Berkeley Repertory Theatre

Financial Statements

August 31, 2020
(With Comparative Totals for 2019)

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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, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, on March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, state and local governments to implement preventive or protective measures such as travel and business restrictions. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Berkeley Repertory Theatre's 2019 financial statements, and our report dated February 19, 2020 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Ramon, California

February 18, 2021

Berkeley Repertory Theatre
Statement of Financial Position
August 31, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,721,880	$ 1,329,307
Investments	103,184	90,974
Accounts receivable	75,145	243,554
Contributions receivable	2,663,927	2,591,250
Prepaid expenses	94,054	728,256
Total current assets	5,658,190	4,983,341
Property and equipment, net	32,097,499	30,526,954
Other noncurrent assets		
Restricted cash, bond proceeds	27,054,405	29,686,652
Investments, noncurrent	5,232,841	4,901,966
Contributions receivable, noncurrent, net of discount	2,298,584	4,598,503
Deposits and other assets	75,823	120,345
Total other noncurrent assets	34,661,653	39,307,466
Total assets	$ 72,417,342	$ 74,817,761

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

Berkeley Repertory Theatre
Statement of Financial Position
August 31, 2020
(With Comparative Totals for 2019)

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 671,928	$ 432,914
Current portion of long-term debt	204,237	196,174
Deferred performance revenue	1,959,680	4,269,161
Refundable advance (Paycheck Protection Program)	307,007	-
Line of credit	2,900,000	-
Total current liabilities	6,042,852	4,898,249
Long-term liabilities		
Long-term debt, net of debt issuance cost of $668,163	42,121,451	42,295,532
Executive retirement plan	123,212	482,631
Total long-term liabilities	42,244,663	42,778,163
Total liabilities	48,287,515	47,676,412
Net assets		
Without donor restrictions	14,170,765	15,452,442
With donor restrictions	9,959,062	11,688,907
Total net assets	24,129,827	27,141,349
Total liabilities and net assets	$ 72,417,342	$ 74,817,761

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

Berkeley Repertory Theatre
Statement of Activities
For the Year Ended August 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues, gains, and other support				
Admissions	$ 4,869,683	$ -	$ 4,869,683	$ 8,117,269
Education programs	306,357	-	306,357	534,449
Contributions	3,001,774	1,535,931	4,537,705	7,187,448
Conditional grant (Paycheck Protection Program)	1,364,052	-	1,364,052	-
Special events revenues	676,463	-	676,463	1,022,827
Co-production revenue	200,063	-	200,063	3,037,101
Concessions	181,139	-	181,139	399,601
Investment income (loss), net	99,647	276,262	375,909	(12,775)
Other income	509,951	-	509,951	762,636
Net assets released from restrictions	3,542,038	(3,542,038)	-	-
Total revenues, gains, and other support	14,751,167	(1,729,845)	13,021,322	21,048,556
Functional expenses				
Program services				
Production costs	8,946,658	-	8,946,658	14,067,412
Box office and theatre operations	1,701,304	-	1,701,304	2,441,680
Audience services	897,021	-	897,021	924,404
Education programs	681,909	-	681,909	863,038
Total program services	12,226,892	-	12,226,892	18,296,534
Support services				
General and administrative	2,738,971	-	2,738,971	3,143,395
Fundraising	1,066,981	-	1,066,981	1,258,213
Total support services	3,805,952	-	3,805,952	4,401,608
Total functional expenses	16,032,844	-	16,032,844	22,698,142
Non-operating activity				
Loss from interest rate swap	-	-	-	(26,907)
Total non-operating activity	-	-	-	(26,907)
Change in net assets	(1,281,677)	(1,729,845)	(3,011,522)	(1,676,493)
Net assets, beginning of year	15,452,442	11,688,907	27,141,349	28,817,842
Net assets, end of year	$ 14,170,765	$ 9,959,062	$ 24,129,827	$ 27,141,349

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

Berkeley Repertory Theatre
Statement of Functional Expenses
For the Year Ended August 31, 2020
(With Comparative Totals for 2019)

