

BERKELEY REPERTORY THEATRE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
AUGUST 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

Armanino McKenna ^{LLP}
Certified Public Accountants & Consultants



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 22

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Berkeley Repertory Theatre
Berkeley, California

We have audited the accompanying statement of financial position of Berkeley Repertory Theatre (the "Theatre") as of August 31, 2009 and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Theatre's 2008 financial statements and, in our report, dated November 14, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Theatre's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


ARMANINO McKENNA LLP

November 13, 2009



BERKELEY REPERTORY THEATRE
Statement of Financial Position
August 31, 2009
(With Comparative Totals for 2008)

ASSETS

	2009	2008
Current assets		
Cash and cash equivalents	\$ 540,211	\$ 986,382
Investments	322,452	338,456
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2009 and 2008	334,377	17,979
Contributions receivable, current portion, net of allowance for doubtful accounts of \$0 in 2009 and 2008	2,828,015	2,812,262
Prepaid expenses	1,528,534	765,292
Total current assets	5,553,589	4,920,371
Cash and cash equivalents, restricted	3,359,424	2,060,079
Investments, restricted	348,364	1,148,586
Contributions receivable, non-current, net of discount	1,815,274	1,835,046
Property and equipment, net	19,551,286	18,551,129
Deposits	102,558	157,685
Total assets	\$30,730,495	\$28,672,896

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 1,042,667	\$ 669,015
Current portion of long-term debt	193,187	229,645
Current portion of financing obligation	-	86,925
Deferred performance revenue	4,591,860	3,292,798
Total current liabilities	5,827,714	4,278,383
Interest rate swap liability	72,633	-
Long-term debt, net of current portion	3,350,068	3,116,524
Executive retirement plan	346,295	346,483
Financing obligation, net of current portion	-	15,000
Total liabilities	9,596,710	7,756,390
Net assets		
Unrestricted	13,397,583	13,176,907
Temporarily restricted	5,499,760	5,541,790
Permanently restricted	2,236,442	2,197,809
Total net assets	21,133,785	20,916,506
Total liabilities and net assets	\$30,730,495	\$28,672,896

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

BERKELEY REPERTORY THEATRE
Statement of Activities
For the Year Ended August 31, 2009
(With Comparative Totals for 2008)

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Revenues and support					
Admissions	\$ 5,295,905	\$ -	\$ -	\$ 5,295,905	\$ 5,350,669
Education programs	377,730	-	-	377,730	364,443
Contributions	1,881,388	3,839,111	38,633	5,759,132	6,723,180
Special event revenue	490,390	-	-	490,390	659,263
Co-production revenues	167,900	-	-	167,900	154,921
Concessions	245,320	-	-	245,320	195,618
Other income	582,455	54,050	-	636,505	721,800
Net assets released from restrictions	3,935,191	(3,935,191)	-	-	-
Total revenues and support	<u>12,976,279</u>	<u>(42,030)</u>	<u>38,633</u>	<u>12,972,882</u>	<u>14,169,894</u>
Expenses					
Program					
Production costs	6,311,888	-	-	6,311,888	6,073,982
Box office and theatre operations	1,582,222	-	-	1,582,222	1,561,619
Marketing and publicity	1,490,659	-	-	1,490,659	1,502,252
Education programs	676,331	-	-	676,331	701,757
Total program	<u>10,061,100</u>	<u>-</u>	<u>-</u>	<u>10,061,100</u>	<u>9,839,610</u>
Support					
General and administrative	1,314,233	-	-	1,314,233	1,256,543
Fundraising	959,765	-	-	959,765	1,020,767
Total support	<u>2,273,998</u>	<u>-</u>	<u>-</u>	<u>2,273,998</u>	<u>2,277,310</u>
Total expenses	<u>12,335,098</u>	<u>-</u>	<u>-</u>	<u>12,335,098</u>	<u>12,116,920</u>
Change in net assets from operations	641,181	(42,030)	38,633	637,784	2,052,974
Other non-operating changes in net assets					
Loss from interest rate swap	(72,633)	-	-	(72,633)	-
Loss on repurchase of Golden Sheaf Bakery Building	(347,872)	-	-	(347,872)	-
Change in net assets	220,676	(42,030)	38,633	217,279	2,052,974
Net assets - beginning of year	<u>13,176,907</u>	<u>5,541,790</u>	<u>2,197,809</u>	<u>20,916,506</u>	<u>18,863,532</u>
Net assets - end of year	<u>\$ 13,397,583</u>	<u>\$ 5,499,760</u>	<u>\$ 2,236,442</u>	<u>\$ 21,133,785</u>	<u>\$ 20,916,506</u>

