

SEATTLE REPERTORY THEATRE

Audited Financial Statements

June 30, 2010

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Independent Auditors' Report***The Boards of Trustees and Directors
Seattle Repertory Theatre
Seattle Repertory Theatre Foundation
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated balance sheet of Seattle Repertory Theatre and Seattle Repertory Theatre Foundation (collectively, the Organization) as of June 30, 2010, and the related consolidated statements of unrestricted revenue and expenses, changes in net assets, cash flows, and operating functional expenses for the year then ended. These financial statements are the responsibility of the Organization'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 Organization's 2009 audited financial statements and, in our report dated September 30, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 19 to 21 is presented for the purpose of additional analysis of the basic financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and are not a required part of the basic financial statements. These schedules are the responsibility of the Organization's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Certified Public Accountants
September 9, 2010

SEATTLE REPERTORY THEATRE

Consolidated Balance Sheet

June 30, 2010

(With Comparative Totals for 2009)

	<i>Unrestricted</i>					<i>Temporarily</i>	<i>Permanently</i>	<i>2010</i>	<i>2009</i>
	<i>Operating</i>	<i>Board</i>	<i>Capital</i>	<i>Foundation</i>	<i>Total</i>	<i>Restricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Total</i>
		<i>Designated</i>	<i>Fund</i>						
ASSETS									
Current Assets:									
Cash	\$ 249,035	\$ -	\$ -	\$ -	\$ 249,035	\$ -	\$ -	\$ 249,035	\$ 778,773
Investments (Note 3)	697,028	31,162	602,657		1,330,847	627,822		1,958,669	1,221,393
Accounts receivable, net (Note 1)	83,247				83,247			83,247	85,988
Pledges receivable, net (Note 2)	927,527				927,527			927,527	1,168,380
Interfund receivable/payable	(681,206)	658	49,430	(1,235)	(632,353)	632,353			
Prepaid expenses and inventory	310,480				310,480			310,480	459,209
Total Current Assets	1,586,111	31,820	652,087	(1,235)	2,268,783	1,260,175		3,528,958	3,713,743
Investments, long-term (Note 3)							12,129,066	12,129,066	11,805,444
Long-term interfund receivable/payable				(2,889,504)	(2,889,504)		2,889,504		
Pledges receivable, long-term, net (Note 2)	383,612				383,612		63,756	447,368	796,268
Property and equipment, net of accumulated depreciation (Note 4)	166,700		4,559,021	7,016	4,732,737			4,732,737	5,000,447
Other long-term assets				56,927	56,927			56,927	56,927
Total Assets	\$ 2,136,423	\$ 31,820	\$ 5,211,108	\$ (2,826,796)	\$ 4,552,555	\$ 1,260,175	\$ 15,082,326	\$ 20,895,056	\$ 21,372,829
LIABILITIES AND NET ASSETS									
Current Liabilities:									
Deferred ticket sales revenue	\$ 1,769,606	\$ -	\$ -	\$ -	\$ 1,769,606	\$ -	\$ -	\$ 1,769,606	\$ 1,795,985
Accounts payable and accrued liabilities	366,529	31		15,437	381,997	23,578		405,575	420,279
Line of credit (Note 11)									402,500
Total Current Liabilities	2,136,135	31		15,437	2,151,603	23,578		2,175,181	2,618,764
Net assets (Notes 5, 6 and 7)	288	31,789	5,211,108	(2,842,233)	2,400,952	1,236,597	15,082,326	18,719,875	18,754,065
Total Liabilities and Net Assets	\$ 2,136,423	\$ 31,820	\$ 5,211,108	\$ (2,826,796)	\$ 4,552,555	\$ 1,260,175	\$ 15,082,326	\$ 20,895,056	\$ 21,372,829

See accompanying notes to financial statements.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Unrestricted Revenue and Expenses
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)**

