

Livermore Valley Performing Arts Center

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20

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, 2019, 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, 2019, 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.

Change in Accounting Principle

As described in Note 4 to the financial statements, the Center has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Livermore Valley Performing Arts Center's 2018 financial statements, and our report dated October 1, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

December 19, 2019

Livermore Valley Performing Arts Center
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 275,208	\$ 360,135
Restricted cash	328,716	450,000
Contributions receivable, net	2,190,373	2,125,688
Accounts receivable	27,808	14,706
Inventory	12,334	12,333
Prepaid expenses and deposits	90,512	59,398
Property and equipment, net	14,921,865	15,602,351
Construction in progress	95,294	5,000
Total assets	\$ 17,942,110	\$ 18,629,611
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 109,873	\$ 91,466
Accrued expenses	186,492	185,549
Deferred revenue	345,500	324,859
Line of credit	110,000	-
Capital lease payable	50,152	77,448
Present value of purchase option	1,601,476	1,566,658
Total liabilities	2,403,493	2,245,980
Net assets		
Without donor restrictions	12,000,016	12,874,901
With donor restrictions	3,538,601	3,508,730
Total net assets	15,538,617	16,383,631
Total liabilities and net assets	\$ 17,942,110	\$ 18,629,611

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, 2019
(With Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Support and revenue				
Support				
Contributions	\$ 723,676	\$ 880,835	\$ 1,604,511	\$ 1,497,250
Special events	248,811	-	248,811	236,160
Special events direct expenses	(335,662)	-	(335,662)	(293,763)
Contributions in-kind	193,053	-	193,053	103,644
Net assets released from restriction	<u>850,964</u>	<u>(850,964)</u>	<u>-</u>	<u>-</u>
Total support	<u>1,680,842</u>	<u>29,871</u>	<u>1,710,713</u>	<u>1,543,291</u>
Revenue				
Ticket revenue - LVPAC presents	927,890	-	927,890	817,805
Ticket services revenue	349,059	-	349,059	374,614
Theater rental revenue	321,209	-	321,209	334,229
Concessions revenue	98,476	-	98,476	93,846
Bothwell Arts Center revenue	127,095	-	127,095	158,662
Other revenue	71,235	-	71,235	40,458
Interest income	519	-	519	460
Total revenue	<u>1,895,483</u>	<u>-</u>	<u>1,895,483</u>	<u>1,820,074</u>
Total support and revenue	<u>3,576,325</u>	<u>29,871</u>	<u>3,606,196</u>	<u>3,363,365</u>
Functional expenses				
Program services	<u>3,882,840</u>	<u>-</u>	<u>3,882,840</u>	<u>3,399,037</u>
Support services				
Management and general	322,085	-	322,085	343,484
Fundraising	<u>246,285</u>	<u>-</u>	<u>246,285</u>	<u>277,997</u>
Total support services	<u>568,370</u>	<u>-</u>	<u>568,370</u>	<u>621,481</u>
Total functional expenses	<u>4,451,210</u>	<u>-</u>	<u>4,451,210</u>	<u>4,020,518</u>
Change in net assets (Note 2)	(874,885)	29,871	(845,014)	(657,153)
Net assets, beginning of year	<u>12,874,901</u>	<u>3,508,730</u>	<u>16,383,631</u>	<u>17,040,784</u>
Net assets, end of year	<u>\$ 12,000,016</u>	<u>\$ 3,538,601</u>	<u>\$ 15,538,617</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, 2019
(With Comparative Totals for 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Total</u>	<u>2018 Total</u>
Salaries and benefits					
Salaries and wages	\$ 886,488	\$ 193,557	\$ 147,862	\$ 1,227,907	\$ 1,154,199
Employee benefits	131,088	28,622	21,865	181,575	149,698
Payroll taxes	<u>76,658</u>	<u>16,738</u>	<u>12,786</u>	<u>106,182</u>	<u>104,150</u>
Total salaries and benefits	1,094,234	238,917	182,513	1,515,664	1,408,047
Artist fees	864,735	-	-	864,735	668,226
Depreciation and amortization	830,769	4,196	4,196	839,161	839,078
