Berkeley Repertory Theatre

Financial Statements

August 31, 2019
(With Comparative Totals for 2018)

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TABLE OF CONTENTS

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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, 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 Berkeley Repertory Theatre as of August 31, 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 2 to the financial statements, the Theatre 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 Berkeley Repertory Theatre's 2018 financial statements, and our report dated December 7, 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 August 31, 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

Armanino[LLP]
San Ramon, California

February 19, 2020

Berkeley Repertory Theatre
Statement of Financial Position
August 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,329,307	$ 4,461,310
Investments	90,974	-
Accounts receivable	243,554	371,214
Contributions receivable	2,591,250	3,270,591
Prepaid expenses	728,256	745,715
Total current assets	4,983,341	8,848,830
Property and equipment, net	30,526,954	30,175,916
Other noncurrent assets		
Restricted cash, bond proceeds	29,686,652	-
Investments, restricted	4,901,966	5,434,168
Contributions receivable, noncurrent, net of discount	4,598,503	3,627,523
Deposits and other assets	120,345	164,344
Interest rate swap asset	-	64,707
Total other noncurrent assets	39,307,466	9,290,742
Total assets	$ 74,817,761	$ 48,315,488
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 432,914	$ 817,766
Current portion of long-term debt	196,174	525,070
Deferred performance revenue	4,269,161	4,499,794
Executive retirement plan	482,631	2,774,983
Total current liabilities	5,380,880	8,617,613
Long-term liabilities		
Long-term debt, net of debt issuance cost of $691,539	42,295,532	10,880,033
Total long-term liabilities	42,295,532	10,880,033
Total liabilities	47,676,412	19,497,646
Net assets		
Without donor restrictions	15,452,442	17,442,792
With donor restrictions	11,688,907	11,375,050
Total net assets	27,141,349	28,817,842
Total liabilities and net assets	$ 74,817,761	$ 48,315,488

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

Berkeley Repertory Theatre
Statement of Activities
For the Year Ended August 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains, and other support				
Admissions	$ 8,117,269	$ -	$ 8,117,269	$ 9,157,210
Education programs	534,449	-	534,449	514,696
Contributions	2,452,077	4,735,371	7,187,448	6,738,210
Special events revenues	1,022,827	-	1,022,827	847,585
Co-production revenue	3,037,101	-	3,037,101	2,572,648
Concessions	399,601	-	399,601	602,805
Special performance revenue, net of expenses of approximately $437,000 and $282,000 in 2019 and 2018, respectively	129,610	-	129,610	319,922
Investment income (loss), net	(10,205)	(2,570)	(12,775)	321,167
Other income	633,026	-	633,026	635,222
Net assets released from restrictions	4,418,944	(4,418,944)	-	-
Total revenues, gains, and other support	20,734,699	313,857	21,048,556	21,709,465
Functional expenses				
Program services				
Production costs	14,067,412	-	14,067,412	12,770,842
Box office and theatre operations	2,441,680	-	2,441,680	2,482,954
Audience services	924,404	-	924,404	946,880
Education programs	863,038	-	863,038	886,285
Total program services	18,296,534	-	18,296,534	17,086,961
Support services				
General and administrative	3,143,395	-	3,143,395	2,988,013
Fundraising	1,258,213	-	1,258,213	1,259,105
Total support services	4,401,608	-	4,401,608	4,247,118
Total functional expenses	22,698,142	-	22,698,142	21,334,079
Change in net assets from operations	(1,963,443)	313,857	(1,649,586)	375,386
Non-operating activity				
Gain (loss) from interest rate swap	(26,907)	-	(26,907)	66,345
Total non-operating activity	(26,907)	-	(26,907)	66,345
Change in net assets	(1,990,350)	313,857	(1,676,493)	441,731
Net assets, beginning of year	17,442,792	11,375,050	28,817,842	28,376,111
Net assets, end of year	$ 15,452,442	$ 11,688,907	$ 27,141,349	$ 28,817,842

