

BERKELEY REPERTORY THEATRE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
AUGUST 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

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 - 21

ARMANINO McKENNA ^{LLP}
Certified Public Accountants & Consultants
12667 Alcosta Blvd., Suite 500
San Ramon, CA 94583-4427
ph: 925.790.2600
fx: 925.790.2601
www.amllp.com

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, 2010 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 2009 financial statements and, in our report, dated November 13, 2009, 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, 2010 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 16, 2010



BERKELEY REPERTORY THEATRE
Statement of Financial Position
August 31, 2010
(With Comparative Totals for 2009)

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 1,444,014	\$ 540,211
Investments	391,737	322,452
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2010 and 2009	13,539	334,377
Contributions receivable, current portion, net of allowance for doubtful accounts of \$0 in 2010 and 2009	1,705,899	2,828,015
Prepaid expenses	701,915	1,528,534
Total current assets	4,257,104	5,553,589
Cash and cash equivalents, restricted	1,535,604	3,359,424
Investments, restricted	2,221,897	348,364
Contributions receivable, non-current, net of discount	1,037,782	1,815,274
Property and equipment, net	25,205,485	19,551,286
Deposits	109,762	102,558
Total assets	\$34,367,634	\$30,730,495

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 786,912	\$ 1,042,667
Current portion of long-term debt	264,517	193,187
Deferred performance revenue	3,207,484	4,591,860
Total current liabilities	4,258,913	5,827,714
Interest rate swap liability	226,105	72,633
Long-term debt, net of current portion	9,902,350	3,350,068
Executive retirement plan	394,342	346,295
Total liabilities	14,781,710	9,596,710
Net assets		
Unrestricted	12,936,397	13,397,583
Temporarily restricted	4,399,396	5,499,760
Permanently restricted	2,250,131	2,236,442
Total net assets	19,585,924	21,133,785
Total liabilities and net assets	\$34,367,634	\$30,730,495

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

BERKELEY REPERTORY THEATRE
Statement of Activities
For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

	2010			Total	2009
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support					
Admissions	\$ 6,216,705	\$ -	\$ -	\$ 6,216,705	\$ 5,295,905
Education programs	386,833	-	-	386,833	377,730
Contributions	1,977,393	844,962	13,689	2,836,044	5,759,132
Special event revenue	412,498	-	-	412,498	490,390
Co-production revenues	1,164,667	-	-	1,164,667	167,900
Concessions	320,535	-	-	320,535	245,320
Other income	652,033	22,616	-	674,649	636,505
Net assets released from restrictions	1,967,942	(1,967,942)	-	-	-
Total revenues and support	<u>13,098,606</u>	<u>(1,100,364)</u>	<u>13,689</u>	<u>12,011,931</u>	<u>12,972,882</u>
Expenses					
Program					
Production costs	7,405,600	-	-	7,405,600	6,311,888
Box office and theatre operations	1,615,568	-	-	1,615,568	1,582,222
Marketing and publicity	1,431,314	-	-	1,431,314	1,490,659
Education programs	667,045	-	-	667,045	676,331
Total program	<u>11,119,527</u>	<u>-</u>	<u>-</u>	<u>11,119,527</u>	<u>10,061,100</u>
Support					
General and administrative	1,366,859	-	-	1,366,859	1,314,233
Fundraising	919,934	-	-	919,934	959,765
Total support	<u>2,286,793</u>	<u>-</u>	<u>-</u>	<u>2,286,793</u>	<u>2,273,998</u>
Total expenses	<u>13,406,320</u>	<u>-</u>	<u>-</u>	<u>13,406,320</u>	<u>12,335,098</u>
Change in net assets from operations	(307,714)	(1,100,364)	13,689	(1,394,389)	637,784
Other non-operating changes in net assets					
Loss from interest rate swap	(153,472)	-	-	(153,472)	(72,633)
Loss on repurchase of Golden Sheaf Bakery Building	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(347,872)</u>
Change in net assets	(461,186)	(1,100,364)	13,689	(1,547,861)	217,279
Net assets - beginning 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>
Net assets - end of year	<u>\$ 12,936,397</u>	<u>\$ 4,399,396</u>	<u>\$ 2,250,131</u>	<u>\$ 19,585,924</u>	<u>\$ 21,133,785</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, 2010
(With Comparative Totals for 2009)

