

**Berkeley Repertory Theatre**

Financial Statements

August 31, 2018  
(With Comparative Totals for 2017)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Berkeley Repertory Theatre  
Berkeley, California

We have audited the accompanying financial statements of Berkeley Repertory Theatre (a California nonprofit corporation) (the "Theatre"), which comprise the statement of financial position as of August 31, 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 Berkeley Repertory Theatre as of August 31, 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.

## Report on Summarized Comparative Information

We have previously audited Berkeley Repertory Theatre's 2017 financial statements, and our report dated December 4, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Armanino<sup>LLP</sup>  
San Ramon, California

December 7, 2018

Berkeley Repertory Theatre  
Statement of Financial Position  
August 31, 2018  
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,461,310	\$ 2,005,453
Investments	-	2,358,227
Accounts receivable	371,214	27,760
Contributions receivable	3,270,591	2,158,147
Prepaid expenses	745,715	2,152,353
Total current assets	8,848,830	8,701,940
Property and equipment, net	30,175,916	30,993,059
Other noncurrent assets		
Cash and cash equivalents, restricted	-	25,185
Investments, restricted	5,434,168	5,032,962
Contributions receivable, noncurrent, net of discount	3,627,523	4,011,833
Deposits and other assets	164,344	113,624
Interest rate swap asset	64,707	-
Total other noncurrent assets	9,290,742	9,183,604
Total assets	\$ 48,315,488	\$ 48,878,603

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

Berkeley Repertory Theatre  
Statement of Financial Position  
August 31, 2018  
(With Comparative Totals for 2017)

	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 817,766	\$ 670,014
Current portion of long-term debt	525,070	517,102
Deferred performance revenue	4,499,794	6,026,519
Current portion of executive retirement plan	<u>2,774,983</u>	<u>-</u>
Total current liabilities	<u>8,617,613</u>	<u>7,213,635</u>
Long-term liabilities		
Interest rate swap liability	-	1,638
Long-term debt, net of debt issuance cost of \$54,240	10,880,033	11,395,834
Executive retirement plan	<u>-</u>	<u>1,891,385</u>
Total long-term liabilities	<u>10,880,033</u>	<u>13,288,857</u>
Total liabilities	<u>19,497,646</u>	<u>20,502,492</u>
Net assets		
Unrestricted	17,442,792	17,898,163
Temporarily restricted	7,978,486	7,081,484
Permanently restricted	<u>3,396,564</u>	<u>3,396,464</u>
Total net assets	<u>28,817,842</u>	<u>28,376,111</u>
 Total liabilities and net assets	 <u>\$ 48,315,488</u>	 <u>\$ 48,878,603</u>

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

Berkeley Repertory Theatre  
Statement of Activities  
For the Year Ended August 31, 2018  
(With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenues, gains, and other support					
Admissions	\$ 9,157,210	\$ -	\$ -	\$ 9,157,210	\$ 8,538,044
Education programs	514,696	-	-	514,696	504,492
Contributions	2,588,088	4,150,022	100	6,738,210	6,305,795
Special events revenues	847,585	-	-	847,585	822,642
Co-production revenues	2,572,648	-	-	2,572,648	2,455,000
Concessions	602,805	-	-	602,805	571,832
Special performance revenue, net of expenses of \$282,000 and \$897,000 in 2018 and 2017, respectively	319,922	-	-	319,922	415,479
Investment income	79,794	83,302	-	163,096	141,626
Realized and unrealized gain	99,500	88,978	-	188,478	482,959
Other income	635,222	-	-	635,222	495,781
Net assets released from restrictions	3,425,300	(3,425,300)	-	-	-
Total revenue, gains, and other support	<u>20,842,770</u>	<u>897,002</u>	<u>100</u>	<u>21,739,872</u>	<u>20,733,650</u>
Functional expenses					
Program services					
Production costs	12,770,842	-	-	12,770,842	11,631,643
Box office and theatre operations	2,482,954	-	-	2,482,954	3,224,161
Marketing and publicity	1,692,956	-	-	1,692,956	1,755,241
Education programs	893,764	-	-	893,764	946,673
Total program services	<u>17,840,516</u>	<u>-</u>	<u>-</u>	<u>17,840,516</u>	<u>17,557,718</u>
Support services					
General and administrative	2,264,865	-	-	2,264,865	2,065,357
Fundraising	1,259,105	-	-	1,259,105	1,280,415
Total support services	<u>3,523,970</u>	<u>-</u>	<u>-</u>	<u>3,523,970</u>	<u>3,345,772</u>
Total functional expenses	<u>21,364,486</u>	<u>-</u>	<u>-</u>	<u>21,364,486</u>	<u>20,903,490</u>
Change in net assets from operations	<u>(521,716)</u>	<u>897,002</u>	<u>100</u>	<u>375,386</u>	<u>(169,840)</u>
Non-operating activity					
Gain from interest rate swap	66,345	-	-	66,345	94,159
Loss on sale of fixed assets	-	-	-	-	(179,269)
Total non-operating activity	<u>66,345</u>	<u>-</u>	<u>-</u>	<u>66,345</u>	<u>(85,110)</u>
Change in net assets	(455,371)	897,002	100	441,731	(254,950)
Net assets, beginning of year	<u>17,898,163</u>	<u>7,081,484</u>	<u>3,396,464</u>	<u>28,376,111</u>	<u>28,631,061</u>
Net assets, end of year	<u>\$ 17,442,792</u>	<u>\$ 7,978,486</u>	<u>\$ 3,396,564</u>	<u>\$ 28,817,842</u>	<u>\$ 28,376,111</u>