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

BERKELEY REPERTORY THEATRE
Statement of Cash Flows
For the Year Ended August 31, 2009
(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
Change in net assets	\$ 217,279	\$2,052,974
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	738,415	728,581
Amortization of sale-leaseback financing obligation	-	(81,876)
Non-cash contributions received	-	16,000
Realized and unrealized (gains) losses on securities	90,142	40,260
Loss from interest rate swap	72,633	-
Loss on repurchase of Golden Sheaf Bakery Building	347,872	-
Executive retirement plan expense	-	32,600
Proceeds restricted for future and non-operating activity long range plan initiatives	(2,282,050)	(832,744)
Changes in operating assets and liabilities		
Accounts receivable	(316,398)	39,987
Contributions receivable, net	4,019	(454,079)
Prepaid expenses	(763,242)	(159,072)
Deposits	55,127	(78,638)
Accounts payable and accrued expenses	153,724	224,328
Deferred performance revenue	1,299,062	326,919
Net cash provided by (used in) operating activities	<u>(383,417)</u>	<u>1,855,240</u>
Cash flows from investing activities		
Transfers to restricted cash, net	(1,140,348)	(1,202,708)
Purchase of investments	(1,431,305)	(2,946,073)
Proceeds from sale of investments	1,998,392	3,011,441
Purchases of property and equipment and construction in progress payments	<u>(1,866,704)</u>	<u>(210,996)</u>
Net cash used in investing activities	<u>(2,439,965)</u>	<u>(1,348,336)</u>
Cash flows from financing activities		
Proceeds restricted for future and non-operating activity long range plan initiatives	2,282,050	832,744
Proceeds from issuance of debt	428,429	-
Repayments under line of credit, net	-	(500,000)
Repayment of long-term debt	<u>(333,268)</u>	<u>(214,603)</u>
Net cash provided by financing activities	<u>2,377,211</u>	<u>118,141</u>
Change in cash and cash equivalents	(446,171)	625,045
Cash and cash equivalents, beginning of year	<u>986,382</u>	<u>361,337</u>
Cash and cash equivalents, end of year	<u>\$ 540,211</u>	<u>\$ 986,382</u>
<u>Supplemental cash flow information</u>		
Interest paid	\$ 196,017	\$ 231,564
Non-cash investing activities		
Property and equipment purchases financed with accounts payable	\$ 219,740	\$ -

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

BERKELEY REPERTORY THEATRE
Statement of Functional Expenses
For the Year Ended August 31, 2009
(With Comparative Totals for 2008)