	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	2020 Total	2019 Total
Salaries	$ 3,557,896	$ 769,106	$ 473,106	$ 460,299	$ 5,260,407	$ 1,331,504	$ 610,642	$ 1,942,146	$ 7,202,553	$ 9,647,262
Employee benefits	607,144	106,866	81,019	44,441	839,470	144,420	91,330	235,750	1,075,220	1,170,896
Payroll taxes	317,376	72,066	38,319	43,964	471,725	62,964	48,865	111,829	583,554	824,168
Contract labor	486,213	-	109,536	-	595,749	122,793	87,934	210,727	806,476	1,091,134
Travel	354,997	12,137	3,700	3,755	374,589	3,134	533	3,667	378,256	809,423
Housing	779,766	-	-	-	779,766	-	-	-	779,766	1,635,685
Space rental	9,076	-	-	-	9,076	-	-	-	9,076	36,042
Production materials	448,999	-	-	-	448,999	-	-	-	448,999	1,373,596
Royalties and commissions	393,872	-	-	-	393,872	-	-	-	393,872	671,670
Printing	-	-	-	-	-	102,617	34,893	137,510	137,510	125,309
Advertising	-	-	-	-	-	591,307	-	591,307	591,307	693,804
Insurance	240,723	40,852	9,414	11,911	302,900	6,200	5,477	11,677	314,577	434,200
Interest	395,135	71,575	8,199	26,027	500,936	11,322	11,322	22,644	523,580	563,491
Supplies	3,103	9,737	2,841	666	16,347	8,046	1,278	9,324	25,671	71,786
Telephone	30,690	19,305	10,890	6,930	67,815	11,385	8,415	19,800	87,615	50,152
Postage	480	3,751	-	-	4,231	55,260	4,818	60,078	64,309	68,425
Maintenance	112,740	44,869	2,309	7,329	167,247	10,493	3,187	13,680	180,927	261,365
Credit card fees and charges	-	171,488	-	1,378	172,866	41,291	25,462	66,753	239,619	404,102
Utilities	151,767	27,486	3,149	9,997	192,399	4,349	4,348	8,697	201,096	336,471
Miscellaneous	245,620	205,151	137,711	11,788	600,270	208,647	105,237	313,884	914,154	1,302,776
Depreciation	811,061	146,915	16,828	53,424	1,028,228	23,239	23,240	46,479	1,074,707	1,126,385
	$ 8,946,658	$ 1,701,304	$ 897,021	$ 681,909	$ 12,226,892	$ 2,738,971	$ 1,066,981	$ 3,805,952	$ 16,032,844	$ 22,698,142

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ (3,011,522)	$ (1,676,493)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,074,707	1,126,385
Non-cash interest expense	23,376	63,980
Realized and unrealized (gains) losses on securities	(286,668)	104,347
Loss from interest rate swap	-	26,907
Changes in operating assets and liabilities		
Accounts receivable	168,409	127,660
Contributions receivable, net	2,227,242	(291,639)
Prepaid expenses	634,202	17,459
Deposits	44,522	43,999
Interest rate swap	-	37,800
Accounts payable and accrued expenses	239,014	(384,852)
Deferred performance revenue	(2,002,474)	(230,633)
Executive retirement plan	(359,419)	(2,292,352)
Net cash used in operating activities	(1,248,611)	(3,327,432)
Cash flows from investing activities		
Purchase of investments	(1,135,260)	(2,222,791)
Proceeds from sale of investments	1,078,843	2,559,672
Purchases of property and equipment and construction in progress payments	(2,645,252)	(1,477,423)
Net cash used in investing activities	(2,701,669)	(1,140,542)
Cash flows from financing activities		
Advance on line of credit	2,900,000	-
Proceeds from issuance of debt, net	-	37,476,287
Repayment of long-term debt	(189,394)	(6,453,664)
Net cash provided by financing activities	2,710,606	31,022,623
Net increase (decrease) in cash	(1,239,674)	26,554,649
Cash, cash equivalents and restricted cash, beginning of year	31,015,959	4,461,310
Cash, cash equivalents and restricted cash, end of year	$ 29,776,285	$ 31,015,959
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 2,721,880	$ 1,329,307
Restricted cash	27,054,405	29,686,652
	$ 29,776,285	$ 31,015,959

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2020
(With Comparative Totals for 2019)

	2020	2019
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,621,705	$ 1,220,089
Supplemental schedule of noncash investing and financing activities		
Construction in progress financed through long-term debt	$ 673,047	$ 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, 2020, 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, 2020, 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, 2020. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020.

