EAST BAY CENTER FOR THE PERFORMING ARTS

FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016

with

Independent Auditor's Report

EAST BAY CENTER FOR THE PERFORMING ARTS

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NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
East Bay Center for the Performing Arts:

We have audited the accompanying financial statements of East Bay Center for the Performing Arts, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Center for the Performing Arts as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

Walnut Creek, California
November 17, 2017

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 481,585	$ 181,567
Restricted cash	359,970	371,911
Short-term investments	100,451	100,451
Accounts receivable, net	42,246	21,897
Pledges and grants receivable, current portion	400,390	174,280
Contracts receivable	138,027	92,667
Prepaid expenses and other assets	8,069	12,564
Total current assets	1,530,738	955,337
Fixed assets, net	11,554,354	11,950,894
Investment in Presidio Internet Center, LLC	2,030,000	-
Pledges and grants receivable, net	215,000	-
Total assets	$ 15,330,092	$ 12,906,231
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 82,048	$ 65,376
Deferred revenue	18,854	42,224
Notes payable, current portion	350,000	-
Total current liabilities	450,902	107,600
Notes payable	-	550,000
Total liabilities	450,902	657,600
Net assets:		
Unrestricted net assets	13,933,267	11,880,083
Temporarily restricted net assets	945,923	368,548
Total net assets	14,879,190	12,248,631
Total liabilities and net assets	$ 15,330,092	$ 12,906,231

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

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE			
SUPPORT			
Individuals	$ 2,877,687	$ -	$ 2,877,687
Foundations	8,500	1,309,106	1,317,606
Corporations	17,061	-	17,061
Contributions - debt forgiveness	200,000	-	200,000
Total support	3,103,248	1,309,106	4,412,354
EARNED INCOME			
Contracts	342,485	-	342,485
Tuition fees	119,696	-	119,696
Interest income	573	-	573
Special events	24,000	-	24,000
Rental income	96,821	-	96,821
Performance fees	7,963	-	7,963
Distribution income	75,000	-	75,000
Other revenue	2,401	-	2,401
Total earned income	668,939	-	668,939
NET ASSETS RELEASED FROM RESTRICTIONS	731,731	(731,731)	-
Total revenue	4,503,918	577,375	5,081,293
EXPENSES			
Program expenses	1,879,122	-	1,879,122
Development and fundraising	228,883	-	228,883
Management and general	342,729	-	342,729
Total expenses	2,450,734	-	2,450,734
Changes in net assets	2,053,184	577,375	2,630,559
Net assets, beginning of year	11,880,083	368,548	12,248,631
Net assets, end of year	$ 13,933,267	$ 945,923	$ 14,879,190

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

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE			
SUPPORT			
Individuals	$ 565,205	$ -	$ 565,205
Foundations	20,625	562,694	583,319
Corporations	36,762	-	36,762
Contribution - debt forgiveness	3,794,007	-	3,794,007
Total support	4,416,599	562,694	4,979,293
EARNED INCOME			
Contracts	282,856	-	282,856
Tuition fees	177,873	-	177,873
Interest income	127,206	-	127,206
Special events	44,500	-	44,500
Rental income	60,685	-	60,685
Performance fees	21,310	-	21,310
Other revenue	31,339	-	31,339
Total earned income	745,769	-	745,769
NET ASSETS RELEASED FROM RESTRICTIONS	781,089	(781,089)	-
Total revenue	5,943,457	(218,395)	5,725,062
EXPENSES			
Program expenses	1,878,993	-	1,878,993
Development and fundraising	213,813	-	213,813
Management and general	492,708	-	492,708
Total expenses	2,585,514	-	2,585,514
Changes in net assets	3,357,943	(218,395)	3,139,548
Net assets, beginning of year	8,522,140	586,943	9,109,083
Net assets, end of year	$ 11,880,083	$ 368,548	$ 12,248,631