	2010	2009
Change in net assets	\$ (1,547,861)	\$ 217,279
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	827,728	738,415
Realized and unrealized (gains) losses on securities	(71,993)	90,142
Loss from interest rate swap	153,472	72,633
Loss on repurchase of Golden Sheaf Bakery Building	-	347,872
Proceeds restricted for future and non-operating activity long range plan initiatives	(1,634,309)	(2,282,050)
Changes in operating assets and liabilities		
Accounts receivable, net	320,838	(316,398)
Contributions receivable, net	1,899,608	4,019
Prepaid expenses	826,619	(763,242)
Deposits	(7,204)	55,127
Accounts payable and accrued expenses	(207,708)	153,724
Deferred performance revenue	(1,384,376)	1,299,062
Net cash used in operating activities	(825,186)	(383,417)
Cash flows from investing activities		
Transfers from (to) restricted cash, net	1,823,820	(1,140,348)
Purchase of investments	(1,966,019)	(1,431,305)
Proceeds from sale of investments	95,194	1,998,392
Purchases of property and equipment and construction in progress payments	(681,927)	(1,866,704)
Net cash used in investing activities	(728,932)	(2,439,965)
Cash flows from financing activities		
Proceeds restricted for future and non-operating activity long range plan initiatives	1,634,309	2,282,050
Proceeds from issuance of debt	1,021,571	428,429
Repayment of long-term debt	(197,959)	(333,268)
Net cash provided by financing activities	2,457,921	2,377,211
Change in cash and cash equivalents	903,803	(446,171)
Cash and cash equivalents, beginning of year	540,211	986,382
Cash and cash equivalents, end of year	\$ 1,444,014	\$ 540,211
<u>Supplemental cash flow information</u>		
Interest paid	\$ 145,427	\$ 196,017
Non-cash investing activities		
Land and building acquired through long-term debt	\$ 5,800,000	\$ -
Property and equipment purchases financed through 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, 2010
(With Comparative Totals for 2009)

	2010							2009
	Production Costs	Box Office and Theatre Operations	Marketing and Publicity	Education Programs	General and Administrative	Fundraising	Total	
Salaries	\$ 2,884,421	\$ 581,564	\$ 402,101	\$ 384,720	\$ 701,696	\$ 388,347	\$ 5,342,849	\$ 5,292,701
Employee benefits	404,797	83,587	60,936	36,531	96,997	39,169	722,017	734,153
Payroll taxes	251,405	55,330	31,044	34,349	48,523	32,397	453,048	462,840
Contract labor	678,846	-	114,641	-	64,517	50,365	908,369	552,902
Travel	232,877	30,603	2,073	2,603	15,780	6,627	290,563	166,509
Housing	371,607	113,300	-	-	-	-	484,907	378,968
Space rental	108,635	86,212	107,113	-	-	107,113	409,073	305,984
Production materials	643,752	-	-	-	-	-	643,752	357,647
Royalties and commissions	326,764	-	-	-	-	-	326,764	393,911
Printing	-	428	342,517	9,942	-	22,914	375,801	475,314
Advertising	-	-	176,956	5,756	-	-	182,712	194,342
Insurance	158,660	13,730	8,775	13,435	16,734	8,977	220,311	234,729
Interest	75,621	18,906	9,453	13,088	18,906	9,453	145,427	196,017
Supplies	12,317	14,105	2,840	860	41,975	4,927	77,024	54,770
Telephones	33,275	9,286	7,738	9,286	10,060	7,738	77,383	59,454
Postage	1,254	12,745	48,518	8,251	2,572	16,183	89,523	96,119
Maintenance	90,251	19,763	9,881	13,682	19,763	9,881	163,221	217,331
Credit card fees and charges	590	198,110	-	195	34,268	20,906	254,069	229,117
Utilities	241,702	31,670	-	12,116	18,058	-	303,546	252,255
Miscellaneous	458,407	238,624	52,926	47,735	169,406	141,135	1,108,233	941,620
Depreciation	430,419	107,605	53,802	74,496	107,604	53,802	827,728	738,415
Total functional expenses	\$ 7,405,600	\$ 1,615,568	\$ 1,431,314	\$ 667,045	\$ 1,366,859	\$ 919,934	\$ 13,406,320	\$ 12,335,098

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

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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 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.

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

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.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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.

At August 31, 2010, restricted cash and cash equivalents consist of interest bearing money market funds donor restricted for endowment purposes and funds restricted by donors for other long-term purposes.

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, 2010. Investments received through gifts are recorded at estimated fair value at the date of donation. All current investments consist of board designated funds for executive retirement plans; 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.

Derivative instruments

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

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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

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:

- (a) Investments (Level 1). Securities traded on security exchanges are valued at closing market prices, or net asset value for mutual funds, on the date of business closest to August 31. Certificates of deposit are valued at cost basis plus accrued interest, which approximates fair value.
- (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 observable economic data and assumptions.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances due. Based on prior write-off history, overall economic conditions and the current aging status, the Theatre establishes an allowance for doubtful accounts at a level considered adequate to cover anticipated credit losses on outstanding trade accounts receivable. The Theatre determined that an allowance for doubtful accounts was not considered necessary at August 31, 2010.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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

Contributions and contributions receivable

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Donated services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. At August 31, 2010, 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.