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

Berkeley Repertory Theatre
Statement of Functional Expenses
For the Year Ended August 31, 2019
(With Comparative Totals for 2018)

	Program Services					Support Services				
	Production Costs	Box Office and Theatre Operations	Audience Services	Education Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	2019 Total	2018 Total
Salaries	$ 5,297,826	$ 925,707	$ 529,512	$ 572,523	$ 7,325,568	$ 1,690,373	$ 631,321	$ 2,321,694	$ 9,647,262	$ 9,229,185
Employee benefits	747,426	110,050	72,997	41,658	972,131	131,272	67,493	198,765	1,170,896	1,341,182
Payroll taxes	492,932	88,563	41,715	54,924	678,134	97,919	48,115	146,034	824,168	676,451
Contract labor	810,892	-	41,288	-	852,180	134,055	104,899	238,954	1,091,134	877,477
Travel	759,788	21,239	4,867	8,534	794,428	13,803	1,192	14,995	809,423	436,661
Housing	1,400,836	234,849	-	-	1,635,685	-	-	-	1,635,685	1,293,942
Space rental	36,042	-	-	-	36,042	-	-	-	36,042	31,844
Production materials	1,373,596	-	-	-	1,373,596	-	-	-	1,373,596	1,184,164
Royalties and commissions	671,670	-	-	-	671,670	-	-	-	671,670	653,083
Printing	47	25	49,065	5,759	54,896	30,281	40,132	70,413	125,309	108,072
Advertising	-	-	-	-	-	693,804	-	693,804	693,804	731,973
Insurance	356,386	48,314	4,630	11,642	420,972	7,252	5,976	13,228	434,200	371,526
Interest	402,572	102,661	8,353	26,517	540,103	11,853	11,535	23,388	563,491	473,865
Supplies	6,671	24,941	2,069	1,024	34,705	27,351	9,730	37,081	71,786	110,065
Telephone	17,537	11,117	6,223	3,960	38,837	6,506	4,809	11,315	50,152	67,924
Postage	2,430	9,977	24,885	4,513	41,805	16,365	10,255	26,620	68,425	48,992
Maintenance	139,756	92,842	2,782	8,832	244,212	13,311	3,842	17,153	261,365	174,725
Credit card fees and charges	-	306,710	-	3,026	309,736	65,093	29,273	94,366	404,102	438,576
Utilities	253,928	45,996	5,269	16,726	321,919	7,276	7,276	14,552	336,471	343,086
Miscellaneous	447,016	264,710	113,111	47,407	872,244	172,524	258,008	430,532	1,302,776	1,620,771
Depreciation	850,061	153,979	17,638	55,993	1,077,671	24,357	24,357	48,714	1,126,385	1,120,515
	$ 14,067,412	$ 2,441,680	$ 924,404	$ 863,038	$ 18,296,534	$ 3,143,395	$ 1,258,213	$ 4,401,608	$ 22,698,142	$ 21,334,079

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (1,676,493)	$ 441,731
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,126,385	1,120,515
Non-cash interest expense	63,980	9,268
Realized and unrealized (gains) losses on securities	104,347	(188,478)
(Gain) loss from interest rate swap	26,907	(66,345)
Proceeds restricted for future and non-operating activity and long range plan initiatives	-	(1,831,868)
Changes in operating assets and liabilities		
Accounts receivable	127,660	(343,454)
Contributions receivable, net	(291,639)	(728,134)
Prepaid expenses	17,459	1,406,638
Deposits	43,999	(50,720)
Interest rate swap	37,800	-
Accounts payable and accrued expenses	(384,852)	503,560
Deferred performance revenue	(230,633)	(1,526,725)
Executive retirement plan	(2,292,352)	527,790
Net cash used in operating activities	(3,327,432)	(726,222)
Cash flows from investing activities		
Purchase of investments	(2,222,791)	(563,382)
Proceeds from sale of investments	2,559,672	2,708,881
Purchases of property and equipment and construction in progress payments	(1,477,423)	(303,372)
Net cash provided by (used in) investing activities	(1,140,542)	1,842,127
Cash flows from financing activities		
Proceeds restricted for future and non-operating activity and long range plan initiatives	-	1,831,868
Proceeds from issuance of debt, net	37,476,287	-
Repayment of long-term debt	(6,453,664)	(517,101)
Net cash provided by financing activities	31,022,623	1,314,767
Net increase in cash	26,554,649	2,430,672
Cash, cash equivalents and restricted cash, beginning of year	4,461,310	2,030,638
Cash, cash equivalents and restricted cash, end of year	$ 31,015,959	$ 4,461,310