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, 2020, management has determined that no allowance for uncollectible contributions was required.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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, 2020, net assets with donor restrictions of $6,562,498 were available to support long range plan initiatives (covering production, operations and capital), future performance seasons, other time restricted activities and other specified purposes designated by the donors.

As of August 31, 2020, net assets with donor restrictions of $3,396,564 are generally restricted by the donors 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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, 2020, 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 2014. For U.S. federal tax returns, the Theatre is no longer subject to tax examination for years prior to 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement 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.

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, 2019, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topics 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Theatre adopted ASU 2018-08 with a date of the initial application of September 1, 2019 using the modified retrospective method. The adoption of ASU 2018-08 did not have a significant impact on the Theatre's financial position, result of operations, or cash flows.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

Due in less than one year	$ 2,663,927
Due in one to five years	2,329,499
Due in more than five years	57,452
Discounts on contributions receivable	(88,367)
	4,962,511
Less current portion	(2,663,927)
	$ 2,298,584

Contributions receivable expected to be collected in more than one year from August 31, 2020 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 0.28% to 2.74%.

4. INVESTMENTS

Investments consisted of the following:

Fixed income	$ 1,786,967
Domestic equities	1,546,861
International equities	1,666,126
Alternative strategies fund	336,071
	5,336,025
Less current investments	(103,184)
	$ 5,232,841

4. INVESTMENTS (continued)

Investment income, net consisted of the following:

Interest and dividends	$ 117,141
Net realized and unrealized gains	286,668
Investment management fees	(27,900)
	$ 375,909

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, 2020:

	Level 1	Level 2	Level 3	Fair Value
Fixed income	$ 1,786,967	$ -	$ -	$ 1,786,967
Domestic equities	1,546,861	-	-	1,546,861
International equities	1,666,126	-	-	1,666,126
Alternative strategies fund	336,071	-	-	336,071
	$ 5,336,025	$ -	$ -	$ 5,336,025

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	$ 2,802,299
Building and improvements	37,781,630
Production equipment	2,609,621
Office and facilities equipment	901,611
Software	272,039
Construction in progress	5,407,081
	49,774,281
Accumulated depreciation	(17,676,782)
	$ 32,097,499

Depreciation expense totaled $1,074,707 for the year ended August 31, 2020.

7. DEPOSITS

As of August 31, 2020, deposits of $75,823 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	$ 1,120,411
Deferred gift certificates	93,358
Other deferred income	745,911
	$ 1,959,680

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 which matured on March 14, 2020. On June 24, 2020, the Theatre extended the line of credit to September 1, 2020. On September 24, 2020 the Theatre extended the line of credit to August 31, 2021. The line of credit bears interest at the Prime rate (3.25% as of August 31, 2020). At August 31, 2020, there was a balance of $2,900,000 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, 2020, $5,477,276, $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 $5,442,161 as of August 31, 2020.

10. LONG-TERM DEBT (continued)

The future maturities of the long-term debt are as follows:

Year ending August 31,	
2021	$ 204,237
2022	513,626
2023	968,246
2024	999,233
2025	1,038,080
Thereafter	39,270,429
	42,993,851
Less: debt issuance cost	(668,163)
Long-term debt, net	42,325,688
Current portion	(204,237)
	$ 42,121,451

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, 2020, the Theatre was not in compliance with the financial covenants, for which it obtained a waiver from the financial institution.

