Berkeley Repertory Theatre

Financial Statements

August 31, 2017
(With Comparative Totals for 2016)

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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, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Berkeley Repertory Theatre's 2016 financial statements, and our report dated December 5, 2016 expressed an unmodified opinion on those audited financial statements. As discussed in Note 2 to the financial statements, the Theatre adjusted its 2016 financial statements to correct the accounting for its executive retirement plan. As part of our audit of the 2017 financial statements, we also audited the adjustments to the 2016 financial statements as described in Note 2. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement discussed in Note 2. Also in our opinion, such adjustments are appropriate and have been properly applied.

Armanino LLP

Armanino LLP
San Ramon, California

December 4, 2017

Berkeley Repertory Theatre
Statement of Financial Position
August 31, 2017
(With Comparative Totals for 2016)

	2017	(Restated) 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,005,453	$ 3,250,183
Investments	2,358,227	2,076,770
Accounts receivable	27,760	360
Contributions receivable	2,158,147	2,317,579
Prepaid expenses	2,152,353	879,345
Total current assets	8,701,940	8,524,237
Property and equipment, net	30,993,059	31,427,396
Other noncurrent assets		
Cash and cash equivalents, restricted	25,185	17,831
Investments, restricted	5,032,962	4,268,160
Contributions receivable, noncurrent, net of discount	4,011,833	3,700,225
Deposits and other assets	113,624	96,642
Total other noncurrent assets	9,183,604	8,082,858
Total assets	$ 48,878,603	$ 48,034,491

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

Berkeley Repertory Theatre
Statement of Financial Position
August 31, 2017
(With Comparative Totals for 2016)

	2017	(Restated) 2016
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 670,014	$ 948,386
Current portion of long-term debt	517,102	509,493
Deferred performance revenue	6,026,519	4,541,091
Total current liabilities	7,213,635	5,998,970
Long-term liabilities		
Interest rate swap liability	1,638	95,797
Long-term debt, net of debt issuance cost of $63,508	11,395,834	11,883,765
Executive retirement plan	1,891,385	1,424,898
Total long-term liabilities	13,288,857	13,404,460
Total liabilities	20,502,492	19,403,430
Net assets		
Unrestricted	17,898,163	18,099,876
Temporarily restricted	7,081,484	7,134,721
Permanently restricted	3,396,464	3,396,464
Total net assets	28,376,111	28,631,061
Total liabilities and net assets	$ 48,878,603	$ 48,034,491

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

Berkeley Repertory Theatre
Statement of Activities
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	(Restated) 2016 Total
Revenues and support					
Admissions	$ 8,538,044	$ -	$ -	$ 8,538,044	$ 8,948,259
Education programs	504,492	-	-	504,492	525,319
Contributions	2,466,987	3,838,808	-	6,305,795	7,838,040
Special events revenues	822,642	-	-	822,642	789,834
Co-production revenues	2,455,000	-	-	2,455,000	1,370,976
Concessions	571,832	-	-	571,832	561,081
Special performance revenue, net of expenses of $897,000 and $308,000 in 2017 and 2016, respectively	415,479	-	-	415,479	558,925
Investment income	45,021	96,605	-	141,626	181,430
Realized and unrealized gain	150,142	332,817	-	482,959	50,874
Other income	495,781	-	-	495,781	492,851
Net assets released from restrictions	4,321,467	(4,321,467)	-	-	-
Total revenues and support	20,786,887	(53,237)	-	20,733,650	21,317,589
Functional expenses					
Program services					
Production costs	11,631,643	-	-	11,631,643	10,026,092
Box office and theatre operations	3,224,161	-	-	3,224,161	3,179,627
Marketing and publicity	1,755,241	-	-	1,755,241	1,791,773
Education programs	946,673	-	-	946,673	919,885
Total program services	17,557,718	-	-	17,557,718	15,917,377
Support services					
General and administrative	2,065,357	-	-	2,065,357	1,939,695
Fundraising	1,280,415	-	-	1,280,415	1,342,087
Total support services	3,345,772	-	-	3,345,772	3,281,782
Total functional expenses	20,903,490	-	-	20,903,490	19,199,159
Change in net assets from operations	(116,603)	(53,237)	-	(169,840)	2,118,430
Non-operating activity					
(Gain) loss from interest rate swap	(94,159)	-	-	(94,159)	28,277
Loss on sale of fixed assets	179,269	-	-	179,269	-
Total non-operating activity	85,110	-	-	85,110	28,277
Change in net assets	(201,713)	(53,237)	-	(254,950)	2,090,153
Net assets, beginning of year	18,099,876	7,134,721	3,396,464	28,631,061	26,540,908
Net assets, end of year	$ 17,898,163	$ 7,081,484	$ 3,396,464	$ 28,376,111	$ 28,631,061