	<i>Operating</i>	<i>Board Designated</i>	<i>Capital Fund</i>	<i>Foundation</i>	<i>2010 Total</i>	<i>2009 Total</i>
REVENUE						
Box Office:						
Subscription revenue	\$ 1,984,276	\$ -	\$ -	\$ -	\$ 1,984,276	\$ 2,180,346
Single ticket revenue	1,114,477				1,114,477	1,351,748
Total box office revenue	3,098,753				3,098,753	3,532,094
Other Earned:						
Service fees	250,821				250,821	271,927
Investment income (losses)	313	702	658	971,454	973,127	(3,255,118)
Bar and concessions						
net of expenses of \$72,846 (2009 - \$112,890)	28,621				28,621	30,529
Production fees	269,423				269,423	624,326
Theatre rental						
net of expenses of \$85,887 (2009 - \$117,362)	50,416				50,416	26,250
Miscellaneous	47,686	14,298			61,984	91,875
Total other earned revenue	647,280	15,000	658	971,454	1,634,392	(2,210,211)
Total Earned Revenue	3,746,033	15,000	658	971,454	4,733,145	1,321,883
Contributions:						
Individual gifts	1,344,478	15,000			1,359,478	1,786,336
Individuals - release from restriction	427,981				427,981	207,385
Corporate	129,379		50,000		179,379	249,925
Corporate - release from restriction	5,000				5,000	342
In-kind gifts	62,039	29	50,000	14,971	127,039	108,255
ArtsFund	164,930				164,930	157,331
National Corporate Theatre Fund	30,000				30,000	35,000
Foundations	287,000				287,000	356,889
Foundations - release from restriction	233,326		42,766		276,092	76,600
Government	244,170		2,992		247,162	428,342
Fund raising events						
net of expenses of \$157,497 (2009 - \$100,777)	261,885				261,885	189,168
Fund raising - release from restriction						13,480
Seattle Repertory Organization	55,000	(5,402)			49,598	78,479
PONCHO	25,803				25,803	29,763
Total Contributions	3,270,991	9,627	145,758	14,971	3,441,347	3,717,295
Total Revenue	7,017,024	24,627	146,416	986,425	8,174,492	5,039,178
EXPENSES						
Artistic	1,684,721				1,684,721	2,295,815
Production	2,500,962		241,862		2,742,824	3,776,358
Marketing and communications	1,714,451		48		1,714,499	2,020,466
Development	610,171		2	42,384	652,557	793,365
Administration	1,162,882	231	160,624	116,020	1,439,757	1,547,256
Total Expenses	7,673,187	231	402,536	158,404	8,234,358	10,433,260
Change in Unrestricted Net Assets Before Unrealized Gains (Losses) and Transfers	(656,163)	24,396	(256,120)	828,021	(59,866)	(5,394,082)
Unrealized gains (losses) on investments				565,456	565,456	(591,632)
Interfund transfer of support	142,026	(14,298)		(127,728)		
Interfund transfer of reserves	514,425	(514,425)				
Change in Unrestricted Net Assets	288	(504,327)	(256,120)	1,265,749	505,590	(5,985,714)
Unrestricted Net Assets:						
Beginning of year		536,116	5,467,228	(4,107,982)	1,895,362	7,881,076
End of Year	\$ 288	\$ 31,789	\$ 5,211,108	\$ (2,842,233)	\$ 2,400,952	\$ 1,895,362

See accompanying notes to financial statements.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
UNRESTRICTED NET ASSETS					
Total unrestricted revenue	\$ 7,465,419	\$ -	\$ -	\$ 7,465,419	\$ 4,741,371
Net assets released from restriction	709,073			709,073	297,807
Total unrestricted expenses	(8,234,358)			(8,234,358)	(10,433,260)
Unrealized gains (losses) on investments	565,456			565,456	(591,632)
Change in Unrestricted Net Assets	505,590			505,590	(5,985,714)
RESTRICTED NET ASSETS					
Contributions:					
Individual gifts		120,068	40,206	160,274	986,199
Corporate Foundations		5,000		5,000	5,000
				750,000	750,000
Total contributions		125,068	40,206	165,274	1,741,199
Investment income		416	3,603	4,019	30,199
Total Revenue		125,484	43,809	169,293	1,771,398
Net assets released from restriction		(709,073)		(709,073)	(297,807)
Change in Restricted Net Assets		(583,589)	43,809	(539,780)	1,473,591
Total Change in Net Assets	505,590	(583,589)	43,809	(34,190)	(4,512,123)
Net assets, beginning of year	1,895,362	1,820,186	15,038,517	18,754,065	23,266,188
Net Assets, End of Year	\$ 2,400,952	\$ 1,236,597	\$ 15,082,326	\$ 18,719,875	\$ 18,754,065

See accompanying notes to financial statements.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)**

