. CHANGE IN NET ASSETS

During the year ended June 30, 2018, the Center experienced loss on unrestricted net assets of \$1,079,923 as noted in the Statement of Activities. A significant amount of the loss can be attributed to depreciation and amortization.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Change in net assets	\$(1,079,923)	\$ 422,770	\$ -	\$ (657,153)
Add interest expense	43,495	-	-	43,495
Less interest income	(460)	-	-	(460)
Add depreciation and amortization	<u>839,078</u>	<u>-</u>	<u>-</u>	<u>839,078</u>
	<u>\$ (197,810)</u>	<u>\$ 422,770</u>	<u>\$ -</u>	<u>\$ 224,960</u>

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 Orchestra. The Bothwell Arts Center functions as an incubator space and provides studios, classrooms, performance, and rehearsal space for many of the City's arts organizations and artists.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

3. PROGRAM SERVICES (continued)

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 the year ended June 30, 2018, over 170 public events took place in the Bankhead Theater; more than 60,000 attendees enjoyed performances by such attractions as the Livermore Valley Opera, Tri-Valley Repertory Theatre, the Livermore-Amador Symphony, Valley Dance Theater, Paula Poundstone, The Capitol Steps, Russian Ballet, Robert Cray, Los Lonely Boys, OK GO, San Francisco Gay Men's Chorus, Vickie Lawrence and Jake Shimabukuro. 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 and financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets and changes therein are classified as follows:

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

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.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original 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.

Restricted cash

Restricted cash as of June 30, 2018 amounted to \$450,000 and represents a Capital Expenditure Reserve balance required by the City of Livermore to pay for the maintenance, repair and replacement of building systems. The Center was required to deposit one percent of its total support and revenue, adjusted annually by the rate of the consumer price index, into the reserve account until the account balance of \$450,000 was reached.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. The Center has characterized the fair value of its assets, based on the priority of the inputs used to value the assets, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the asset.

Assets recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

- *Level 1* - Values are based on unadjusted quoted prices for identical assets in an active market that the Center has the ability to assess.
- *Level 2* - Values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investment.
- *Level 3* - Values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the assumptions of management about assumptions market participants would use in pricing the investments.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions 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 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.

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. 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 June 30, 2018, and is included in "accrued expenses" in the statement of financial position. The accrued vacation balance as of June 30, 2018 was \$70,581.

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. Ticket purchases received in advance of performances are included in deferred revenue and recognized as revenue at the time the applicable performance is given.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 statement 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.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes (continued)

The Center files information returns in the U.S. federal jurisdiction and state of California. The Center's federal returns for the tax years 2014 and beyond remain subject to possible examination by the Internal Revenue Service. The Center's California returns for the tax years 2013 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising costs

The Center expenses advertising costs as incurred. Advertising costs for the year ended June 30, 2018 totaled \$222,039.

Subsequent events

The Center has evaluated subsequent events through October 1, 2018, the date the financial statements were available to be issued.

During September 2018, the Center renewed and extended the line of credit with Fremont Bank (see Note 8).

5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following:

Receivable in one year or less	\$ 413,563
Receivable in one to five years	1,012,125
Receivable in more than five years	<u>930,000</u>
	2,355,688
Less discounts to net present value	<u>(230,000)</u>
	<u><u>\$ 2,125,688</u></u>

Unconditional promises to give, which are not expected to be collected until after the year promised, 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 June 30, 2018, ranged between 1.7% and 3.6%.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

Building	\$ 22,606,790
Furniture, fixtures and equipment	1,210,664
Land	740,000
Leasehold improvements	<u>21,729</u>
	24,579,183
Accumulated depreciation and amortization	<u>(8,976,832)</u>
	<u><u>\$ 15,602,351</u></u>

Depreciation and amortization for the year ended June 30, 2018 was \$839,078.

7. CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2018, totaled \$5,000, and consisted of architectural design and related professional service fees for the Bankhead solar project.