During the year ended August 31, 2020, the Theatre incurred $1,621,705 of interest, which $1,098,125 was capitalized and reported as additions to the construction in progress account after a reduction by $425,078 for interest received on the loan proceeds maintained in the bank. Net interest reported as expense for the year ended August 31, 2020 was $523,580.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to expenditure for specified purpose:	
Strategic initiatives	$ 2,583,952
All others	459,799
	3,043,751
Subject to passage of time:	
For the period September 1, 2020 to August 31, 2021	1,506,107
For the periods after August 31, 2021	1,797,800
	3,303,907
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	214,840
	3,611,404
	$ 9,959,062

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

Expiration of time restrictions	$ 1,736,030
Released for other purposes	57,674
Released for strategic initiatives	1,538,860
Approved expenditure of endowment earnings	209,474
	$ 3,542,038

12. ENDOWMENT

The Theatre's endowment consists of approximately six individual funds established for a variety of purposes. Its endowment includes 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, 2020.

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	$ -	$ 3,611,404	$ 3,611,404
Board-designated endowment funds	1,175,125	-	1,175,125
	$ 1,175,125	$ 3,611,404	$ 4,786,529

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, 2019	$ 912,658	$ 3,544,616	$ 4,457,274
Investment return			
Investment income	22,711	80,531	103,242
Net appreciation (realized and unrealized)	55,074	195,731	250,805
Total investment return	77,785	276,262	354,047
Contributions	50,572	-	50,572
Appropriation of net assets	(56,145)	(19,219)	(75,364)
Transfer to board reserve	190,255	(190,255)	-
	262,467	66,788	329,255
Balance, August 31, 2020	$ 1,175,125	$ 3,611,404	$ 4,786,529

13. COMMITMENTS AND CONTINGENCIES

The Theatre maintains various artist apartments under non-cancelable operating leases as well as certain equipment leases. The terms of the agreements expire on various dates from July 2021 to June 2024.

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

Year ending August 31,	
2021	$ 350,663
2022	16,020
2023	13,545
2024	7,965
	$ 388,193

Total rental expense for the year ended August 31, 2020 was $788,842. Due to the COVID-19 pandemic, the Theatre negotiated apartment lease concessions which resulted to rent forgiveness in the amount of $127,060. The Theatre recognized a negative rent expense equal to the forgiveness received for the year ended August 31, 2020.

13. COMMITMENTS AND CONTINGENCIES (continued)

Subsequent to year end, the Theatre negotiated further concessions on the apartments, reducing its rent obligations by $218,218.

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, 2020.

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. $482,631 was accrued at August 31, 2019 and approximately $280,000 was paid during the year ended August 31, 2020. The remaining deferred compensation accrued as of August 31, 2020 was $123,212. As of August 31, 2020, $123,212 was held in money market accounts and equity funds for the purpose of funding this deferred compensation obligation.

15. RELATED PARTY

During 2020, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of approximately $408,358. As of August 31, 2020, there was $2,006,599 in contributions receivable from members of the Board of Trustees. Amounts received during the year from members of the Board of Trustees were $2,161,446 including payments received against promises to give that existed at August 31, 2019.

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. PAYCHECK PROTECTION PROGRAM LOAN

On April 18, 2020, the Theatre received loan proceeds of $1,664,125 from a promissory note issued by Signature Bank, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Theatre has initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. As of August 31, 2020, the Theatre has recorded $1,364,052 of the loan proceeds as a contribution and believes that it will likely qualify for full forgiveness. The Theatre is required to repay any remaining advance at the end of its covered period plus interest accrued at 1% per annum. As of August 31, 2020, the Theatre had $- of loan proceeds recorded as a refundable advance, which was fully utilized for eligible expenditures subsequent to the fiscal year end. The guidelines issued by the Small Business Administration ("SBA"), in consultation with the Department of the Treasury, have been followed by the Theatre yet still no assurances of full forgiveness can be granted until the forgiveness application process is complete.

18. GOING CONCERN AND IMPLICATIONS OF COVID-19 ON THE THEATRE'S OPERATIONS

On March 11, 2020 the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, state and local governments to implement preventative or protective measures such as travel and business restrictions. Also, on March 11, 2020, the Governor of California, Gavin Newsom, announced a policy limiting in-person gatherings to fewer than 250 and instituting 6 feet of social distancing at all events. In response to the COVID-19 pandemic and the orders from U.S. federal and state authorities, on March 11, 2020, the Theatre temporarily closed all in-person performances at its theatre facilities. On March 16, 2020, local authorities imposed mandatory stay-at-home orders, effectively shutting down the Theatre's offices as well. As the pandemic continued and authorities extended the prohibition on group gatherings, the Theatre cancelled all remaining performances for the balance of its 2019-20 Season and, subsequently, the entire in-person 2020-21 Season.