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

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Expenses	Development and Fundraising	Management and General	Total
Payroll	$ 1,229,971	$ 179,465	$ 208,756	$ 1,618,192
Depreciation expense	408,368	-	-	408,368
Professional fees	72,630	36,838	52,893	162,361
Interest expense	5,898	27	10,583	16,508
General and administrative	17,146	9,750	44,128	71,024
Artist fees and program supplies	54,083	2,103	5,927	62,113
Repairs and maintenance	35,612	-	225	35,837
Utilities	55,214	-	-	55,214
Insurance	-	-	18,997	18,997
Publicity and advertising	200	700	1,220	2,120
Total expenses	$ 1,879,122	$ 228,883	$ 342,729	$ 2,450,734
Expenses as a percentage of total expenses	76.68%	9.34%	13.98%	100.00%

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

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

	Program Expenses	Development and Fundraising	Management and General	Total
Payroll	$ 1,149,957	$ 176,742	$ 261,394	$ 1,588,093
Depreciation expense	368,264	-	-	368,264
Professional fees	63,431	25,455	52,678	141,564
Interest expense	126,863	-	-	126,863
CDE management fees	-	-	103,740	103,740
General and administrative	27,196	10,190	47,327	84,713
Artist fees and program supplies	72,661	1,336	4,376	78,373
Repairs and maintenance	29,803	-	43	29,846
Utilities	38,139	-	-	38,139
Insurance	-	-	23,150	23,150
Rent expense	2,679	-	-	2,679
Publicity and advertising	-	90	-	90
Total expenses	$ 1,878,993	$ 213,813	$ 492,708	$ 2,585,514
Expenses as a percentage of total expenses	72.67%	8.27%	19.06%	100.00%

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

EAST BAY CENTER FOR THE PERFORMING ARTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,630,559	$ 3,139,548
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense	408,368	368,264
Contribution of investment in Presidio Internet Center, LLC	(2,430,000)	-
Contributions - debt forgiveness	(200,000)	(3,794,007)
(Increase) decrease in assets:		
Accounts receivable, net	(20,349)	(3,716)
Interest receivable	-	26,344
Pledges and grants receivable	(441,110)	140,254
Contracts receivable	(45,360)	4,527
Prepaid expenses and other assets	4,495	(3,649)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	16,672	7,819
Deferred revenue	(23,370)	(4,676)
Accrued interest	-	(26,146)
Accrued CDE management fees	-	(27,653)
Net cash used in operating activities	(100,095)	(173,091)
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawals from restricted cash, net	11,941	142,228
Purchase of fixed assets	(11,828)	(19,325)
Net purchase of short-term investments	-	(251)
Distrubtion from investment in Presidio Internet Center, LLC	400,000	-
Net cash provided by investing activities	400,113	122,652
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	100,000	100,000
Repayment of line of credit	(100,000)	(100,000)
Net cash used in financing activities	-	-
Net increase (decrease) in cash and cash equivalents	300,018	(50,439)
Cash and cash equivalents, at the beginning of the year	181,567	232,006
Cash and cash equivalents, at the end of the year	$ 481,585	$ 181,567
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest expense during the year	$ 16,508	$ 153,009

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

1. General

East Bay Center for the Performing Arts (the "EBCPA") is a California nonprofit public benefit corporation organized in 1968 pursuant to California Nonprofit Corporation law for charitable and educational purposes. EBCPA is a community-based arts training and production institution. The mission of the center is to engage youth and young adults in imagining and creating new worlds for themselves and new visions for their communities through the inspiration and discipline of distinctive training in world performance traditions.

Founded in 1968, and rooted in principles of the community development movement as well as the national arts and culture field, the center is a trusted and neutral fulcrum of support for place-based action, optimism, and collaboration among gifted and diverse members of a complex community.