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.

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.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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

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 space usage and on estimates made by the Theatre's management.

Temporarily restricted net assets

As of August 31, 2010, temporarily restricted net assets of \$4,399,396 were available to support the 2010-11 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.

Permanently restricted net assets

Permanently restricted net assets, \$2,250,131 at August 31, 2010, 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.

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.

Comparative 2009 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, 2009, from which the summarized information was derived.

Certain 2009 amounts have been reclassified to conform to the 2010 financial statement presentation.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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

Income taxes

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 has evaluated its current tax positions and has concluded that as of August 31, 2010, the Theatre does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of estimates

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

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

Risks and uncertainties

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

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

The Theatre is engaged in a collective bargaining agreement with a labor union representing actors and stage managers in theatre, the Actors Equity Association. Approximately 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.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

2. Investments

Investments consisted of the following at August 31, 2010:

Domestic equity securities	\$ 796,762
Foreign equity securities	240,960
Domestic fixed income	1,096,975
Foreign fixed income	290,966
Certificates of deposits	17,447
Mutual funds - bonds	<u>170,524</u>
Total	2,613,634
Less short term investments	<u>(391,737)</u>
Investments, noncurrent, restricted	<u>\$2,221,897</u>

Net unrealized gains on investments for 2010 were \$71,993. Interest income for 2010 was \$34,084.

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, 2010, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Quoted Price in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Total as of <u>August 31, 2010</u>
Domestic equity securities	\$ 796,762	\$ -	\$ -	\$ 796,762
Foreign equity securities	240,960	-	-	240,960
Domestic fixed income	1,096,975	-	-	1,096,975
Foreign fixed income	290,966	-	-	290,966
Certificate of deposits	17,447	-	-	17,447
Mutual funds - bonds	<u>170,524</u>	<u>-</u>	<u>-</u>	<u>170,524</u>
Total	<u>\$2,613,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,613,634</u>
Interest rate swap	<u>\$ -</u>	<u>\$(226,105)</u>	<u>\$ -</u>	<u>\$(226,105)</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

4. Endowments

The Theatre's endowment consists of approximately five 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

The Board of Trustees of the Theatre 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. As a result of this interpretation, the Theatre has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (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. Accordingly, deficiencies of this nature that are reported in unrestricted net assets were \$110,428 as of August 31, 2010. 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, 2010

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, 2010 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(110,428)	\$100,840	\$2,250,131	\$2,240,543
Board-designated endowment funds	<u>19,400</u>	<u>-</u>	<u>-</u>	<u>19,400</u>
Total funds	<u>\$ (91,028)</u>	<u>\$100,840</u>	<u>\$2,250,131</u>	<u>\$2,259,943</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

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, 2010:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$(130,753)	\$ 91,420	\$2,236,442	\$2,197,109
Investment return				
Investment income	183	22,469	-	22,652
Net appreciation (realized and unrealized)	<u>38,542</u>	<u>34,699</u>	<u>-</u>	<u>73,241</u>
Total investment return	38,725	57,168	-	95,893
Contributions	1,000	-	13,689	14,689
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(47,748)</u>	<u>-</u>	<u>(47,748)</u>
Endowment net assets, end of year	<u>\$ (91,028)</u>	<u>\$100,840</u>	<u>\$2,250,131</u>	<u>\$2,259,943</u>

5. Contributions Receivable

Contributions receivable as of August 31, 2010 are due as follows:

Due in less than one year	\$1,705,899
Due in one to five years	991,181
Due in more than five years	<u>205,000</u>
Total	2,902,080
Less discount on multi-year contributions receivable	<u>(158,399)</u>
Contributions receivable, net	2,743,681
Less current portion	<u>(1,705,899)</u>
Contributions receivable, noncurrent, net of discount	<u>\$1,037,782</u>

Contributions receivable expected to be collected more than one year from August 31, 2010 are discounted at a rate of return respective to the year the contribution was originally pledged. Current year contributions receivable are recorded using a discount rate of 1.33%. Management considers all contributions receivable to be collectible; therefore, no allowance for uncollectible promises was considered necessary as of August 31, 2010.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

6. Deposits and Other Assets

As of August 31, 2010, deposits of \$109,762 consist of a \$57,052 actors' equity bond deposit, \$33,121 in long-term lease deposits, and \$19,589 in various other assets.

7. Property and Equipment

Property and equipment consist of the following at August 31, 2010:

Land	\$ 2,802,299
Buildings and leasehold improvements	28,126,475
Production equipment	1,411,568
Office and facilities equipment	783,238
Software	272,039
Construction in progress	<u>246,516</u>
Total	33,642,135
Less accumulated depreciation and amortization	<u>(8,436,650)</u>
Property and equipment, net	<u>\$25,205,485</u>

Depreciation and amortization expense for 2010 was \$827,728.