	<u>2010</u>	<u>2009</u>
Operating Activities:		
Change in net assets	\$ (34,190)	\$ (4,512,123)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	464,582	444,403
Gain on sale of equipment		(1,500)
Net (gains) losses on investments	(1,213,714)	4,275,545
Contributions and investment income restricted for endowment	(43,809)	(46,790)
In-kind contribution of fixed assets	(50,000)	(41,236)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	2,741	90,808
Pledges receivable	579,725	(947,137)
Prepaid expenses and inventory	148,729	(25,989)
Restricted cash		59,688
Other long-term assets		(56,927)
Deferred ticket sales revenue	(26,379)	(213,684)
Accounts payable and accrued liabilities	(14,704)	(110,098)
Net Cash Used by Operating Activities	(187,019)	(1,085,040)
Investing Activities:		
Purchase of investments	(22,132,947)	(24,937,251)
Proceeds from the sale of investments	22,285,763	25,621,919
Proceeds from sale of equipment		1,500
Purchase of property and equipment	(146,872)	(34,574)
Net Cash Provided by Investing Activities	5,944	651,594
Financing Activities:		
Collections on contributions restricted for endowment	50,234	30,096
Investment income restricted for endowment	3,603	29,942
Net (payments) proceeds on line of credit	(402,500)	402,500
Net Cash (Used) Provided by Financing Activities	(348,663)	462,538
Net Change in Cash	(529,738)	29,092
Cash:		
Beginning of year	778,773	749,681
End of Year	\$ 249,035	\$ 778,773
Supplemental Disclosure:		
Cash paid for interest	\$ 5,237	\$ 8,258

See accompanying notes to financial statements.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Operating Functional Expenses
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)**

	<i>Artistic</i>	<i>Production</i>	<i>Marketing and Communications</i>	<i>Development</i>	<i>Administration</i>	<i>2010 Total</i>	<i>2009 Total</i>
Payroll Costs:							
Salaries	\$ 605,903	\$ 1,308,312	\$ 692,654	\$ 355,238	\$ 676,364	\$ 3,638,471	\$ 4,921,868
Benefits and taxes	188,281	360,550	169,176	89,990	146,026	954,023	1,221,697
Total Payroll Costs	794,184	1,668,862	861,830	445,228	822,390	4,592,494	6,143,565
Other Expenses:							
Royalties	204,170					204,170	244,989
Co-production fees	18,250	302,548				320,798	321,000
Production materials	605	167,265				167,870	313,877
Artist housing	48,500	23,503				72,003	69,861
Travel, housing, meetings	150,090	31,540	27,579	59,119	29,646	297,974	365,814
Advertising	225		296,288		203	296,716	495,212
Printing, publications	2,691		120,604	11,194	571	135,060	226,416
Professional fees	455,402	1,071	142,611	34,281	120,669	754,034	745,784
Supplies and equipment	5,593	14,947	8,276	4,012	50,697	83,525	91,349
Postage and shipping	2,164	9,718	81,949	8,364	7,777	109,972	128,860
Facilities	2,436	260,105	92,431		97,023	451,995	508,419
Depreciation	411	21,403	1,356	2,241	9,284	34,695	25,165
Bank service charges, taxes, misc.			81,527	45,732	24,622	151,881	152,090
Total Other Expenses	890,537	832,100	852,621	164,943	340,492	3,080,693	3,688,836
Total Expenses	\$ 1,684,721	\$ 2,500,962	\$ 1,714,451	\$ 610,171	\$ 1,162,882	\$ 7,673,187	\$ 9,832,401

See accompanying notes to financial statements.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2010

Note 1 - Summary of Significant Accounting Policies

General - Seattle Repertory Theatre (the Theatre) and Seattle Repertory Theatre Foundation (the Foundation) (collectively, the Organization) are nonprofit, nonstock corporations and were incorporated under the laws of the State of Washington on June 13, 1963, and September 11, 1995, respectively. The Theatre was formed to promote, develop, and operate a professional theatre, to increase understanding and appreciation of the theatrical arts by a program of appropriate activities and events developed in cooperation with corporations, foundations, governmental and private persons, organizations and agencies interested in the theatrical arts. The Foundation was formed to conduct and support activities exclusively for the benefit of the Theatre. The Foundation receives and holds endowment funds for, and makes distributions to, the Theatre.

Principles of Consolidation - The accounts of the Foundation have been consolidated with the Theatre in accordance with generally accepted accounting principles which require that financially interrelated organizations be consolidated. All intercompany transactions and balances have been eliminated.