Special events direct expenses	-	-	335,662	335,662	293,763
Advertising	303,821	-	-	303,821	222,039
Facility and equipment expenses	184,934	-	-	184,934	135,835
Utilities	107,747	1,315	1,448	110,510	107,488
Information technology	85,472	7,542	7,542	100,556	80,573
Office expenses	93,926	176	151	94,253	108,578
Professional services	5,559	47,930	25,475	78,964	113,316
Bank fees and payroll fees	71,404	829	629	72,862	66,325
Insurance	54,110	1,808	1,829	57,747	56,216
Printing and publications	37,513	4,817	9,387	51,717	58,693
Interest	39,616	483	532	40,631	43,495
Telephone and telecommunications	22,682	2,001	2,001	26,684	25,242
Travel and meeting expenses	7,714	10,286	7,715	25,715	15,208
Production supplies	25,590	-	-	25,590	22,170
Other expenses	17,490	170	190	17,850	15,178
Rent	16,583	202	223	17,008	15,469
Postage, shipping and delivery	13,086	818	2,454	16,358	12,409
Volunteer events	4,928	-	-	4,928	2,930
Communications - public relations	927	-	-	927	3,925
Recruitment	<u>-</u>	<u>595</u>	<u>-</u>	<u>595</u>	<u>78</u>
Total expenses	3,882,840	322,085	581,947	4,786,872	4,314,281
Less expenses included in support and revenue	<u>-</u>	<u>-</u>	<u>(335,662)</u>	<u>(335,662)</u>	<u>(293,763)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 3,882,840</u>	<u>\$ 322,085</u>	<u>\$ 246,285</u>	<u>\$ 4,451,210</u>	<u>\$ 4,020,518</u>
Percentage of total	<u>87.2 %</u>	<u>7.2 %</u>	<u>5.6 %</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (845,014)	\$ (657,153)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	839,161	839,078
Amortization of present value of purchase option	34,818	34,060
Changes in operating assets and liabilities		
Contributions receivable	(64,685)	(15,015)
Accounts receivable	(13,102)	6,808
Inventory	(1)	1,618
Prepaid expenses and deposits	(31,114)	7,410
Accounts payable	14,663	(31,432)
Accrued expenses	943	48,116
Deferred revenue	20,641	74,819
Net cash provided by (used in) operating activities	(43,690)	308,309
Cash flows from investing activities		
Purchase of property and equipment	(158,675)	(67,312)
Construction-in-progress expenditures	(86,550)	(5,000)
Net cash used in investing activities	(245,225)	(72,312)
Cash flows from financing activities		
Principal payments on capital lease obligations	(27,296)	(14,287)
Net proceeds (repayments) on line of credit	110,000	(150,000)
Net cash provided by (used in) financing activities	82,704	(164,287)
Net increase (decrease) in cash, cash equivalents and restricted cash	(206,211)	71,710
Cash, cash equivalents and restricted cash, beginning of year	810,135	738,425
Cash, cash equivalents and restricted cash, end of year	\$ 603,924	\$ 810,135
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 275,208	\$ 360,135
Restricted cash	328,716	450,000
	\$ 603,924	\$ 810,135

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 5,813	\$ 9,435
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Supplemental schedule of noncash investing and financing activities

Construction-in-progress included in accounts payable	\$ 3,744	\$ -
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The accompanying notes are an integral part of these financial statements.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

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 twelve successful seasons of local, national and international performing arts events. During the year ended June 30, 2019, over 70,000 patrons attended LVPAC events, an increase of 10,000 over the year ended June 30, 2018. 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, 2019, the Center experienced a negative change in net assets without donor restrictions of \$874,885 as reported in the statement of activities. A significant amount of the negative change in net assets without donor restrictions can be attributed to depreciation and amortization.