EBPCA is supported primarily through donor contributions, grants and program services. Iron Triangle Cultural Center ("ITCC"), a California nonprofit public benefit corporation, and affiliate, was organized on May 29, 2009 to hold title to real property for the benefit of EBCPA. On June 30, 2016, EBCPA and ITCC entered into an Agreement of Merger whereby both entities combined with EBCPA as the surviving entity. The accompanying financial statements include the operations of EBCPA and ITCC (collectively, the "Organization"). ITCC was a Type 2 supporting organization under Internal Revenue Code Section 509(a)(3). All of ITCC's five board members were also either board members or officers for EBCPA. Pursuant to ITCC's bylaws, all of ITCC's board members were required to also be on the board of directors for EBCPA.

2. Summary of significant accounting policies

Basis of accounting
The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Basis of presentation
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist primarily of board designated operating reserve fund, capital assets, and general operating support.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations which can be fulfilled either by actions of those stipulations and/or expire with the passage of time and subject to the variance power of the Board of Directors. Temporarily restricted net assets consist primarily of temporarily restricted contributions, charitable gift annuities, and accumulated earnings on endowed funds. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations whereby the historic gift amount is to be preserved in perpetuity and are subject to the variance power of the Board of Directors. While the historic gift is to remain permanently maintained, the Organization may expend the accumulated earnings, which are temporarily restricted, in accordance with donor specifications.

There were no permanently restricted net assets as of June 30, 2017 and 2016.

Transactions between entities under common control

The combination of EBCPA and ITCC constitutes neither a merger nor acquisition because both entities were under common control. EBCPA accounted for the combination by measuring the identifiable assets acquired and liabilities assumed at their carrying amounts on the date of transfer. All financial information presented for prior years has been retrospectively adjusted to conform to the current year presentation. Inter-company balances and transactions have been eliminated in combination.

Estimates

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

Concentration of credit risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Economic concentrations

The Organization operates in Richmond, California. Future operations could be affected by changes in the economic or other conditions in that geographical area.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on their proportional share of such expenses based on an evaluation by the Organization's management.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition. Restricted cash is not considered cash and cash equivalents and includes cash held with financial institutions for interest and building maintenance reserves. Restricted cash does not fall under the criteria for temporarily or permanently restricted assets as these funds are held for operational purposes rather than donor imposed restrictions.

2. Summary of significant accounting policies (continued)

Short-term investments
Short-term investments consist of certificates of deposit with maturity dates in excess of three months. The Organization intends to hold these investments to maturity.

Investment in Presidio Internet Center, LLC
The Organization holds a membership interest in Presidio Internet Center, LLC ("Presidio"), a California limited liability company. The investment, acquired through a contribution, was initially measured at fair value. The Organization uses the cost method of accounting for its investment in Presidio, as the Organization does not have significant influence over the limited liability company. Under the cost method, distributions received from the accumulated earnings of Presidio are recognized as dividend income. Distributions in excess of accumulated earnings are recognized as a reduction of the cost of the investment.

The Organization periodically evaluates its investment in Presidio for impairment in value and records a write-down if it is determined that any impairment in value is other than temporary. There was no impairment loss recognized during the year ended June 30, 2017.

Accounts receivable
The Organization provides an allowance for doubtful accounts which is based upon review of outstanding receivables and historical collection information. Accounts receivable are written off if deemed uncollectible. As of June 30, 2017 and 2016, the allowance for doubtful accounts was $4,700 and $3,500, respectively.

Contracts receivable
Services provided by the Organization and reimbursed by third parties are recorded as contract revenue in the period in which the reimbursable costs are incurred. As of June 30, 2017 and 2016, amounts due from the third parties totaled $138,027 and $92,667, respectively.

Pledges and grants receivable
Unconditional promises to give are recorded as contribution revenue in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Promises to give 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Leverage loan receivable
Leverage loan receivable is stated at the unreimbursed principal balance. The Organization considers a loan impaired when based on current information or factors, it is probable that the Organization will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has claimed bankruptcy or the Organization has received specific information concerning the loan impairment. The Organization reviews delinquent loans to determine impaired accounts. The Organization measures impairment on a loan-by-loan basis by either using the fair value of collateral or the present value of expected cash flows.