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

Berkeley Repertory Theatre  
Statement of Functional Expenses  
For the Year Ended August 31, 2018  
(With Comparative Totals for 2017)

	Program Services				Support Services			2018 Total	2017 Total	
	Production Costs	Box Office and Theatre Operations	Marketing and Publicity	Education Programs	Total Program Services	General and Administrative	Fundraising			Total Support Services
Salaries	\$ 5,039,338	\$ 898,655	\$ 483,604	\$ 564,877	\$ 6,986,474	\$ 1,612,815	\$ 629,896	\$ 2,242,711	\$ 9,229,185	\$ 9,301,528
Employee benefits	782,040	150,676	84,388	46,565	1,063,669	175,371	102,142	277,513	1,341,182	1,051,808
Payroll taxes	385,601	86,060	38,458	54,871	564,990	62,479	48,982	111,461	676,451	716,774
Contract labor	558,166	-	113,414	-	671,580	99,227	106,670	205,897	877,477	903,028
Travel	384,123	16,661	6,046	8,955	415,785	14,704	6,172	20,876	436,661	894,567
Housing	1,051,987	241,955	-	-	1,293,942	-	-	-	1,293,942	1,094,402
Space rental	1,244	-	-	30,600	31,844	-	-	-	31,844	149,421
Production materials	1,184,164	-	-	-	1,184,164	-	-	-	1,184,164	1,111,731
Royalties and commissions	653,083	-	-	-	653,083	-	-	-	653,083	504,213
Printing	-	-	59,474	5,181	64,655	-	43,417	43,417	108,072	132,378
Advertising	-	-	724,494	7,479	731,973	-	-	-	731,973	683,434
Insurance	310,503	45,836	4,227	13,387	373,953	(9,642)	7,215	(2,427)	371,526	375,925
Interest	357,617	64,778	7,420	23,556	453,371	10,247	10,247	20,494	473,865	480,308
Supplies	6,205	33,141	7,158	955	47,459	25,950	36,656	62,606	110,065	121,049
Telephone	23,779	14,997	8,438	5,369	52,583	8,821	6,520	15,341	67,924	95,296
Postage	1,169	8,441	22,793	5,600	38,003	2,650	8,339	10,989	48,992	71,433
Maintenance	99,372	53,538	1,912	6,070	160,892	11,192	2,641	13,833	174,725	248,858
Credit card fees and charges	-	362,770	-	3,119	365,889	77,893	25,201	103,094	468,983	469,567
Utilities	258,920	46,901	5,372	17,055	328,248	7,419	7,419	14,838	343,086	373,397
Miscellaneous	827,900	305,368	108,212	44,424	1,285,904	141,509	193,358	334,867	1,620,771	998,435
Depreciation	845,631	153,177	17,546	55,701	1,072,055	24,230	24,230	48,460	1,120,515	1,125,938
	<u>\$ 12,770,842</u>	<u>\$ 2,482,954</u>	<u>\$ 1,692,956</u>	<u>\$ 893,764</u>	<u>\$ 17,840,516</u>	<u>\$ 2,264,865</u>	<u>\$ 1,259,105</u>	<u>\$ 3,523,970</u>	<u>\$ 21,364,486</u>	<u>\$ 20,903,490</u>