	Production Costs	Box Office and Theatre Operations	Marketing and Publicity	Education Programs	General and Administrative	Fundraising	Total	2008
Salaries	\$ 2,811,432	\$ 612,233	\$ 386,603	\$ 384,397	\$ 715,259	\$ 382,777	\$ 5,292,701	\$ 5,032,946
Employee benefits	403,412	87,777	51,079	46,190	103,441	42,254	734,153	686,922
Payroll taxes	258,175	56,366	30,957	35,895	49,049	32,398	462,840	438,183
Contract labor	320,833	-	96,360	-	57,256	78,453	552,902	635,705
Travel	120,703	36,703	-	-	7,646	1,457	166,509	158,113
Housing	274,236	104,732	-	-	-	-	378,968	422,468
Space rental	86,257	73,363	73,182	-	-	73,182	305,984	308,293
Production materials	357,647	-	-	-	-	-	357,647	310,694
Royalties and commissions	393,911	-	-	-	-	-	393,911	349,180
Printing	-	-	433,317	11,938	-	30,059	475,314	467,464
Advertising	-	-	191,707	2,635	-	-	194,342	245,729
Insurance	164,521	15,496	9,722	15,969	19,151	9,870	234,729	321,864
Interest	101,929	25,482	12,741	17,642	25,482	12,741	196,017	231,564
Supplies	12,961	14,680	2,853	533	21,273	2,470	54,770	66,715
Telephones	25,553	7,160	5,943	7,131	7,724	5,943	59,454	57,032
Postage	1,068	13,121	51,659	7,550	2,521	20,200	96,119	96,661
Maintenance	113,012	28,253	14,127	19,559	28,253	14,127	217,331	193,314
Credit card fees and charges	-	169,649	-	6,167	31,313	21,988	229,117	226,052
Utilities	201,129	23,337	-	12,675	15,114	-	252,255	243,510
Miscellaneous	281,133	217,876	82,412	41,593	134,757	183,849	941,620	895,930
Depreciation	383,976	95,994	47,997	66,457	95,994	47,997	738,415	728,581
Total functional expenses	<u>\$ 6,311,888</u>	<u>\$ 1,582,222</u>	<u>\$ 1,490,659</u>	<u>\$ 676,331</u>	<u>\$ 1,314,233</u>	<u>\$ 959,765</u>	<u>\$ 12,335,098</u>	<u>\$ 12,116,920</u>

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

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies

General

The Berkeley Repertory Theatre (the "Theatre") is a professional resident theatre company founded in 1969 that produces premieres of new work and major productions from an international repertoire. The Theatre is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California franchise and income taxes under Revenue and Taxation Code Section 23701(d). The Theatre performs in its 400-seat thrust stage and its 600-seat proscenium stage in Berkeley, California.

Basis of accounting

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

Net assets

Net assets and changes therein are classified as follows:

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

Revenue recognition

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

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

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

Cash and cash equivalents, restricted

At August 31, 2009, restricted cash and cash equivalents consist of interest bearing money market funds restricted for endowment purposes (see permanently restricted net assets below).

Investments

Investments, which include securities, mutual funds, and certificate of deposits with original maturity date 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, 2009. Investments received through gifts are recorded at estimated fair value at the date of donation. All current investments consist of designated funds for executive retirement plans and all noncurrent investments are donor-restricted for endowment purposes.

Investment income

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

as increases (decreases) in permanently restricted net assets if the terms of the donor stipulations require that they be added to (deducted from) the principal of a permanent endowment fund;

as increases (decreases) in temporarily restricted net assets, if the terms of the donor stipulations impose restrictions on the use of income; and;

as increases (decreases) in unrestricted net assets in all other cases.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies (continued)

Fair value measurements

The Theatre adopted Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements,"* ("SFAS 157") as of September 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. The Theatre deferred the application of SFAS 157 for nonfinancial assets and nonfinancial liabilities as provided for by FASB Staff Position ("FSP") FAS 157-2, *Effective Date of FASB Statement No. 157.* FSP FAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities, except items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a significant impact on the Theatre's financial position or results of operations.

In October 2008, the FASB issued FSP FAS 157-3, *"Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active,"* with an immediate effective date. The purpose of this release was to provide further clarification regarding Level 3 inputs and the assumptions management may make when the market for the asset is not active. In April 2009, the FASB issued FSP FAS 157-4, *"Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,"* effective for periods ending after June 15, 2009. The purpose of this release was to provide additional guidance for estimating fair value in certain circumstances. The adoption of FSP FAS 157-3 and FSP FAS 157-4 did not have a material effect on the Theatre's financial position or change in net assets.

SFAS 157 defines fair value 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 financial assets and financial liabilities based on the fair value hierarchy established in SFAS 157. The standard describes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Theatre has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 - inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Theatre's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Theatre's own data.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and 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:

- (a) Investments (Level 1 and Level 2). Investments are valued using methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment.
- (b) Interest rate swap agreement (Level 2). Interest rate swap agreements are valued based on a mathematical model that calculates the present value of the anticipated cash flows from the transaction using mid-market prices and other economic data and assumptions.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. 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, 2009.