2. Summary of significant accounting policies (continued)

Leverage loan receivable (continued)

The Organization's key credit quality indicator is a loan's performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss, while nonaccrual loans are those which the Organization believes have a higher risk of loss. Loans that are 90 days or more past due, based on the contractual terms of the loan, are classified on nonaccrual status. Loans may also be placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received and the principal balance is believed to be collectible. There were no loans on nonaccrual status and still accruing interest at June 30, 2017 and 2016.

A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. Loans may also resume accruing interest if management no longer believes a loan is impaired or the collection of principal and interest is no longer in doubt.

Support and revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Revenue from tuition fees and government contracts is recognized as expenditures are made. Revenue resulting from special events, fees charged by the Organization and other income is recorded when earned.

Fixed assets and depreciation

Fixed assets are recorded at cost of acquisition or construction. Expenditures or betterments that increase asset lives of one year or more are capitalized to the fixed asset accounts, while maintenance and repairs, performed to keep assets in their ordinary, efficient operating condition, are expensed. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation is computed on the straight line method over the estimated useful lives of the assets. The useful lives of the assets are estimated as follows:

Office equipment and software	3 – 5 years
Furniture and equipment	3 – 30 years
Building improvements	15 years
Building	40 years

2. Summary of significant accounting policies (continued)

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value 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, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Organization's own assumptions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the disclosed level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the item being measured.

The following table presents the Organization's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2017 and 2016:

	June 30, 2017			
	Level 1	Level 2	Level 3	Fair Value Measurements
Short-term investments	$ -	$ 100,451	$ -	$ 100,451

	June 30, 2016			
	Level 1	Level 2	Level 3	Fair Value Measurements
Short-term investments	$ -	$ 100,451	$ -	$ 100,451

Short-term investments include certificates of deposits. These generally approximate cost plus accrued interest, which approximates fair value, and are generally categorized as Level 2.

2. Summary of significant accounting policies (continued)

Income taxes

EBCPA is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code (the "Codes"), except for unrelated business income, as defined in the Codes. ITCC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income, as defined in the Codes. The Organization holds a membership interest in a for-profit limited liability company. Income allocated to the Organization from the limited liability company is subject to tax on unrelated business income. As of June 30, 2017 and 2016, the Organization recorded a tax liability of $0 on this unrelated business activity. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization uses the asset and liability method to provide income taxes on all transactions recorded in the financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes.

Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the tax rates that the Organization expects to be in effect when the underlying items of income and expense are realized. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

The Organization's provision for income taxes includes the current and deferred portions of that expense. A valuation allowance is established if, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance reduces deferred tax assets to the amount the Organization expects to realize. As of June 30, 2017 and 2016, there was a valuation allowance of $0.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. Management has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

2. Summary of significant accounting policies (continued)

Recently issued accounting pronouncements
In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The major changes revolve around net asset classifications. ASU 2016-14 eliminates the distinction between resources with permanent restrictions and those with temporary restrictions by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions.

In addition to the fundamental change in net asset classifications, the new standard also includes a number of specific amendments, such as the following:

- Disclosure requirements of qualitative information on how the organization manages its liquid available resources and liquidity risks;
- Reporting requirements of the investment return, net of external and direct internal investment expenses (disclosure of those netted expenses is no longer required).
- Presentation of operating cash flows on the statement of cash flows using either the direct or indirect method.

ASU 2016-14 applies to all non-profit organizations and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted.

The Organization is currently evaluating the impact the adoption of this standard will have on the financial statements.

Subsequent events
Subsequent events have been evaluated through November 17, 2017, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Pursuant to a loan agreement between ITCC and New Markets Investment 54, LLC, ITCC was required to establish an interest reserve account with an initial deposit of $786,000. Quarterly withdrawals of $27,653 were made from this account to fund a portion of the interest due on Notes Payable A, B, and C. In addition, loan proceeds received by ITCC were restricted for construction costs related to the rehabilitation of the Winters Building. While the interest account agreement has expired, the board of directors has agreed to keep the building reserve (initiated during the Winters Building rehabilitation) to ensure that the building will be well maintained as a community and cultural asset.