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

Berkeley Repertory Theatre  
Statement of Cash Flows  
For the Year Ended August 31, 2018  
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 441,731	\$ (254,950)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,120,515	1,125,938
Non-cash interest expense	9,268	9,268
Realized and unrealized gains on securities	(188,478)	(482,959)
Gains from interest rate swap	(66,345)	(94,159)
Loss on sale of fixed asset	-	179,269
Proceeds restricted for future and non-operating activity and long range plan initiatives	(1,831,868)	(2,030,236)
Changes in operating assets and liabilities		
Accounts receivable	(343,454)	(27,400)
Contributions receivable, net	(728,134)	(152,176)
Prepaid expenses	1,406,638	(1,273,008)
Deposits	(50,720)	(16,982)
Accounts payable and accrued expenses	503,560	(125,218)
Deferred performance revenue	(1,526,725)	1,485,428
Executive retirement plan	527,790	313,333
Net cash used in operating activities	(726,222)	(1,343,852)
Cash flows from investing activities		
Purchase of investments	(563,382)	(600,688)
Proceeds from sale of investments	2,708,881	37,388
Purchases of property and equipment and construction in progress payments	(303,372)	(870,870)
Net cash provided by (used in) investing activities	1,842,127	(1,434,170)
Cash flows from financing activities		
Proceeds restricted for future and non-operating activity and long range plan initiatives	1,831,868	2,030,236
Repayment of long-term debt	(517,101)	(489,590)
Net cash provided by financing activities	1,314,767	1,540,646
Net increase (decrease) in cash, cash equivalents and restricted cash	2,430,672	(1,237,376)
Cash, cash equivalents and restricted cash, beginning of year	2,030,638	3,268,014
Cash, cash equivalents and restricted cash, end of year	\$ 4,461,310	\$ 2,030,638
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 4,461,310	\$ 2,005,453
Restricted cash	-	25,185
	\$ 4,461,310	\$ 2,030,638
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 464,597	\$ 471,040

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

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

1. NATURE OF OPERATIONS

The Berkeley Repertory Theatre (the "Theatre") is a professional resident theatre company founded in 1969 that produces major productions from an international repertoire, including premieres of new work. The Theatre performs in its 400-seat thrust stage and its 600-seat proscenium stage in Berkeley, California.

In 2012, the Theatre initiated a new fundraising effort, the Create Campaign, with a goal of \$50 million. As of August 31, 2018, approximately \$44.9 million has been raised. The funds will support a range of Strategic Initiatives as well as Annual Support for Operations. Strategic Initiatives include artistic programs, facility upgrades and development, and attracting/retaining top talent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - represent unrestricted resources available to support the Theatre's operations and temporarily restricted resources that have become available for use by the Theatre in accordance with the intentions of the donors.
- *Temporarily restricted net assets* - represent contributions whose use by the Theatre is limited in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Theatre according to the intentions of the donors.
- *Permanently restricted net assets* - represent contributions generally to be held in perpetuity as directed by the donors. The income from these contributions is available to support activities of the Theatre as designated by the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets and recognized as unrestricted net assets. Contributions that are restricted by the donor/grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, the Theatre considers unrestricted highly liquid instruments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit and interest bearing money market funds.

Cash deposits

The Theatre places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

Investments

Investments, which include securities, mutual funds, and certificate of deposits with an original maturity date of more than three months at the date of purchase, are recorded at fair value. Securities and mutual funds are traded on security exchanges and are valued at closing market prices on the dates closest to August 31, 2018. Investments received through gifts are recorded at estimated fair value at the date of donation.