In response, the Theatre has—like many of its colleague institutions—resorted to online programming. Initially, this included utilizing recordings of performances made immediately before the pandemic to present two full theatrical productions online to audiences in April 2020. The Theatre's school successfully transitioned to online instruction to offer classes for both children and adults and to continue school partnerships. The Theatre has since developed a range of online programming, including weekly "What's In a Play" play reading discussion groups, presentations of live and recorded performances from partner organizations across the country and abroad, and original programming produced and commissioned by the Theatre.

The Theatre currently anticipates continuing online programming through summer of 2021. The Theatre is taking a cautious approach to reopening in-person performances and is instituting operational protocols to comply with applicable regulatory requirements and to monitor developing health authority recommendations in order to protect the health and foster the confidence of employees, artists, and audiences.

While the length and severity of the effects of COVID-19 are uncertain, the Theatre expects business operations will be impacted through at least August 2021. The Theatre has conducted a complete and objective evaluation of its operations based on all information and expertise available to it and has taken aggressive action to mitigate the financial effect of COVID-19. Among those actions are: significantly reducing staff, program services, general and administrative, and fundraising expenses, including reducing payroll costs, restructuring staff assignments, and furloughing employees. As a result, operating expenses for the year ended August 31, 2021, are projected to be half as much as the year ended August 31, 2020.

18. GOING CONCERN AND IMPLICATIONS OF COVID-19 ON THE THEATRE'S OPERATIONS (continued)

In an effort to weather this moment of uncertainty and supplement its traditional fundraising efforts, the Theatre has launched the Resilience Campaign, a five-year, $20 million campaign to sustain the Theatre and support the staff and artists behind its work on stage and in the community. Started in November 2020, the Resilience Campaign has thus far raised multi-year commitments of $2.5 million. The Theatre is also eligible to apply for Federal support via a 2nd Round Paycheck Protection Program loan or a Shuttered Venue Operators Grant, both of which were authorized by Congress in December 2020 as part of the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act. These Federal funds and available liquidity (see Footnote 19) along with continued tuition revenue from the School of Theatre and contributions via traditional channels of fundraising—which are expected to be achieved based on the Theatre's historical success with both its regular annual giving initiatives and its major fundraising campaigns—appear to be sufficient to fund the Theatre's operations up to and through the resumption of in-person, ticket revenue-generating activities in late 2021.

The financial statements were prepared on a going concern basis in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The going concern basis assumes the Theatre will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. Based on indicators outlined within U.S. GAAP, the COVID-19 pandemic's limitation on the Theatre's ability to operate in the normal course of business created substantial doubt about its ability to continue as a going concern, in response to which the Theatre developed multiple strategies to support its reduced operating expenses, as previously discussed. Although there can be no assurance all of these strategies will be successful, management believes the actions outlined above have successfully alleviated doubts about the Theatre's ability to continue as a going concern for at least one year as of the date the financial statements were available to be issued.

19. 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.

19. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of August 31, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	$ 2,721,880
Investments	103,184
Investments, noncurrent	5,232,841
Accounts receivable	75,145
Contributions receivable	2,663,927
	10,796,977
Less: amounts unavailable for general expenditures within one year:	
Donor-restricted endowment funds	(3,611,404)
Other unavailable funds	(343,212)
	(3,954,616)
	$ 6,842,361

Some of 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 statement of financial position date. Certain contributions receivable are subject to implied time restrictions, however are expected to be available for general expenditures once collected. 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. However, as disclosed in Note 9, on August 31, 2020 there was only $100,000 available for use by the Theatre from the line of credit.

20. SUBSEQUENT EVENTS

On September 23, 2020 the Theatre extended its line of credit in the amount of $3,000,000 with Signature Bank, maturing on August 31, 2021, at an interest rate per annum equal to the Prime rate.

The Theatre has evaluated subsequent events through February 18, 2021, 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.