3. Restricted cash (continued)

As of June 30, 2017 and 2016, the Organization's restricted cash consisted of the following:

	Interest Reserve	Building Reserve	Total
Balance, July 1, 2015	$ 142,180	$ 371,959	$ 514,139
Deposits	11,296	-	11,296
Interest	-	389	389
Withdrawals	(153,476)	(437)	(153,913)
Balance, June 30, 2016	-	371,911	371,911
Deposits	-	-	-
Interest	-	598	598
Charges	-	(2,539)	(2,539)
Withdrawals	-	(110,000)	(110,000)
Deposits	-	100,000	100,000
Balance, June 30, 2017	$ -	$ 359,970	$ 359,970

Pursuant to a line of credit agreement between EBCPA and Beneficial State Bank, EBCPA is required to establish a certificate of deposit account with an initial deposit of $100,000 as security for the business loan agreement. This certificate of deposit has been accounted for as a short-term investment and is considered by management to be a part of the building reserve. Combined with the related restricted cash, the balance of the building reserve is $460,421 and $472,362 as of June 30, 2017 and 2016, respectively.

4. Pledges and grants receivable

As of June 30, 2017 and 2016, unconditional promises to give due totaled $615,390 and $174,280, respectively.

Unconditional promises to give are due as follows:

Year ending June 30,

2018	$ 400,390
2019	215,000
Total	$ 615,390

5. Fixed assets

As of June 30, 2017 and 2016, the Organization's fixed assets consisted of the following:

	2017	2016
Land	$ 306,000	$ 306,000
Building and improvements	13,225,910	13,225,910
Furniture and equipment	586,597	574,769
Total fixed assets	14,118,507	14,106,679
Less accumulated depreciation	(2,564,153)	(2,155,785)
Fixed assets, net	$ 11,554,354	$ 11,950,894

Depreciation expense during the years ended June 30, 2017 and 2016 was $408,368 and $368,264, respectively.

6. Leverage loan receivable

On June 12, 2009, in accordance with a fund loan agreement (the "Fund Loan Agreement") between EBCPA and Chase NMTC NMI 54 Winters Building, LLC (the "Borrower"), EBCPA advanced loan proceeds to the Borrower in the amount of $10,421,993. Pursuant to the Fund Loan Agreement and related loan documents, the Borrower used loan proceeds of $10,421,993, along with equity proceeds of $4,327,007 funded to the Borrower by the Borrower's new markets tax credit investor, to fund a qualified equity investment ("QEI") of $14,600,000 in New Markets Investment 54, LLC (the "CDE"), a community development entity for the purposes of new markets tax credits. The CDE then used these equity proceeds to advance loan proceeds in the amount of $14,016,000 to ITCC. The loan proceeds advanced from CDE to ITCC constitute a qualified active low-income community investment ("QALICI") for purposes of new market tax credits. Interest income for the years ended June 30, 2017 and 2016 was $573 and $127,077, respectively. Interest receivable at June 30, 2017 and 2016 was $0.

The loan bore interest at a rate of 1% per annum. Payments of interest began on July 10, 2009 and thereafter, interest payments were made in quarterly installments. The loan was secured by the Borrower's membership interest in the CDE and other assets, as further described in the Fund Pledge Agreement. All unpaid principal and interest was due at maturity on January 1, 2045. On June 30, 2016, the Borrower and EBCPA entered into a Loan Satisfaction Agreement whereby the loan was forgiven in full. The full outstanding balance was written off and netted with the corresponding $14,016,000 contribution from the CDE. As of June 30, 2017 and 2016, the leverage loan receivable was $0.