Derivative instruments

The Theatre uses derivative instruments to manage exposures to interest rate risks. The Theatre's objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the exposures to interest rate fluctuations. Derivative instruments are to be recorded as assets or liabilities, measured at fair value. For each period, changes in fair value are reported as a component of the change in net assets.

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 the asset or liability in an orderly transaction between market participants on the measurement date. The Theatre determines the fair values of its assets and liabilities based on the fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Theatre has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Theatre's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Theatre's own data.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

The following methods and assumptions were used to estimate the fair value of financial instruments:

- Investments (Level 1). Securities traded on security exchanges are valued at closing market prices, or net asset value for mutual funds, on the date of business closest to August 31. Certificates of deposit are valued at cost basis plus accrued interest, which approximates fair value.
- Interest rate swap agreement (Level 2). Interest rate swap agreements are valued based on a mathematical model that calculates the present value of the anticipated cash flows from the transaction using mid-market prices and other observable economic data and assumptions.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances due. Based on prior write-off history, overall economic conditions and the current aging status, the Theatre establishes an allowance for doubtful accounts at a level considered adequate to cover anticipated credit losses on outstanding trade accounts receivable. The Theatre determined that an allowance for doubtful accounts was not considered necessary at August 31, 2018.

Contributions and contributions receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Donated 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. Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promise was received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. At August 31, 2018, management has determined that no allowance for uncollectible contributions was required.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost when purchased or constructed, or at the asset's estimated fair value at the time the donated property is received. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from 4 to 40 years. The Theatre capitalizes all property and equipment with a cost greater than \$5,000 and an estimated useful life in excess of one year. Construction in progress and software installments in progress is depreciated only after the assets are completed and have been placed into service. Donated property and equipment is recorded at the estimated fair value at the date the contribution is received and considered to be unrestricted when placed into service by the Theatre, unless restricted as to use by explicit donor stipulation.

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Theatre, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined.

Deferred revenue

Ticket purchases received in advance of performances are included in deferred performance revenue and recognized as admissions revenue at the time the applicable performance is given. Gift certificates purchased are recorded as deferred revenue and recognized upon the earlier of redemption or three years, where the likelihood of the gift certificates being redeemed by the customer based on historical redemption activity is remote.

Temporarily restricted net assets

As of August 31, 2018, temporarily restricted net assets of \$7,978,486 were available to support long range plan initiatives (covering production, operations and capital), the 2018-19 future performance season, other time restricted activities subsequent to the 2018-19 performance season and other specified purposes designated by the donor. Temporarily restricted net assets include endowment income not yet appropriated for expenditure.

Permanently restricted net assets

As of August 31, 2018, permanently restricted net assets of \$3,396,564 are generally restricted by the donor for investment in perpetuity as an endowment. The terms of certain of the Theatre's endowments allow for the usage of the corpus in the event that investment earnings do not provide for the required spending levels.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Collaborative agreements

The Theatre occasionally enters into collaborative agreements with other artistic producers relating to specific productions in which the Theatre is exposed to significant risk and rewards that depend on the commercial success of the joint production. The production host assumes all expenses incurred in the presentation of the production and will receive enhancement funds from the other party to pay for a portion of direct expenses. Enhancement funds received in advance of the production are included in deferred performance revenue and recognized as co-production revenue at the time the related production begins.

Investment income

Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined using the specific identification method. Realized and unrealized gains (losses) on investments are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the donor stipulations require that they be added to (deducted from) the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets, if the terms of the donor stipulations impose restrictions on the use of income;
- as increases (decreases) in unrestricted net assets in all other cases.

Expense recognition

Expenses related to future performances are recorded as prepaid expenses and charged to operating expense at the time the applicable performance is given.

Functional expenses

Expenses, such as depreciation, utilities, maintenance, telephone, interest, insurance, employee benefits and occupancy costs are allocated among production costs, box office and Theatre operations, marketing and publicity, education programs, general and administrative, and fundraising classifications on the basis of space usage and on estimates made by the Theatre's management.