The following schedule reflects an intermediate measure of the change in net assets excluding interest expense, interest income and depreciation and amortization:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in net assets	\$ (874,885)	\$ 29,871	\$ (845,014)
Add interest expense	40,631	-	40,631
Less interest income	(519)	-	(519)
Add depreciation and amortization	<u>839,161</u>	<u>-</u>	<u>839,161</u>
	<u>\$ 4,388</u>	<u>\$ 29,871</u>	<u>\$ 34,259</u>

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

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.

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, 2019, over 170 public events took place in the Bankhead Theater and more than 70,000 attendees enjoyed performances by such attractions as the Livermore Valley Opera, Tri-Valley Repertory Theatre, the Livermore-Amador Symphony, Valley Dance Theater, Asleep at the Wheel, BJ Thomas, Jim Messina, Nobuntu, Larry Gatlin & the Gatlin Brothers, Branford Marsalis Quartet, The Choir of Man, The Clairvoyants, Cirque Eloize "Saloon" and Keb'Mo'. 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 financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to non-profit organizations. Accordingly, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

- *Net assets without donor restrictions* - net assets not subject to donor-imposed stipulations. 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.
- *Net assets with donor restrictions* - net assets subject to donor-imposed stipulations that may or will be met by the actions of the Center and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

Support and revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 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, 2019 amounted to \$328,716 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. The Center will recommence deposits into the Capital Expenditure Reserve until the \$450,000 threshold has been reached again.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Management believes that all of its contributions receivable are collectible, accordingly, no allowance for doubtful contributions receivable was recorded as of June 30, 2019.

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

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Management believes that all of its accounts are collectible, accordingly, no allowance for doubtful accounts receivable was recorded as of June 30, 2019.

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 and amortization is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Depreciation and amortization 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, 2019, and is included in "accrued expenses" in the statement of financial position. The accrued vacation balance as of June 30, 2019 was \$80,096.

Revenue recognition

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.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as net assets with donor restrictions or net assets without donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification from net assets with donor restrictions to net assets without donor restrictions.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in-kind

Donated equipment and other donated goods are recorded as contributions at their estimated fair value as of the date of the donation. Contributed services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation.

Allocation of functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and support services benefited.

Direct identification of specific expenses is the Center's preferred method of charging expenses to various functions. The Center has a number of expenses which relate to more than one program or support activity, or to a combination of programs and support activities. Expenses are allocated by management among programs and support services based on salary expense, square footage or asset usage.

Income tax status

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 23701d 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

U.S. GAAP provides 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 ended June 30, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Center's California returns for the tax years ended June 30, 2015 and beyond remain subject to possible examination by the Franchise Tax Board.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

The Center expenses advertising costs as incurred. Advertising costs for the year ended June 30, 2019 totaled \$303,821.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including the following:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis for the year ended June 30, 2018.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Center has evaluated subsequent events through December 19, 2019, the date the financial statements were available for issuance. No events or transactions have occurred during this period that require recognition or disclosure in the financial statements.

5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consisted of the following:

Receivable in one year or less	\$ 427,055
Receivable in one to five years	979,500
Receivable in more than five years	<u>959,818</u>
	2,366,373
Less discounts to net present value	<u>(176,000)</u>
	<u><u>\$ 2,190,373</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, 2019 ranged from 1.7% to 4.3%.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Building	\$ 22,612,790
Furniture, fixtures and equipment	1,363,339
Land	740,000
Land improvements	<u>21,729</u>
	24,737,858
Accumulated depreciation and amortization	<u>(9,815,993)</u>
	<u><u>\$ 14,921,865</u></u>

Depreciation and amortization for the year ended June 30, 2019 was \$839,161.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

7. CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2019, totaled \$95,294, and consisted of architectural design and related professional service fees for the Bankhead solar project as well as initial deposits for a new lighting system for the theater.

8. LINE OF CREDIT

On September 3, 2018 the Center entered into a \$500,000 revolving line of credit with a bank. The line matures on September 3, 2020, 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, 2019 was 6.5%. The revolving line of credit is secured by a general security interest in the assets of the Center. At June 30, 2019, \$110,000 was outstanding on the line of credit.

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%.