Contributions receivable

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

Unconditional promises to give cash to the Theatre are recognized at fair value based on unobservable inputs that are developed using the best information available at the date the promise was received. Unconditional promises to give not collected by the end of a fiscal year are recorded as contributions receivable. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using rates commensurate with the risk associated with the promises. Amortization of the discount is included in contribution revenue. Contributions receivable are not measured at fair value on a recurring basis subsequent to initial recognition. An allowance for doubtful contributions receivable, if necessary, is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies (continued)

Conditional promise to give

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Theatre met the conditions of a \$1,500,000 challenge grant in 2009. As of August 31, 2009, there were no outstanding conditional promises to give.

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.

Derivative instruments

The Theatre uses a derivative instrument to manage exposures to interest rate risks. The Theatre's objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the exposures to interest rate fluctuations. Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* as amended by SFAS 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities,"* requires that derivative instruments be recorded as assets or liabilities, measured at fair value. For each period, changes in fair value are reported as a component of the change in net assets.

Temporarily restricted net assets

As of August 31, 2009, temporarily restricted net assets of \$5,499,760 were available to support the 2009-10 performance season, Long Range Plan initiatives (covering production, operations and capital) and the Theatre's education programs. Temporarily restricted net assets include endowment income not yet appropriated for expenditure.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies (continued)

Permanently restricted net assets

Permanently restricted net assets 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.

Deferred performance 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. Co-production revenue received in advance of production are included in deferred performance revenue and recognized as co-production revenue at the time the related production begins.

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 expense allocations

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

1. Organization and Summary of Significant Accounting Policies (continued)

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 14% of the Theatre's labor force are 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 2008 financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Theatre's financial statements as of and for the year ended August 31, 2008, from which the summarized information was derived.

Certain reclassifications have been made to the comparative totals to be consistent with the current year presentation. Specifically, classification of the Marketing and Publicity expenses on the Statement of Functional Expenses has been reclassified from supporting expenses to program expenses in the current year in order to conform with industry trends.

Subsequent events

The Theatre has evaluated subsequent events through November 13, 2009, the date the financial statements were available to be issued.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

2. Investments

Investments consisted of the following at August 31, 2009:

Securities	\$559,856
Certificates of deposits	52,768
Mutual Funds	<u>58,192</u>
Total	670,816
Less short term investments	<u>(322,452)</u>
Investments, noncurrent, restricted	<u>\$348,364</u>

Losses on investments for 2009 were \$90,142. Interest income for 2009 was \$93,880.

3. Fair Value

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the year ended August 31, 2009, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1: Quoted Prices in Active Markets For Identical <u>Assets</u>	Level 2: Significant Other Observable <u>Inputs</u>	Level 3: Significant Unobservable <u>Inputs</u>	Total at <u>August 31, 2009</u>
Investments	\$618,048	\$ 52,768	\$ -	\$670,816
Interest rate swap liability	<u>-</u>	<u>(72,633)</u>	<u>-</u>	<u>(72,633)</u>
Total	<u>\$618,048</u>	<u>\$(19,865)</u>	<u>\$ -</u>	<u>\$598,183</u>

The fair value of contributions receivable is measured on a nonrecurring basis using the income approach.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

4. Endowments

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

Interpretation of relevant law

On September 30, 2008, the State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), effective January 1, 2009. The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Theatre 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 Theatre 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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$148,969 as of August 31, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

4. Endowments (continued)

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 endowment assets are invested in a manner that is intended to establish and maintain an appropriate balance between the goals of preserving capital, liquidity, and growth, considering the projected cash flow needs of the Theatre. The Theatre expects its endowment funds, over time, to generate a return of at least five percent per annum after taxes, management fees, and inflation over a market cycle.

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate 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 net asset composition by type of fund as of August 31, 2009 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(148,969)	\$91,420	\$2,236,442	\$2,178,893
Board-designated endowment funds	<u>18,216</u>	<u>-</u>	<u>-</u>	<u>18,216</u>
Total funds	<u>\$(130,753)</u>	<u>\$91,420</u>	<u>\$2,236,442</u>	<u>\$2,197,109</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

4. Endowments (continued)

Spending policy and how the investment objectives relate to spending policy (continued)