Income tax

The Theatre is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The Theatre evaluates its tax positions taken or expected to be taken to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. As of August 31, 2018, the Theatre does not have any significant uncertain tax positions for which a reserve would be necessary. The Theatre files United States of America ("U.S.") federal, and U.S. state tax returns. For U.S. state tax returns, the Theatre is generally no longer subject to tax examinations for years prior to 2012. For U.S. federal tax returns, the Theatre is no longer subject to tax examination for years prior to 2013.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Uses of estimates include, but are not limited to, accounting for allowances for doubtful account and contribution receivables, fair value measurements, functional expense allocations and depreciation.

Risks and uncertainties

Occasionally, cash and cash equivalents maintained by the Theatre are in excess of the federally insured limits. The Theatre mitigates this risk by placing cash and cash equivalents with high credit quality institutions.

The Theatre invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Theatre's account balances and the amounts reported in the statements of financial position.

The Theatre is engaged in a collective bargaining agreement with a labor union representing actors and stage managers in theatre, the Actors Equity Association. Approximately 15% of the Theatre's labor force is covered by the collective bargaining agreements. Although staffing of actors and stage management is constantly revolving to fill the needs of each production, the staffing does remain fairly consistent year over year.

Berkeley Repertory Theatre  
Notes to Financial Statements  
August 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative 2018 financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the U.S. Accordingly, such information should be read in conjunction with the Theatre's financial statements as of and for the year ended August 31, 2017, from which the summarized information was derived. Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

Due in less than one year	\$ 3,270,591
Due in one to five years	3,169,325
Due in more than five years	667,195
Less discount on multi-year contributions receivable	<u>(208,997)</u>
	6,898,114
Less current portion	<u>(3,270,591)</u>
	<u><u>\$ 3,627,523</u></u>

Contributions receivable expected to be collected in more than one year from August 31, 2018 are discounted at a rate of return respective to the year that the contribution was originally promised. Current year contributions receivable are recorded using a discount rate of 2.74%.

4. INVESTMENTS

Investments consist of the following:

Fixed income	\$ 1,796,600
Domestic equities	1,297,014
International equities	1,659,608
Alternative investments	<u>680,946</u>
	5,434,168
	<u><u>\$ 5,434,168</u></u>

Net unrealized and realized gains on investments for 2018 were \$188,478. Interest income for 2018 was \$163,096.

Berkeley Repertory Theatre  
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5. FAIR VALUE

The following table sets forth by level, within the fair value hierarchy, the Theatre's assets at fair value as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income	\$ 1,796,600	\$ -	\$ -	\$ 1,796,600
Domestic equities	1,297,014	-	-	1,297,014
International equities	1,659,608	-	-	1,659,608
Alternative strategies fund	373,286	-	-	373,286
Managed futures funds	<u>307,660</u>	<u>-</u>	<u>-</u>	<u>307,660</u>
	<u>\$ 5,434,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,434,168</u>
Interest rate swap agreement asset	<u>\$ -</u>	<u>\$ 64,707</u>	<u>\$ -</u>	<u>\$ 64,707</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 2,802,299
Buildings and improvements	38,033,853
Production equipment	2,609,621
Office and facilities equipment	895,607
Software	272,039
Construction in progress	<u>1,038,186</u>
	45,651,605
Accumulated depreciation	<u>(15,475,689)</u>
	<u>\$ 30,175,916</u>

Depreciation expense for 2018 was \$1,120,515.

7. DEPOSITS

As of August 31, 2018, deposits of \$164,344 consist of a \$53,417 in insurance deposits, \$66,850 in long-term lease deposits, and \$44,077 in an actors' equity bond deposit.

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8. DEFERRED PERFORMANCE REVENUE

Deferred performance revenue consist of the following:

Advance ticket sales	\$ 3,956,031
Gift certificates	85,815
Other deferred income	<u>457,948</u>
	<u>\$ 4,499,794</u>

9. CREDIT FACILITY

The Theatre has a line of credit to finance operations in the amount of \$3,000,000. The line of credit bears interest at the London Interbank Offered Rate ("LIBOR rate") plus 2.35%. As of August 31, 2018, the LIBOR rate was 2.07%. The line of credit expires on April 30, 2019 and is secured by substantially all of the Theatre's assets. At August 31, 2018, there was no balance outstanding on the line of credit. The Theatre has a standby letter of credit of \$78,000 naming the Actors' Equity Association as beneficiary which is secured by this line of credit.