Basis of Presentation - The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets must be maintained by the Organization in perpetuity, the income of which is expendable for operations. Permanently restricted net assets increase when the Organization receives contributions for which donor-imposed restrictions limiting the Organization's use of an asset for its economic benefits neither expire with the passage of time nor can be removed by the Organization meeting certain requirements.

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 investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify temporarily restricted contributions as unrestricted to the extent that temporary restrictions were met in the year the contribution was received.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2010

Note 1 - Continued

Income Tax Status - The Theatre and the Foundation have been notified by the Internal Revenue Service that they are both exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is further classified as an organization that is not a private foundation under Section 509(a)(3) of the Code. Accordingly, no provision for income taxes has been recorded.

The Organization files income tax returns with the U.S. government. The Organization may be subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Deferred Revenues and Expenses - Advance ticket sales and the related production expenses are deferred and recognized as income and expense as each show is performed.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property and Equipment - Equipment and leasehold improvements are stated at cost if purchased or fair market value if contributed. Depreciation and amortization are provided using the straight-line method over the estimated useful lives as follows:

Furniture and equipment	3 - 5 years
Theatre equipment	7 - 10 years
Building and leasehold improvements	Life of lease

Cash - For purposes of the cash flow statement, cash includes cash on hand and in banks except for cash equivalents associated with the investment accounts.

Receivables - Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or pledges receivable. There was no valuation allowance for accounts receivable at June 30, 2010 and 2009. See Note 2 for allowance for doubtful accounts for pledges receivable.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet, based on quoted market prices. Unrealized gains and losses are recorded as a change in net assets. See Note 3 for further details.

Generally accepted accounting principles (GAAP) provides a consistent model for determining fair value measures for financial assets and liabilities. To increase consistency and comparability in fair value measurements, GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2010

Note 1 - Continued

Assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Gift Annuities - The Theatre administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. The contributed assets are recorded at their fair value as general assets of the Theatre. The present value of the payments due the beneficiaries are recorded as liabilities and totaled \$23,578 and \$24,123 at June 30, 2010 and 2009, respectively. Net present values are calculated using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. Resulting actuarial gain or loss is recorded as temporarily restricted revenue.

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of receivables, cash, and investments. The concentration of credit risk with respect to receivables has historically been limited due to a large base of donors consisting of public and private companies representing a variety of industries, government agencies, and individuals in the Pacific Northwest. The Organization does not require collateral or other security to support receivables. The Organization holds substantially all of its cash with one financial institution, and substantially all of its investments with another financial institution. These balances may at times exceed FDIC and SIPC insurance limits. The Organization invests only with financial institutions with strong credit ratings and has established guidelines relative to diversification and maturities that maintain safety and liquidity.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Revenue - Earned revenue consists of income from ticket sales, investments, co-production fees, facility rentals, concessions, production related royalties, and other miscellaneous sources. Contribution income consists of grants and gifts from individuals, corporations, foundations, and federal, state, and local governmental agencies. Subscriptions for tickets are recorded as revenue or deferred revenue, dependent upon the performance season to which they relate.

Pledges are recognized as revenue when they are received. Permanently restricted pledges receivable relates to contributions to the Foundation.

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 1 - Continued

In-Kind Gifts - The Theatre recognizes contribution revenue for certain donated services and materials received at the fair value of those services and materials. During the year ending June 30, 2010, contributed services and materials totaled \$127,039 and were used primarily in program activities. Total donated items for the year ending June 30, 2009, were \$108,255.

Expenses - Expenses consist of artistic, production, administrative, and other expenses. Costs incurred in connection with specific performances are deferred until the show is performed.

Advertising Costs - The Organization capitalizes direct-response advertising related to the following fiscal year as incurred. Direct-response advertising consists primarily of marketing and promotion costs relating to a particular season of the Organization. Capitalized direct-response advertising costs are expensed in the advertised season. At June 30, 2010 and 2009, prepaid subscription campaign expenses included \$54,395 and \$49,524, respectively. Advertising expense for the years ending June 30, 2010 and 2009, was \$296,288 and \$495,112, respectively.

Comparative Amounts for 2009 - 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through September 9, 2010, the date which the financial statements were available to be issued.