Changes in endowment net assets for the fiscal year ended August 31, 2009:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (46,450)	\$ 61,675	\$2,197,809	\$2,213,034
Net asset reclassification based on change in law effective January 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	<u>(46,450)</u>	<u>61,675</u>	<u>2,197,809</u>	<u>2,213,034</u>
Investment return				
Investment income	216	53,835	-	54,051
Net depreciation (realized and unrealized)	<u>(84,519)</u>	<u>(9,090)</u>	<u>-</u>	<u>(93,609)</u>
Total investment return	(84,303)	44,745	-	(39,558)
Contributions	-	-	38,633	38,633
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Endowment net assets, end of year	<u>\$(130,753)</u>	<u>\$ 91,420</u>	<u>\$2,236,442</u>	<u>\$2,197,109</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

5. Contributions Receivable

Contributions receivable as of August 31, 2009 are due as follows:

Due in less than one year	\$2,828,015
Due in one to five years	1,777,707
Due in more than five years	<u>273,000</u>
Total	4,878,722
Less discount on multi-year contributions receivable	<u>(235,433)</u>
Contributions receivable, net	4,643,289
Less current portion	<u>(2,828,015)</u>
Contributions receivable, noncurrent, net of discount	<u>\$1,815,274</u>

Contributions receivable expected to be collected more than one year from August 31, 2009 are discounted at a rate of return respective to the year the contribution was originally pledged. Current year contributions receivables are recorded using a discount rate of 2.39%. Management considers all contributions receivable to be collectible; therefore, no allowance for uncollectible promises was considered necessary as of August 31, 2009.

6. Deposits and Other Assets

As of August 31, 2009, deposits of \$102,558 consist of a \$62,579 actors' equity bond deposit, \$31,960 in long-term lease deposits, and \$8,019 in various other assets.

7. Property and Equipment

Property and equipment consist of the following at August 31, 2009:

Land	\$ 1,393,940
Buildings and leasehold improvements	22,985,595
Production equipment	1,285,019
Office and facilities equipment	783,238
Software	272,039
Construction in progress	<u>440,376</u>
Total	27,160,207
Less accumulated depreciation and amortization	<u>(7,608,921)</u>
Property and equipment, net	<u>\$19,551,286</u>

Depreciation and amortization expense for 2009 was \$738,415.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

8. Long-Term Debt

Long-term debt consists of the following at August 31, 2009:

Term loan, due through July 1, 2015 in 119 monthly installments (including principal and interest) of approximately \$23,000 with a final balloon payment of the then outstanding balance, bearing interest at 4.95%, secured by real property.	\$2,946,659
Note payable to finance a portion of the cost of certain renovations and improvements maturing November 1, 2009, with monthly installments (including principal and interest) of \$8,639 bearing interest at 8.5%.	17,458
Note payable to finance leasehold improvements maturing May 31, 2014, with monthly installments (including principal and interest) of \$3,045 bearing interest at 6%, secured by the underlying assets acquired.	150,709
Note payable to finance costs of certain renovations and improvements maturing November 1, 2019, with monthly installments (including principal and interest) of \$4,878 bearing interest at 6.5%.	<u>428,429</u> 3,543,255
Less current portion	<u>(193,187)</u>
Long-term debt	<u>\$3,350,068</u>

Long-term debt is due as follows:

<u>Year Ending August 31,</u>	
2010	\$ 193,187
2011	194,303
2012	205,015
2013	216,325
2014	219,088
Thereafter	<u>2,515,337</u>
Total	<u>\$3,543,255</u>

Under the terms of the debt obligations and related credit line, the Theatre has agreed to maintain specific financial covenants. The Theatre was in compliance with the minimum operating surplus covenant at August 31, 2009.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

9. Credit Facility

At August 31, 2009, the Theatre had an available line of credit to finance operations in the amount of \$3,000,000. The line of credit bears interest at the bank's reference rate or the LIBOR rate plus 2%, at the Theatre's option. As of August 31, 2009, the bank reference rate was 5% and the LIBOR rate was 1.42% plus 2%. The line of credit expires on February 1, 2010. There was no outstanding balance at August 31, 2009 under this line of credit. The line of credit is secured by substantially all of the Theatre's assets.