8. LINE OF CREDIT

On August 21, 2015 the Center entered into a \$250,000 revolving line of credit with a bank. The line had a maturity date of September 3, 2018, 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 June 30, 2018 was 6%. The revolving line of credit is secured by a general security interest in the assets of the Center. There were no amounts outstanding under the line as of June 30, 2018. The line of credit was modified in September 2018 to increase the amount available to \$500,000 and extend the maturity date to September 2020.

9. 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.

The Center has accounted for the lease as a capital lease due to bargain purchase option element included in the agreement. The present value discount of the purchase option is estimated based on the risk-free rate (appropriate U.S. Treasury Bond Rate) at the time the agreement was executed as adjusted for credit and other risks. The risk-adjusted discount rate as determined at the time the agreement was executed was 2.2%.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

9. PRESENT VALUE OF PURCHASE OPTION (continued)

Present value of purchase option consist of the following:

Purchase option - 2044	\$ 2,800,000
Less discount to present value	<u>(1,233,342)</u>
	<u><u>\$ 1,566,658</u></u>

The capitalized cost of the Bankhead Theater included in property and equipment at June 30, 2018 was \$14,506,112, net of accumulated amortization of \$8,100,678.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Capital improvements Bankhead	\$ 483,735
Gala 2018	105,500
Education fund	96,880
Producers Circle	30,000
Bricks and seats	5,525
Bankhead Presents	5,000
Bothwell Bash	<u>500</u>
	727,140
General operating support in future periods	<u>2,041,590</u>
	<u><u>\$ 2,768,730</u></u>

Temporarily restricted net assets released from restriction for the year ended June 30, 2018 were as follows:

General operating support time restriction met	\$ 290,151
Education fund	169,106
Gala 2017	125,850
Bankhead Presents	11,000
Bothwell Bash	26,418
Capital improvements Bankhead	5,000
Bricks and seats	<u>600</u>
	<u><u>\$ 628,125</u></u>

11. PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2018, 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 16) totaled \$740,000.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

11. PERMANENTLY RESTRICTED NET ASSETS (continued)

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.

12. CONTRIBUTIONS IN-KIND

The estimated fair value of supplies, advertising and auction items received are recorded as contributions.

During the year ended June 30, 2018, in-kind contributions consist of the following:

Contributions in-kind for operations	
Advertising	<u>\$ 103,644</u>
Contributions in-kind for special events	
Special event auction items to be sold	76,999
Special event advertising	19,863
Special event supplies	<u>5,280</u>
	<u>102,142</u>
Total contributions in-kind	<u><u>\$ 205,786</u></u>

13. 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.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

14. 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.

15. 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 of \$1,250 based on the consumer price index on an annual basis.

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

<u>Year ending June 30,</u>	
2019	\$ 15,000
2020	15,000
2021	15,000
2022	<u>1,250</u>
	<u>\$ 46,250</u>

16. RELATED PARTY TRANSACTIONS

The Center recognized contributions, including promises to give, from members of its Board totaling \$772,345 for the year ended June 30, 2018. As of June 30, 2018, there was \$531,358 in contributions receivable from members of the Board.

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 ("Theater").

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2018

16. RELATED PARTY TRANSACTIONS (continued)

Relationship with the City of Livermore (continued)

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 Theater. The funds available pursuant to the Grant Agreement consist of the City's Major Attraction Fees and Host Community Impact Account Fees ("HCIAF") received as part of the City and County's Altamont Settlement Agreement.

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 the Theater site. 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 Theater site to LVPAC for consideration of \$1 (see Note 11) and includes requirements for the Theater's development. The second DDA supersedes the first DDA on all matters relating to the 500-Seat 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.

In 2011, the State of California adopted legislation that dissolved the State's redevelopment agencies. In 2014, management concluded that LVPAC would not proceed with plans for a Regional Theater.