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 1,329,307	$ 4,461,310
Restricted cash	29,686,652	-
	$ 31,015,959	$ 4,461,310

Supplemental disclosure of cash flow information

	2019	2018
Cash paid during the year for interest	$ 563,491	$ 464,597

Supplemental schedule of noncash investing and financing activities

	2019	2018
Construction in progress financed through long-term debt	$ 220,363	$ -

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

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, 2019, approximately $47.3 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 accompanying financial statements have been prepared on the accrual basis of accounting. The Theatre reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets not subject to donor-imposed stipulations. The Theatre's Board of Trustees may designate net assets without donor restrictions for specific purposes.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions also include the portion of donor-restricted endowment funds that are not required to be maintained in perpetuity until such funds are appropriated for expenditure by the Theatre. 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.

Revenues 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 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 net assets with donor restrictions and recognized as net assets without donor restrictions. Contributions that are restricted by the donor/grantor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

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.

As of August 31, 2019, restricted cash represents bond proceeds for ongoing construction in progress (see Note 10).

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, 2019. Investments received through gifts are recorded at estimated fair value at the date of donation.

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.

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.

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, 2019.

Contributions and contributions receivable

Contributions received are recorded as net assets without donor restrictions or with donor restrictions, 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 factors such as prior collection history, aging statistics of contributions, and the nature of the receivable. At August 31, 2019, management has determined that no allowance for uncollectible contributions was required.

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.

Net assets with donor restrictions

As of August 31, 2019, net assets with donor restrictions of $8,292,343 were available to support long range plan initiatives (covering production, operations and capital), the 2019-20 future performance season, other time restricted activities subsequent to the 2019-20 performance season and other specified purposes designated by the donor.

As of August 31, 2019, net assets with donor restrictions 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.

Net assets with donor restrictions include endowment income not yet appropriated for expenditure.

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.

Investments 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 net assets with donor restrictions if the terms of the donor stipulations impose restrictions on the use of income or require that they be added to (deducted from) the principal of a permanent endowment fund;
- as increases (decreases) in net assets without donor restrictions 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, audience services, 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.

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, 2019, 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 2013. For U.S. federal tax returns, the Theatre is no longer subject to tax examination for years prior to 2014.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Theatre's financial statements as of and for the year ended August 31, 2018, from which the summarized information was derived. Certain amounts in the 2018 financial statements have been restated to reflect the effects of the change in accounting principle adopted in 2019.

Change in accounting principle

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*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The amendments have been applied on a retrospective basis in 2018.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

Due in less than one year	$ 2,591,250
Due in one to five years	4,488,000
Due in more than five years	319,949
Discounts on contributions and grants receivable	(209,446)
	7,189,753
Less current portion	(2,591,250)
	$ 4,598,503

Contributions receivable expected to be collected in more than one year from August 31, 2019 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 ranging from 1.19% to 2.74%.

4. INVESTMENTS

Investments consisted of the following:

Fixed income	$ 2,027,690
Domestic equities	1,090,691
International equities	1,561,544
Alternative investments	313,015
	4,992,940
Less current investments	(90,974)
	$ 4,901,966

Investment income, net consisted of the following:

Interest and dividends	$ 121,248
Net realized and unrealized (losses)	(104,347)
Investment management fees	(29,676)
	$ (12,775)

5. FAIR VALUE

The following table sets forth by level, within the fair value hierarchy, the Theatre's assets at fair value as of August 31, 2019:

	Level 1	Level 2	Level 3	Fair Value
Fixed income	$ 2,027,690	$ -	$ -	$ 2,027,690
Domestic equities	1,090,691	-	-	1,090,691
International equities	1,561,544	-	-	1,561,544
Alternative strategies fund	313,016	-	-	313,016
	$ 4,992,941	$ -	$ -	$ 4,992,941

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	$ 2,802,299
Building and improvements	37,772,633
Production equipment	2,609,621
Office and facilities equipment	895,607
Software	272,039
Construction in progress	2,776,829
	47,129,028
Accumulated depreciation	(16,602,074)
	$ 30,526,954

Depreciation expense totaled $1,126,385 for the year ended August 31, 2019.

7. DEPOSITS

As of August 31, 2019, deposits of $120,345 consist of insurance deposits, long-term lease deposits, and an Actors' Equity bond deposit.

8. DEFERRED PERFORMANCE REVENUE

Deferred performance revenue consisted of the following:

Deferred performance revenue	$ 4,025,435
Deferred gift certificates	92,660
Other deferred income	151,066
	$ 4,269,161

9. CREDIT FACILITY

On March 22, 2019, the Theatre entered into a line of credit agreement with Signature Bank to finance operations in the amount of $3,000,000 and mature on March 14, 2020. The line of credit bears interest at the Prime rate (5.25% as of August 31, 2019). At August 31, 2019, there was no balance outstanding on the line of credit.

10. LONG-TERM DEBT

On March 1, 2019, the Theatre entered into financing agreements with Signature Bank, Signature Public Funding Corp. and the California Enterprise Development Authority with an aggregate principal of $37,696,650; $5,622,236 in the form of Series A Tax-Exempt Revenue Bonds ("Series A Bonds"), $27,418,480 in the form of Series B Tax-Exempt Revenue Bonds ("Series B Bonds") and $4,654,934 in form of Series C Taxable Revenue Bonds ("Series B Bonds"). The Series A Bonds and Series B Bonds bear interest at a rate of 3.25% per annum and mature on March 1, 2049. The Series C Bonds bear interest at a rate of 4.06% per annum and mature on March 1, 2049. The Series A Bonds principal and interest are due and payable monthly beginning May 1, 2019. The Series B Bonds and Series C Bonds are interest only notes through April 1, 2022, at which time principal and interest are due and payable monthly. As of August 31, 2019, $5,590,407, $27,419,480 and $4,654,934 were outstanding on the Series A Bonds, Series B Bonds and Series C Bonds, respectively. The bond proceeds are held in restricted funds (see Note 2), reflected in the accompanying financial statements as restricted cash, bond proceeds and are to be used to finance and refinance the cost of the acquisition, construction, development, equipping and furnishing of theatrical, educational and administrative facilities including the construction of 45 apartment units to house visiting artists. The loan is secured by a deed of trust, the leasehold deed of trust and personal property through a UCC-1 filing.

On July 30, 2010, the Theatre entered into a note payable agreement 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; amounts outstanding under the note payable totaled $5,518,424 as of June 30, 2019.

10. LONG-TERM DEBT (continued)

The future maturities of the notes payable are as follows:

Year ending August 31,	
2020	$ 196,174
2021	204,237
2022	512,626
2023	959,146
2024	1,006,625
Thereafter	40,304,437
	43,183,245
Less: debt issuance cost	(691,539)
Long-term debt, net	42,491,706
Current portion	(196,174)
	$ 42,295,532

Under the terms of the debt obligations and related credit line, the Theatre has agreed to maintain specific financial covenants. For the year ended August 31, 2019, the Theatre was not in compliance with the financial covenants, for which it obtained a waiver from the financial institution.