Present value of purchase option consisted of the following:

Purchase option - 2044	\$ 2,800,000
Less discount to present value	<u>(1,198,524)</u>
	<u>\$ 1,601,476</u>

The capitalized cost of the Bankhead Theater included in property and equipment at June 30, 2019 was \$13,567,113, net of accumulated amortization of \$8,734,991.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to expenditure for specified purpose:	
Capital improvements Bankhead	\$ 376,403
Gala	192,000
Producers Circle	115,000
Education fund	41,274
Bothwell Bash	15,250
Bricks and seats	3,808
Bankhead Presents	3,000
Summer concerts	<u>1,000</u>
	747,735
Subject to passage of time:	
For the periods beginning after June 30, 2019	2,050,866
Net assets held in perpetuity:	
Land	<u>740,000</u>
	<u>\$ 3,538,601</u>

Net assets with donor restrictions released from restriction during the year ended June 30, 2019 were as follows:

General operating support time restriction met	\$ 285,014
Gala	216,250
Education fund	169,935
Capital improvements Bankhead	134,432
Bothwell Bash	27,117
Bankhead Presents	15,000
Bricks and seats	<u>3,216</u>
	<u>\$ 850,964</u>

Net assets held in perpetuity consisted of land acquired by the Center as a site for the sole purpose of the building of the 500-Seat (Community) Theater (see Note 15).

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 contribution of \$740,000, which represented the excess of the estimated fair value of the property over the consideration paid at the date of purchase.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

11. CONTRIBUTIONS IN-KIND

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

During the year ended June 30, 2019, in-kind contributions consisted of the following:

Contributions in-kind for operations	
Advertising	\$ 175,885
Supplies	<u>17,168</u>
	<u>193,053</u>
Contributions in-kind for special events	
Special event auction items to be sold	97,427
Special event supplies	<u>8,076</u>
	<u>105,503</u>
	<u>\$ 298,556</u>

12. 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.

13. 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.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

14. 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 second option to extend the terms for an additional period of 5 years. This lease extension was acknowledged by LARPD on February 1, 2017 and extended the lease to January 31, 2022. 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>		
2020	\$	15,000
2021		15,000
2022		<u>8,750</u>
	<u>\$</u>	<u>38,750</u>

15. RELATED PARTY TRANSACTIONS

The Center recognized contributions, including promises to give, from members of its Board totaling \$774,591 for the year ended June 30, 2019. As of June 30, 2019, \$506,660 contributions receivable consisted of contributions 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").

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 10) and includes requirements for the Theater's development. The second DDA supersedes the first DDA on all matters relating to the 500-Seat Theater.

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

15. RELATED PARTY TRANSACTIONS (continued)

Relationship with the City of Livermore (continued)

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 HClAF 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.

16. LIQUIDITY AND FUNDS AVAILABLE

The Center's approach to liquidity management is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Annual budgets are structured to utilize a combination of program revenues, contributions without donor-imposed restrictions and contributions with donor-imposed restrictions to cover the expenditures of the Center on an ongoing basis. To meet liquidity needs, the Center has cash and cash equivalents, accounts receivable, contributions receivable, and a line of credit available.

The following is a quantitative disclosure which describes assets that are available or expected to become available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 275,208
Restricted cash	328,716
Contributions receivable, net	2,190,373
Accounts receivable	<u>27,808</u>
	<u>2,822,105</u>
Less: amounts unavailable for general expenditures within one year, due to:	
Restricted cash	(328,716)
Net assets restricted to the passage of time (\$2,050,866 less \$383,132 that is scheduled to be collected during the year ending June 30, 2020)	(1,667,734)
Net assets restricted for a specified purpose	<u>(747,735)</u>
	<u>(2,744,185)</u>
	<u>\$ 77,920</u>

Livermore Valley Performing Arts Center
Notes to Financial Statements
June 30, 2019

16. LIQUIDITY AND FUNDS AVAILABLE (continued)

* In the event of an unanticipated liquidity need, the Center may draw upon its line of credit to meet operating needs. The line of credit has an available balance of \$390,000 at June 30, 2019.