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

Berkeley Repertory Theatre
Statement of Functional Expenses
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	Program Services					Support Services				
	Production Costs	Box Office and Theatre Operations	Marketing and Publicity	Education Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	2017 Total	(Restated) 2016 Total
Salaries	$ 5,381,409	$ 805,318	$ 561,157	$ 565,782	$ 7,313,666	$ 1,335,621	$ 652,241	$ 1,987,862	$ 9,301,528	$ 8,299,204
Employee benefits	656,747	110,099	66,338	34,508	867,692	107,638	76,478	184,116	1,051,808	1,016,103
Payroll taxes	410,227	81,149	43,400	55,453	590,229	75,060	51,485	126,545	716,774	649,769
Contract labor	631,018	-	127,431	-	758,449	96,418	48,161	144,579	903,028	937,158
Travel	845,084	26,264	1,760	4,683	877,791	14,258	1,201	15,459	893,250	682,694
Housing	3,613	1,090,789	-	-	1,094,402	-	-	-	1,094,402	790,986
Space rental	97,421	52,000	-	-	149,421	-	-	-	149,421	103,183
Production materials	1,111,731	-	-	-	1,111,731	-	-	-	1,111,731	698,708
Royalties and commissions	504,213	-	-	-	504,213	-	-	-	504,213	456,987
Printing	-	46	353,249	8,289	361,584	-	36,046	36,046	397,630	390,406
Advertising	-	-	408,850	9,332	418,182	-	-	-	418,182	476,633
Insurance	297,636	42,562	4,081	17,939	362,218	6,679	7,028	13,707	375,925	339,302
Interest	350,181	63,575	6,946	40,424	461,126	9,591	9,591	19,182	480,308	438,925
Supplies	9,631	25,084	3,893	3,362	41,970	38,215	40,864	79,079	121,049	106,206
Telephone	24,974	26,947	12,487	7,229	71,637	13,144	10,515	23,659	95,296	107,180
Postage	1,894	12,090	32,414	9,544	55,942	2,658	12,833	15,491	71,433	68,740
Maintenance	85,600	57,665	1,532	8,916	153,713	93,030	2,115	95,145	248,858	240,201
Credit card fees and charges	-	351,274	-	9,753	361,027	82,896	25,644	108,540	469,567	443,206
Utilities	272,194	49,473	5,399	31,421	358,487	7,455	7,455	14,910	373,397	327,522
Miscellaneous	127,178	280,791	110,022	45,277	563,268	160,210	276,274	436,484	999,752	1,579,785
Depreciation	820,892	149,035	16,282	94,761	1,080,970	22,484	22,484	44,968	1,125,938	1,046,261
	$ 11,631,643	$ 3,224,161	$ 1,755,241	$ 946,673	$ 17,557,718	$ 2,065,357	$ 1,280,415	$ 3,345,772	$ 20,903,490	$ 19,199,159