10. INTEREST RATE SWAP CONTRACTS

During 2014, the Theatre entered into an interest rate swap agreement for the term loan. The notional amount of the transaction at inception was \$3,620,000. The agreement is effective through December, 4, 2023. The value of the contract has been adjusted to its estimated fair value, resulting in an asset of \$5,535 at August 31, 2018.

During 2016, the Theatre entered into an interest rate swap agreement on 50% of the term loan. The notional amount of the transaction at inception was \$1,720,834. The agreement is effective through January 26, 2026. The value of the contract has been adjusted to its estimated fair value, resulting in an asset of \$59,172 at August 31, 2018.

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11. LONG-TERM DEBT

Long-term debt are detailed as follows:

Term loan, due through December 4, 2023 in 120 monthly installments (including principal and interest) with a final balloon payment of the then outstanding balance, bearing interest at the LIBOR rate plus 1.85% (3.931% at August 31, 2018), secured by real property.	\$ 3,229,697
Term loan, due through January 26, 2026 in 120 monthly installments (including principal and interest), bearing interest at the LIBOR rate plus 1.85% (3.931% at August 31, 2018), secured by real property.	2,625,006
Note payable to finance the acquisition of real property maturing December 1, 2050, 60 months of interest only payments at 4.31% beginning January 1, 2011 (\$20,833 per month), followed by 420 months of installment payments (both principal and interest) of \$27,270 bearing interest at 4.45%, secured by the real property acquired.	<u>5,604,640</u> 11,459,343
Less unamortized debt issuance costs	<u>(54,240)</u> 11,405,103
Current portion	<u>(525,070)</u> <u>\$ 10,880,033</u>

The future maturities of the notes payable are as follows:

<u>Year ending August 31,</u>	
2019	\$ 525,070
2020	533,423
2021	542,171
2022	551,334
2023	560,944
Thereafter	<u>8,746,401</u> <u>\$ 11,459,343</u>

Under the terms of the debt obligations and related credit line, the Theatre has agreed to maintain specific financial covenants for which the Theatre was in compliance at August 31, 2018.

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12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Time restrictions	\$ 2,411,500
Strategic initiatives	1,973,880
Future theatre seasons	1,880,928
Other	1,311,403
Endowment earnings	365,775
40th Anniversary initiatives	35,000
	\$ 7,978,486

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

Expiration of time restrictions	\$ 1,620,795
Released for strategic initiatives	1,312,765
Released for other purposes	237,300
Approved expenditure of endowment earnings	219,440
Released for anniversary initiatives	35,000
	\$ 3,425,300

13. ENDOWMENT

The Theatre's endowment consists of approximately six individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Theatre's Board of Trustees has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the Theatre to appropriate for expenditure or accumulate so much of an endowment fund as the Theatre determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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13. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Theatre
- (7) The investment policies of the Theatre

Return objectives and risk parameters

The Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the Theatre diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category. The Theatre expects its endowment funds, over time, to generate a return of at least five percent per annum before taxes, management fees, and inflation over a market cycle.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Theatre targets a diversified portfolio of equities, fixed income and cash equivalents.

Spending policy and how the investment objectives related to spending policy

The Theatre has a policy of appropriating for distribution each year at most 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Theatre considered the long-term expected return on its endowment. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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13. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 365,775	\$ 3,396,564	\$ 3,762,339
Board-designated endowment funds	<u>1,215,640</u>	<u>-</u>	<u>-</u>	<u>1,215,640</u>
	<u>\$ 1,215,640</u>	<u>\$ 365,775</u>	<u>\$ 3,396,564</u>	<u>\$ 4,977,979</u>