7. Notes payable

Bridge loan

On June 11, 2009, EBCPA obtained a bridge loan from the City of Richmond (formerly the Richmond Community Redevelopment Agency) in the amount of $2,500,000. Loan proceeds were used together with additional funds to make the leverage loan. Repayment of the bridge loan is secured by EBCPA's rights and interest in the leverage loan, and additional collateral associated therewith. Prior to June 27, 2012, the bridge loan accrued 3% simple interest per annum. Payments of interest were made in quarterly installments beginning on July 15, 2009. On June 27, 2012, the City of Richmond extended the maturity date for which all unpaid principal and interest are due from June 30, 2012 to a maturity date of June 30, 2016 with the bridge loan now bearing zero interest per annum. On February 18, 2014, the City of Richmond extended the maturity date from June 30, 2016 to June 30, 2018. In addition, the City of Richmond has conditionally agreed to provide a grant in the amount of $200,000 per annum for five years beginning in June of 2014. The grant is to be used by EBCPA for raising capital and program funds. As of June 30, 2017 and 2016, the outstanding principal was $350,000 and $550,000, respectively. Interest expense for the years ended June 30, 2017 and 2016 was $0 for each year.

7. Notes payable (continued)

Notes payable A, B and C

On June 12, 2009, ITCC obtained financing for the acquisition and rehabilitation of the Winters Building in the amount of $14,016,000 from the CDE. Loan proceeds were divided into three promissory notes as follows:

Note A (CDE Loan A) $	3,200,000
Note B (CDE Loan B)	7,221,993
Note C (CDE Loan C)	3,594,007
Total	$ 14,016,000

On June 30, 2016, ITCC and the Borrower entered into a Loan Satisfaction Agreement whereby the loan was forgiven in full. The Organization recognized the $14,016,000 debt forgiveness as a contribution. This contribution was netted with the corresponding write-off of the leverage loan receivable.

Note payable A

Note A bore interest at a fixed rate of 0.92047% per annum and was secured by a deed of trust in favor of the CDE. Beginning July 5, 2009, the note required quarterly interest-only payments. As of June 30, 2017 and 2016, the principal balance on the loan was $0. Interest expense during the years ended June 30, 2017 and 2016 was $0 and $29,455, respectively. As of June 30, 2017 and 2016, accrued interest was $0.

Note payable B

Note B bore interest at a fixed rate of 0.92047% per annum and was secured by a deed of trust in favor of the CDE. Note B required quarterly interest-only payments. As of June 30, 2017 and 2016, the principal balance on the loan was $0. Interest expense during the years ended June 30, 2017 and 2016 was $0 and $63,251, respectively. As of June 30, 2017 and 2016, accrued interest was $0.

Note payable C

Note C bore interest at 0.92047% per annum and was secured by a deed of trust against real property in favor of the CDE. The note required quarterly interest-only payments. As of June 30, 2017 and 2016, the principal balance on the loan was $0. Interest expense during the years ended June 30, 2017 and 2016 was $0 and $33,082, respectively. As of June 30, 2017 and 2016, accrued interest was $0.

Line of credit

On May 1, 2014, EBCPA entered into a revolving line of credit agreement (the “Line of Credit”) with Beneficial State Bank. The Line of Credit is in the amount of $100,000 based on a variable interest rate equivalent to the U.S. Prime Rate plus 1 percentage point, rounded up to the nearest 0.125 percent. The Line of Credit is secured by a certificate of deposit account owned by EBCPA with Beneficial State Bank. As of June 30, 2017 and 2016, the outstanding principal balance was $0, and accrued interest was $0. For the years ended June 30, 2017 and 2016, interest expense was $2,523 and $1,075, respectively.

CDE management fees

Pursuant to the New Markets Tax Credit and Fund Management Fee Agreement in connection with the notes payable, the Organization shall pay the CDE, a quarterly asset management fee in the amount of $18,250, quarterly management fees in the amount of $3,750 and operating expenses. During the years ended June 30, 2017 and 2016, CDE management fees were $0 and $103,740, respectively. As of June 30, 2017 and 2016, accrued fees were $0.

7. Notes payable (continued)

Put/call option
In connection with the notes payable, EBCPA and JPMorgan Chase Bank, N.A. (the "NMTC Investor") entered into a Put/Call Option Agreement. In accordance with the agreement, the NMTC Investor owned 99.99% interest in the Borrower. Upon written notice to EBCPA, the NMTC Investor had the option to sell its interest in the Fund at a price of $1,000 to EBCPA. The option to sell may be exercised by the NMTC Investor commencing on the last day of the tax credit investment period, which was June 13, 2016.