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	2017	(Restated) 2016
Cash flows from operating activities		
Change in net assets	$ (254,950)	$ 2,090,153
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,125,938	1,046,261
Non-cash interest expense	9,268	8,194
Realized and unrealized gains on securities	(482,959)	(50,874)
(Gains)/losses from interest rate swap	(94,159)	28,277
Loss on sale of fixed asset	179,269	-
Proceeds restricted for future and non-operating activity and long range plan initiatives	(2,030,236)	(1,605,322)
Changes in operating assets and liabilities		
Accounts receivable	(27,400)	100,174
Contributions receivable, net	(152,176)	(330,750)
Prepaid expenses	(1,273,008)	963,126
Deposits	(16,982)	(119,978)
Accounts payable and accrued expenses	(125,218)	(510,599)
Executive retirement plan	313,333	313,333
Deferred performance revenue	1,485,428	(1,652,821)
Net cash provided by (used in) operating activities	(1,343,852)	279,174
Cash flows from investing activities		
Purchase of investments	(600,688)	(1,069,351)
Proceeds from sale of investments	37,388	33,091
Purchases of property and equipment and construction in progress payments	(870,870)	(4,388,933)
Net cash used in investing activities	(1,434,170)	(5,425,193)
Cash flows from financing activities		
Proceeds restricted for future and non-operating activity and long range plan initiatives	2,030,236	1,605,322
Proceeds from issuance of debt	-	3,500,000
Repayment of long-term debt	(489,590)	(312,597)
Net cash provided by financing activities	1,540,646	4,792,725
Net decrease in cash, cash equivalents and restricted cash	(1,237,376)	(353,294)
Cash, cash equivalents and restricted cash, beginning of year	3,268,014	3,621,308
Cash, cash equivalents and restricted cash, end of year	$ 2,030,638	$ 3,268,014

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

Berkeley Repertory Theatre
Statement of Cash Flows
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

		2017		(Restated) 2016
Cash, cash equivalents and restricted cash consisted of the following:				
Cash and cash equivalents	$	2,005,453	$	3,250,183
Restricted cash		25,185		17,831
	$	2,030,638	$	3,268,014

Supplemental disclosure of cash flow information

Cash paid during the year interest	$	471,040	$	430,731

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 5-year goal of $50 million. As of August 31, 2017, approximately $43.5 million has been raised. The funds will support a range of Strategic Initiatives as well as Annual Support for Operations. Strategic Initiatives include artistic programs, facility upgrades and development, and attracting/retaining top talent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

Net assets and changes therein are classified as follows:

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

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

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.

At August 31, 2017, restricted cash and cash equivalents consist of interest bearing money market funds that are donor restricted for endowment purposes and funds restricted by donors for other long-term purposes.

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, 2017. 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.

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.

2. 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:

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

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances due. Based on prior write-off history, overall economic conditions and the current aging status, the Theatre establishes an allowance for doubtful accounts at a level considered adequate to cover anticipated credit losses on outstanding trade accounts receivable. The Theatre determined that an allowance for doubtful accounts was not considered necessary at August 31, 2017.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and contributions receivable (continued)

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Donated services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promise was received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. At August 31, 2017, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets

As of August 31, 2017, temporarily restricted net assets of $7,081,484 were available to support long range plan initiatives (covering production, operations and capital), the 2017-18 future performance season, other time restricted activities subsequent to the 2017-18 performance season and other specified purposes designated by the donor. Temporarily restricted net assets include endowment income not yet appropriated for expenditure.

Permanently restricted net assets

As of August 31, 2017, permanently restricted net assets of $3,396,464 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.

Investment income

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

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

Expense recognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

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

Income tax

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

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, 2017, 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 2011. For U.S. federal tax returns, the Theatre is no longer subject to tax examination for years prior to 2012.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risks and uncertainties (continued)

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

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

Comparative 2016 financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the U.S. Accordingly, such information should be read in conjunction with the Theatre's financial statements as of and for the year ended August 31, 2016, from which the summarized information was derived. Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Prior period restatement

In 2017, management determined that its executive retirement plan had been under accrued in prior years. In addition, earnings from certain trust accounts were improperly classified in the prior year financial statements. The Theatre has restated its prior year comparative financial information to correct for these errors.

The effects on previously issued 2016 financial statements resulting from this restatement were an increase in executive retirement plan liability of $573,333, an increase in investment earnings of $39,870, a decrease in accrued expenses of $39,870, an increase in salary expense of $313,333, and a decrease in unrestricted net assets of $533,463. Additionally, beginning net assets decreased $260,000 for the amounts applicable to the years before 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standard

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03, requires debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization is required to be included with interest expense in the statement of activities. In 2017, the Theatre adopted the provision of ASU 2015-03.

Previously, the Theatre reflected unamortized debt issuance costs as other assets in the statement of financial position, and has retroactively reclassified 2016 amounts to be in accordance with ASU 2015-03. The reclassifications reduced total assets and debt at August 31, 2016 by approximately $93,000 with no effect on net assets.