Changes in endowment net assets for the year is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, August 31, 2017	<u>\$ 1,001,147</u>	<u>\$ 412,935</u>	<u>\$ 3,396,464</u>	<u>\$ 4,810,546</u>
Investment return				
Investment income	22,607	83,302	-	105,909
Net appreciation (realized and unrealized)	<u>23,439</u>	<u>88,978</u>	<u>-</u>	<u>112,417</u>
Total investment return	46,046	172,280	-	218,326
Contributions	-	-	100	100
Appropriation of net assets	(5,552)	(20,336)	-	(25,888)
Other changes	(25,105)	-	-	(25,105)
Transfer to board reserve	<u>199,104</u>	<u>(199,104)</u>	<u>-</u>	<u>-</u>
	<u>214,493</u>	<u>(47,160)</u>	<u>100</u>	<u>167,433</u>
Balance, August 31, 2018	<u>\$ 1,215,640</u>	<u>\$ 365,775</u>	<u>\$ 3,396,564</u>	<u>\$ 4,977,979</u>

14. COMMITMENTS AND CONTINGENCIES

The Theatre maintains various artist apartments under non-cancelable operating leases. The terms of the agreements expire on various dates from May 2019 to July 2020. Total rental expense for the year ended August 31, 2018 was \$1,325,786.

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14. COMMITMENTS AND CONTINGENCIES (continued)

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

<u>Year Ending August 31,</u>	
2019	\$ 588,091
2020	<u>38,445</u>
	<u>\$ 626,536</u>

15. RETIREMENT PLANS

Effective September 1, 1996, the Theatre adopted a tax-sheltered annuity plan under Internal Revenue Code Section 403(b) (the "Plan") covering substantially all full-time employees, which provides for voluntary salary deferrals up to certain amounts. For each Plan year, the Board of Trustees of the Theatre determines the amount (if any) to be contributed to the Plan by the Theatre. During the current year, the Theatre contributed \$300,000 of employer contributions to the Plan for the plan year ended August 31, 2018.

On April 19, 2004, the Theatre adopted a supplemental executive retirement plan (the "SERP") for certain designated executive employees. In 2014, when the Theatre adopted a 457(f) Deferred Compensation Plan, the SERP was amended and restated to be part of the 457(f). At August 31, 2018, funds totaling \$1,254,998 were set aside under this plan.

In 2014, the Theatre adopted 457(b) and 457(f) Deferred Compensation Plans for certain executives. Under the plans, compensation, up to \$2,000,000 is deferred within the plans to be paid, subject to vesting, on or after August 31, 2018. Generally accepted accounting principles require deferred compensation benefits to be accrued in a systematic and rational manner over the period services are provided by the executives. Compensation expense of \$527,790 was recognized in 2018 related to these plans. Deferred compensation accrued as of August 31, 2018 was \$1,414,457. As of August 31, 2018, \$1,435,896 was held in money market accounts for the purpose of funding these deferred compensation obligations. No contributions were made to the plans in 2018.

16. RELATED PARTY

During 2018, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of approximately \$1,204,765. As of August 31, 2018, there was \$2,537,816 in contributions receivable from members of the Board of Trustees. Cash received during the year from members of the Board of Trustees was \$1,096,168 including payments received against promises to give that existed at August 31, 2017.

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17. CITY OF BERKELEY DONATION

In March 2001, the Theatre completed construction of its \$17.6 million proscenium stage adjacent to its thrust stage facility. The City of Berkeley (the "City") provided \$4,000,000 to the capital fundraising campaign that was received in 2001 as follows: the Theatre sold the completed property to the City for \$4 million and leases it back for \$1 annually. The Theatre has the option to purchase the new theatre building back from the City for \$1 after the City retires the bonds issued to finance its contribution, expected to be in October 2029. In connection with the City providing this funding, the Theatre must lease the use of its facilities to certain organizations located in Berkeley at market or discounted rates, up to 320 hours per year. Based upon the substance of this transaction, no sale of real property was recorded and the building is being depreciated in the Theatre's financial statements.

18. SUBSEQUENT EVENTS

In September 2018, the Theatre made distributions of approximately \$1,300,000 from its 457(f) Deferred Compensation Plan and distributions of approximately \$1,300,000 from its amended and restated SERP Plan to certain executives. Additionally, the Theatre entered into agreements with certain executives for additional bonus compensation of approximately \$560,000 for services rendered after September 1, 2018.

The Theatre has evaluated subsequent events through December 7, 2018, the date the financial statements were available to be issued. Other than as previously disclosed, no subsequent events have occurred that would have a material impact on the presentation of the Theatre's financial statements.