On June 16, 2016 EBCPA, the NMTC Investor, the CDE, the Fund, ITCC and New Markets Support Company, LLC (the "Fund Manager") entered into certain NMTC exit agreements. Pursuant to the agreements, EBCPA purchased the interest in the Fund and the Fund Manager at a price of $1,000 and $10, respectively. Pursuant to the agreements, the CDE also assigned all rights, title and interest in and to the notes from the CDE to the Fund.

8. Related party transactions

Investment in Presidio Internet Center, LLC
On December 31, 2016, the Organization received a contribution of a limited liability company interest of 25% in Presidio. The remaining limited liability company interest is owned by a member on the board of directors. As of June 30, 2017, the Organization holds a limited liability company interest of 25% in Presidio. The investment in Presidio as of June 30, 2017 is summarized as follows:

Beginning balance	$	-
Capital contributions		2,430,000
Capital distributions, in excess of accumulated earnings		(400,000)
Ending balance	$	2,030,000

9. Employee retirement plan

In July of 2013, EBCPA established a 401(k) plan. All employees are eligible to participate in the plan regardless of hours worked per week. Participating employees may contribute up to a maximum amount allowed by law. EBCPA may match the contribution up to 1.5% of the employee's salary provided the employee contributes at a minimum 2% of eligible earnings. For the years ended June 30, 2017 and 2016, EBCPA contributed $8,571 and $7,957, respectively, to the retirement plan.

10. Lease

On June 12, 2009, EBCPA entered into a Master Lease Agreement with ITCC to lease the Winters Building. EBCPA's occupancy of the building commenced on December 1, 2010 and terminates on December 31, 2040. EBCPA is responsible for payment of all operating expenses of the Winters Building. Inter-company lease transactions between ITCC and EBCPA have been eliminated. As of June 30, 2016, the Master Lease Agreement was terminated in connection with the combination of EBCPA and ITCC.

11. New Markets Tax Credit Exit

The real property owned by ITCC, known as the Winters Building, was acquired from EBCPA on June 12, 2009. This transaction was executed in order to enable EBCPA to finance a major renovation of the Winters Building utilizing new markets tax credit equity proceeds. In order to facilitate the rehabilitation of the Winters Building, EBCPA sold the building to ITCC. Commensurate with the sale, EBCPA made a leverage loan in the amount of $10,421,993 to Chase NMTC NMI 54 Winters Building LLC, a Delaware limited liability company (the "Fund"), and the Fund in turn used the leverage loan proceeds and a new markets tax credit equity investment to fund a QEI in the amount of $14,600,000 to the CDE, a community development entity for the purpose of new markets tax credits that has been certified by the U.S. Treasury's Community Development Financial Institutions Fund ("CDFI Fund"). The CDE then made a qualified low income community investment ("QLICI") to ITCC in the form of a loan in the amount of $14,016,000.

On June 16, 2016, (the "Exit Date"), the NMTC Investor, the CDE, the Fund, ITCC and the Fund Manager entered into certain NMTC exit agreements. Pursuant to the agreements, EBCPA purchased 100% of the membership interest in the Fund for $1,010. In addition, pursuant to the agreements, the CDE assigned all rights, title and interest in and to the notes from the CDE to the Fund for redemption of the Fund's interest in the CDE.

On June 30, 2016, ITCC, the Fund and EBCPA entered into a Loan Satisfaction Agreement whereby the notes from the CDE and corresponding leverage loan receivable was forgiven in full. In addition, EBCPA and ITCC entered into an Agreement of Merger whereby both entities combined with EBCPA as the surviving entity. Upon execution of the Loan Satisfaction Agreement, the Organization recognized the debt forgiveness as a contribution. This contribution was netted with the corresponding write-off of the leverage loan receivable on the corresponding statements of activities.