Similarly, interest expense for 2016 has been increased and depreciation and amortization expense decreased by approximately $8,000 to be in accordance with ASU 2015-03 with no effect on previously reported net assets.

Subsequent events

The Theatre has evaluated subsequent events through December 4, 2017, the date the financial statements were available to be issued. There were no other subsequent events requiring recognition or disclosure in the financial statements.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

Due in less than one year	$ 2,158,147
Due in one to five years	3,238,739
Due in more than five years	997,081
Less discount on multi-year contributions receivable	(223,987)
	6,169,980
Less current portion	(2,158,147)
	$ 4,011,833

Contributions receivable expected to be collected in more than one year from August 31, 2017 are discounted at a rate of return respective to the year that the contribution was originally promised. Current year contributions receivable are recorded using a discount rate of 1.70%.

4. INVESTMENTS

Investments consist of the following:

Fixed income	$ 2,411,767
Domestic equities	1,623,607
International equities	2,404,961
Alternative investments	950,854
	7,391,189
Less current investments	(2,358,227)
	$ 5,032,962

Net unrealized and realized gains on investments for 2017 were $482,959. Interest income for 2017 was $141,626.

5. FAIR VALUE

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

	Level 1	Level 2	Level 3	Total
Fixed income	$ 2,411,767	$ -	$ -	$ 2,411,767
Domestic equities	1,623,607	-	-	1,623,607
International equities	2,404,961	-	-	2,404,961
Alternative strategies fund	518,120	-	-	518,120
Managed futures funds	432,734	-	-	432,734
	$ 7,391,189	$ -	$ -	$ 7,391,189
Interest rate swap agreement liability	$ -	$ 1,638	$ -	$ 1,638

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	$ 2,802,299
Buildings and improvements	37,905,661
Production equipment	2,502,546
Office and facilities equipment	827,502
Software	272,039
Construction in progress	1,038,186
	45,348,233
Accumulated depreciation	(14,355,174)
	$ 30,993,059

Depreciation and amortization expense for 2017 was $1,125,938.

7. DEPOSITS

As of August 31, 2017, deposits of $113,624 consist of a $17,167 in insurance deposits, $71,160 in long-term lease deposits, and $25,297 in an actors' equity bond deposit.

8. DEFERRED PERFORMANCE REVENUE

Deferred performance revenue consist of the following:

Advance ticket sales	$ 4,899,572
Gift certificates	79,146
Other deferred income	1,047,801
	$ 6,026,519

9. CREDIT FACILITY

The Theatre has a line of credit to finance operations in the amount of $3,000,000. The line of credit bears interest at the London Interbank Offered Rate ("LIBOR rate") plus 2.35%. As of August 31, 2017, the LIBOR rate was 1.23%. The line of credit expires on April 30, 2018 and is secured by substantially all of the Theatre's assets. At August 31, 2017, there was no balance outstanding on the line of credit. The Theatre has a standby letter of credit of $78,000 naming the Actors' Equity Association as beneficiary which is secured by this line of credit.

10. INTEREST RATE SWAP CONTRACTS

During 2014, the Theatre entered into an interest rate swap agreement on all-in-rate for the term loan. The notional amount of the transaction at inception was $3,620,000. The agreement is effective through December, 4, 2023. The value of the contract has been adjusted to its estimated fair value, resulting in a liability of $15,345 at August 31, 2017.

During 2016, the Theatre entered into an interest rate swap agreement on 50% of the term loan. The notional amount of the transaction at inception was $1,720,834. The agreement is effective through January 26, 2026. The value of the contract has been adjusted to its estimated fair value, resulting in an asset of $13,707 at August 31, 2017.