Interest expense for the year ended June 30, 2019 was $563,491.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to expenditure for specified purpose:	
Strategic initiatives	$ 3,547,358
All others	511,403
	4,058,761
Subject to passage of time:	
For the period September 1, 2019 to August 31, 2020	1,743,530
For the periods after August 31, 2020	2,342,000
	4,085,530
Subject to spending policy and appropriation - investment in perpetuity (including amounts above original gift amount of $3,396,564), the income from which is expendable to support:	
Donor-restricted endowment funds	3,396,564
Unappropriated endowment earnings	148,052
	3,544,616
	$ 11,688,907

Net assets with donor restrictions released from restriction during the year were as follows:

Expiration of time restrictions	$ 1,873,928
Released for other purposes	1,217,500
Released for strategic initiatives	1,077,363
Approved expenditure of endowment earnings	215,153
Released for anniversary initiatives	35,000
	$ 4,418,944

12. 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 U.S. 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.

12. ENDOWMENT (continued)

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 is classified as with donor restrictions 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:

(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

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Theatre to retain as a fund of perpetual duration. There were no such deficiencies as of August 31, 2019.

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.

12. ENDOWMENT (continued)

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.

Endowment composition

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 3,544,616	$ 3,544,616
Board-designated endowment funds	912,658	-	912,658
	$ 912,658	$ 3,544,616	$ 4,457,274

12. ENDOWMENT (continued)

Endowment composition (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, August 31, 2018	$ 1,215,640	$ 3,762,339	$ 4,977,979
Investment return			
Investment income	29,000	76,740	105,740
Net depreciation (realized and unrealized)	(18,283)	(79,310)	(97,593)
Total investment return	10,717	(2,570)	8,147
Contributions	109,750	-	109,750
Appropriation of net assets	(619,221)	(19,381)	(638,602)
Transfer to board reserve	195,772	(195,772)	-
	(302,982)	(217,723)	(520,705)
Balance, August 31, 2019	$ 912,658	$ 3,544,616	$ 4,457,274

13. COMMITMENTS AND CONTINGENCIES

The Theatre maintains various artist apartments under non-cancelable operating leases. The terms of the agreements expire on various dates from July 2020 to June 2024. Total rental expense for the year ended August 31, 2019 was $1,671,727.

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

Year ending August 31,	
2020	$ 782,363
2021	526,547
2022	49,391
2023	13,545
2024	7,965
	$ 1,379,811

14. 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. There were no employer contributions to the Plan for the plan year ended August 31, 2019.

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) 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 was 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. $1,414,457 was accrued at August 31, 2018 and approximately $2,000,000 paid during the year ended August 31, 2019. The remaining deferred compensation accrued as of August 31, 2019 was $279,532. As of August 31, 2019, $203,100 was held in money market accounts and equity funds for the purpose of funding this deferred compensation obligation.

15. RELATED PARTY

During 2019, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of approximately $2,654,505. As of August 31, 2019, there was $3,759,687 in contributions receivable from members of the Board of Trustees. Amounts received during the year from members of the Board of Trustees were $1,432,634 including payments received against promises to give that existed at August 31, 2018.

16. 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.

17. LIQUIDITY AND FUNDS AVAILABLE

As part of the Theatre's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following is a quantitative disclosure which describes assets that are available within one year of August 31, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	$ 1,329,307
Investments	90,974
Restricted investments	4,901,966
Accounts receivable	243,554
Contributions receivable	2,591,250
	9,157,051
Less: amounts unavailable for general expenditures within one year:	
Donor-restricted endowment funds	(3,544,616)
Board-designated endowment funds*	(912,658)
	(4,457,274)
	$ 4,699,777

*The board has approved $200,000 to be appropriated from the board-designated endowment funds in 2019.

The Theatre's financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Certain contributions receivable are subject to implied time restrictions. The Theatre has board-designated endowment funds from various unrestricted bequests that could be made available if necessary. In addition, as part of its liquidity management, the Theatre maintains a committed line of credit of $3,000,000 in order to manage predictable short-term cycles in which expenditures exceed revenues.

18. SUBSEQUENT EVENTS

On September 18, 2019, the Theatre entered into a letter of credit with Signature Bank for $80,000 for the benefit of Actors' Equity Association with an expiration date of September 18, 2020. The letter of credit is secured by the line of credit with Signature bank.

The Theatre has evaluated subsequent events through February 19, 2020, 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.