10. Interest Rate Swap Contract

During 2009, the Theatre entered into an interest rate swap agreement otherwise known as "Fixed/Float Swaps." The notional amount of the transaction was \$2,956,787. The agreement is effective through June 1, 2015. The value of the contract has been adjusted to its estimated fair value of (\$72,633) at August 31, 2009. The net change in the swap's carrying value totaled \$72,633 for the year ended August 31, 2009, and is recorded as loss on interest rate swap in the statements of activities.

11. Net Assets Released from Restrictions

Temporarily restricted net assets were released from donor restrictions by incurring expenses that satisfied purpose restrictions or by the occurrence of other events specified by donors as follows:

Restricted for capital campaign and related expenses	\$2,850,797
Expiration of time restrictions	<u>1,084,394</u>
Total net assets released from restrictions	<u>\$3,935,191</u>

12. Related Parties

During 2009, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of \$1,284,850. As of August 31, 2009, there was \$2,610,712 in contributions receivable from members of the Board of Trustees. Cash received during the year from members of the Board of Trustees was \$1,472,037 including payments received against promises to give existing at August 31, 2008.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

13. Lease Commitments

The Theatre leases office and rehearsal hall space under noncancelable operating leases expiring at various dates through April 30, 2014. Additionally, artist apartments are leased under short-term leases. Total rental expense for the year ended August 31, 2009 was \$684,952.

The future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year are:

<u>Year Ending August 31,</u>	
2010	\$380,683
2011	105,600
2012	105,600
2013	110,000
2014	79,200
Thereafter	<u>-</u>
Total	<u>\$781,083</u>

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 employer contributions of \$115,086 made to the Plan during the year ended August 31, 2009.

On April 19, 2004, the Theatre adopted a supplemental executive retirement plan (the "SERP") for certain designated executive employees. The SERP constitutes a mere promise by the Theatre to make benefit payments in the future and the participants have the status of general unsecured creditors of the Theatre. Legal and equitable title to any funds so set aside remains with the Theatre. The employees designated to participate in the SERP have no vested security, or other interest in such funds. Any and all funds set aside remain subject to the claims of the general creditors of the Theatre, present and future. Amounts allocated to this plan are held by the Theatre and are vested and payable upon termination of employment. At August 31, 2009, funds totaling \$346,295 were set aside under this plan.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

15. 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.

16. Repurchase of Building Under Sale-Leaseback Transaction

In March 2000, the Theatre entered into a sale-leaseback transaction. The Theatre sold the Golden Sheaf Bakery Building adjacent to the Theatre for \$575,000 in cash and entered into an 8-year lease agreement for \$1 per year with an option to extend its lease for four five-year terms at annual rents beginning at \$125,000. The Theatre leased approximately 75% of the space to operate its theatre arts education center in the building. The Theatre had the option to purchase the building at fair market value at the end of the initial lease term and had a right of first refusal for any sale of the building during the lease term. The Theatre accounted for this transaction as a sale-leaseback transaction, therefore no gain was recognized on the sale and the proceeds of \$575,000 were recorded as a financing obligation, which was being amortized over the 8-year initial lease term under the effective interest method. The value of the below market rent during the 8-year initial lease term was recorded as a pledge receivable of \$725,407, with a discount on multi-year pledges of \$150,407, for a net contribution of \$575,000. The gain deferred on the sale of \$369,285 would have been recognized at the end of the initial lease term if the Theatre did not exercise its option to purchase the building; either deferred and recognized over the 5-year renewal period or immediately if the lease was not renewed. Amortization of the building was included in depreciation expense.

In July 2009, the Theatre exercised its option to purchase the building at the fair market value of approximately \$1,500,000. The Theatre accounted for this transaction by writing off the original cost of the land and building, as well as the remaining balances on any pledges and finance obligations, and recorded the property at fair market value at the date of the purchase. Since the Theatre exercised the purchase option prior to the end of the initial lease, no gain on the original sale will be recognized. During the current year, the Theatre recognized a loss of \$347,872 on the repurchase of the building.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2009

17. Deferred Performance Revenue

Deferred performance revenue consisted of the following at August 31, 2009:

Advance ticket sales	\$3,410,157
Co-production revenue received in advance of production	<u>1,181,703</u>
Total	<u>\$4,591,860</u>