11. LONG-TERM DEBT

Long-term debt are detailed as follows:

Term loan, due through December 4, 2023 in 120 monthly installments (including principal and interest) with a final balloon payment of the then outstanding balance, bearing interest at the LIBOR rate plus 1.85% (3.081% at August 31, 2017), secured by real property.	$ 3,320,816
Term loan, due through January 26, 2026 in 120 monthly installments (including principal and interest) with a final balloon payment of the then outstanding balance, bearing interest at the LIBOR rate plus 1.85% (3.081% at August 31, 2017), secured by real property.	2,975,004
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.	5,680,624
	11,976,444
Less unamortized debt issuance costs	(63,508)
	11,912,936
Current portion	(517,102)
	$ 11,395,834

11. LONG-TERM DEBT (continued)

The future maturities of the notes payable are as follows:

Year ending August 31,	
2018	$ 517,102
2019	525,072
2020	533,423
2021	542,171
2022	551,334
Thereafter	9,307,342
	$ 11,976,444

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, 2017.

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Strategic initiatives	$ 2,326,766
Time restrictions	2,591,000
Future theatre season	1,620,795
Endowment earnings	412,935
40th Anniversary initiatives	70,000
Other	59,988
	$ 7,081,484

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

Released for strategic initiatives	$ 1,843,445
Expiration of time restrictions	1,473,855
Released for other purposes	219,000
Released for anniversary initiatives	148,500
Approved expenditure of endowment earnings	636,667
	$ 4,321,467

13. ENDOWMENT

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

Interpretation of relevant law

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

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

(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

13. ENDOWMENT (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 Theatre diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category. The Theatre expects its endowment funds, over time, to generate a return of at least five percent per annum before taxes, management fees, and inflation over a market cycle.

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives related to spending policy

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

Endowment composition

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 412,935	$ 3,396,464	$ 3,809,399
Board-designated endowment funds	1,001,147	-	-	1,001,147
	$ 1,001,147	$ 412,935	$ 3,396,464	$ 4,810,546

13. ENDOWMENT (continued)

Endowment composition (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, August 31, 2016	$ 325,338	$ 620,180	$ 3,396,464	$ 4,341,982
Investment return				
Investment income	10,340	96,605	-	106,945
Net appreciation (realized and unrealized)	50,801	332,817	-	383,618
Total investment return	61,141	429,422	-	490,563
Contributions	2,400	-	-	2,400
Appropriation of net assets	(2,771)	(21,628)	-	(24,399)
Transfer to board reserve	615,039	(615,039)	-	-
	675,809	(207,245)	-	468,564
Balance, August 31, 2017	$ 1,001,147	$ 412,935	$ 3,396,464	$ 4,810,546

14. COMMITMENTS AND CONTINGENCIES

The Theatre maintains various artist apartments under non-cancelable operating leases. The terms of the agreements expire on various dates from May 2019 to July 2019. Total rental expense for the year ended August 31, 2017 was $1,240,210.

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

Year Ending August 31,	
2018	$ 871,830
2019	525,168
	$ 1,396,998

15. RETIREMENT PLANS

Effective September 1, 1996, the Theatre adopted a tax-sheltered annuity plan under Internal Revenue Code Section 403(b) (the "Plan") covering substantially all full-time employees, which provides for voluntary salary deferrals up to certain amounts. For each Plan year, the Board of Trustees of the Theatre determines the amount (if any) to be contributed to the Plan by the Theatre. During the current year, there was no employer contributions made to the Plan for the plan year ended August 31, 2017.

15. 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, 2017, funds totaling $1,004,719 were set aside under this plan.

In 2014, the Theatre adopted 457(b) and 457(f) Deferred Compensation Plans for certain executives. Under the plans, compensation, up to $2,000,000, is deferred within the plans to be paid upon separation from the Theatre, subject to vesting on or after August 31, 2018. Generally accepted accounting principles require deferred compensation benefits to be accrued in a systematic and rational manner over the period services are provided by the executives. Compensation expense of $313,333 was recognized in 2017 related to these plans. Deferred compensation accrued as of August 31, 2017 was $886,667. As of August 31, 2017, $1,366,144 was held in investments accounts for the purpose of funding these deferred compensation obligations. No contributions were made to the plans in 2017.

16. RELATED PARTY

During 2017, the Theatre recognized contributions, including promises to give and gifts-in-kind, from members of its Board of Trustees of $1,968,915. As of August 31, 2017, there was $2,646,413 in contributions receivable from members of the Board of Trustees. Cash received during the year from members of the Board of Trustees was $2,489,431 including payments received against promises to give that existed at August 31, 2016.

17. CITY OF BERKELEY DONATION

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