On July 30, 2010, the Theatre purchased real property in Berkeley, California for approximately \$6,000,000 that will be used for theatre administration and pre-production activities. The new building is reflected in the table above, but was not yet placed into service as of August 31, 2010.

8. Credit Facility

At August 31, 2010, 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, 2010, the bank reference rate was 5% and the LIBOR rate was 0.94% plus 2%. The line of credit expires on February 1, 2011. There was no outstanding balance at August 31, 2010 under this line of credit. The line of credit is secured by substantially all of the Theatre's assets.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

9. Long-Term Debt

Long-term debt consists of the following at August 31, 2010:

Term loan, due through July 1, 2015 in 119 monthly installments (including principal and interest) of approximately \$10,000 - \$13,500 with a final balloon payment of the then outstanding balance, bearing interest at 4.95%, secured by real property.	\$2,821,809
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.	122,440
Note payable to finance costs of certain renovations and improvements maturing November 1, 2019, with monthly installments (including principal and interest) of \$5,110 bearing interest at 6.5%.	422,618
Note payable to finance capital improvements maturing September 1, 2020, with 120 monthly installments (including principal and interest) of approximately \$6,300 - \$10,600 bearing interest at 5.25% commencing October 1, 2010, secured by real property.	1,000,000
Note payable to finance the acquisition of real property maturing December 1, 2050, 60 months of interest only payments at 4.31% beginning January 1, 2011 (\$20,833 per month), followed by 420 months of installment payments (both principal and interest) of \$27,270 bearing interest at 4.45%, with a final balloon payment of the outstanding balance, secured by the real property acquired.	5,800,000
	<u>10,166,867</u>
Less current portion	<u>(264,517)</u>
Long-term debt	<u>\$9,902,350</u>

Long-term debt is due as follows:

<u>Year Ending August 31,</u>	
2011	\$ 264,517
2012	288,639
2013	304,469
2014	311,997
2015	2,396,760
Thereafter	<u>6,600,485</u>
Total	<u>\$10,166,867</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

9. Long-Term Debt (continued)

Under the terms of the debt obligations and related credit line, the Theatre has agreed to maintain specific financial covenants for which the Theatre was in compliance at August 31, 2010.

10. Interest Rate Swap Contracts

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 (\$226,105) at August 31, 2010. The net change in the swap's fair value totaled \$153,472 for the year ended August 31, 2010, and is recorded as loss on interest rate swap in the statement of activities.

On August 19, 2010, the Theatre entered into another interest rate swap agreement with a notional amount of \$1,000,000 and an effective date of September 1, 2010. Due to the effective date being after year-end, there was no fair value adjustment for this contract for the year ended August 31, 2010.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of August 31, 2010:

Capital projects	\$1,280,000
Future theatre season	1,522,004
Time restrictions	1,167,157
Other	<u>430,235</u>
Total temporarily restricted net assets	<u>\$4,399,396</u>

Subsequent to year end, \$1,000,000 of temporarily restricted net assets initially restricted for capital project use were redirected by the donor to be permanently restricted for endowment purposes. This amount will be reflected as a transfer from temporarily restricted net assets to permanently restricted net assets during the year ending August 31, 2011. See footnote 17 for additional information.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

11. Temporarily Restricted Net Assets (continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors were as follows for the year ended August 31, 2010:

Restricted for capital campaign and related expenses	\$1,116,805
Expiration of time restrictions	<u>851,137</u>
Total net assets released from restrictions	<u>\$1,967,942</u>

12. 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, 2010 was \$893,980.

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>	
2011	\$340,684
2012	105,600
2013	110,000
2014	79,200
Thereafter	<u>-</u>
Total	<u>\$635,484</u>

13. 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 \$98,925 made to the Plan during the year ended August 31, 2010.

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

13. Retirement Plans (continued)

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, 2010, funds totaling \$394,342 were set aside under this plan.

14. Related Parties

During 2010, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of \$480,500. As of August 31, 2010, there was \$1,884,785 in contributions receivable from members of the Board of Trustees. Cash received during the year from members of the Board of Trustees was \$1,108,532 including payments received against promises to give existing at 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. Deferred Performance Revenue

Deferred performance revenue consisted of the following at August 31, 2010:

Advance ticket sales	\$3,000,467
Gift certificates	153,150
Other deferred income	<u>53,867</u>
Total	<u>\$3,207,484</u>

BERKELEY REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010

17. Subsequent Events

The Theatre has evaluated subsequent events through November 16, 2010, the date the financial statements were available to be issued. Subsequent to year end, \$1,000,000 of temporarily restricted net assets initially restricted for capital project use were redirected by the donor to be permanently restricted for endowment purposes. No other subsequent events have occurred that would have a material impact on the presentation of the Theatres' financial statements.