Note 2 - Pledges Receivable

Pledges receivable at June 30 were as follows:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 1,139,942	\$ 1,382,453
Due in one to five years	<u>398,250</u>	<u>769,750</u>
	1,538,192	2,152,203
Present value discount (1.79% - 2010; 2.54% - 2009)	(8,847)	(31,947)
Allowance for doubtful accounts	<u>(154,450)</u>	<u>(155,608)</u>
	<u>\$ 1,374,895</u>	<u>\$ 1,964,648</u>

Permanently restricted Foundation pledges receivable of \$200,715 and \$201,215 at June 30, 2010 and 2009, respectively, are included in the above totals of pledges due in less than one year. These Foundation pledges are reported as long-term on the statement of financial position due to the nature of the donor restriction.

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 3 - Investments

Investments consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash equivalents	\$ 3,505,217	\$ 2,749,023
Mutual funds - U.S. government obligations	400,997	
Common collective trust funds	5,328,382	4,802,463
Publicly traded equity securities	<u>4,853,139</u>	<u>5,475,351</u>
	<u>\$ 14,087,735</u>	<u>\$ 13,026,837</u>

Common collective trust funds are invested in funds managed by Victory Capital that are primarily invested in publicly traded equity and fixed income securities.

The hierarchy of inputs used to determine the fair values of investments at June 30, 2010, were as follows:

	<u>Fair Value Measurements at June 30, 2010</u>			<u>Total</u>
	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Mutual funds - U.S. government obligations	\$ 400,997	\$ -	\$ -	\$ 400,997
Common collective trust funds:				
U.S. government obligations		2,178,030		2,178,030
Corporate obligations		537,625		537,625
Equities - international		1,164,338		1,164,338
Equities - balanced		27,287		27,287
Equities - mid cap		705,968		705,968
Equities - small cap		<u>715,134</u>		<u>715,134</u>
Total common collective trust funds		5,328,382		5,328,382
Publicly traded equity securities:				
Basic industry	580,257			580,257
Capital goods	442,505			442,505
Consumer cyclical	283,994			283,994
Consumer staples	972,927			972,927
Energy/utilities	1,239,224			1,239,224
Financial	586,433			586,433
Technology	<u>747,799</u>			<u>747,799</u>
Total publicly traded equity securities	<u>4,853,139</u>			<u>4,853,139</u>
	<u>\$ 5,254,136</u>	<u>\$ 5,328,382</u>	<u>\$ -</u>	<u>\$ 10,582,518</u>

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 3 - Continued

The hierarchy of inputs used to determine the fair values of investments at June 30, 2009 were as follows:

	<u>Fair Value Measurements at June 30, 2009</u>			<u>Total</u>
	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Common collective trust funds:				
U.S. government obligations	\$ -	\$ 2,336,834	\$ -	\$ 2,336,834
Corporate obligations		501,434		501,434
Equities - international		922,056		922,056
Equities - balanced		27,022		27,022
Equities - mid cap		547,090		547,090
Equities - small cap		<u>468,027</u>		<u>468,027</u>
Total common collective trust funds		4,802,463		4,802,463
Publicly traded equity securities:				
Basic industry	496,822			496,822
Capital goods	622,318			622,318
Consumer cyclical	589,533			589,533
Consumer staples	1,057,870			1,057,870
Energy/utilities	1,032,563			1,032,563
Financial	710,318			710,318
Technology	<u>965,927</u>			<u>965,927</u>
Total publicly traded equity securities	<u>5,475,351</u>			<u>5,475,351</u>
	<u>\$ 5,475,351</u>	<u>\$ 4,802,463</u>	<u>\$ -</u>	<u>\$ 10,277,814</u>

Investment income was as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest income and realized gains (losses) - unrestricted	\$ 973,127	\$ (3,255,118)
Interest income - temporarily and permanently restricted	4,019	30,199
Unrealized gains (losses) - unrestricted	<u>565,456</u>	<u>(591,632)</u>
	<u>\$ 1,542,602</u>	<u>\$ (3,816,551)</u>

The Foundation manages its endowment funds on a total return basis. To preserve the endowment's long-term purchasing power, the Foundation may retain each year an amount at least equal to the current rate of inflation. Additional amounts may be retained at the discretion of the Foundation Board if not otherwise specified by the donor. All other amounts are available for current use (see Note 7).

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 4 - Property and Equipment

Property and equipment at June 30 was as follows:

	<u>2010</u>	<u>2009</u>
Building and leasehold improvements	\$ 7,802,768	\$ 7,792,188
Equipment and furniture	<u>3,586,669</u>	<u>3,486,113</u>
	11,389,437	11,278,301
Accumulated depreciation	<u>(6,656,700)</u>	<u>(6,277,854)</u>
	<u>\$ 4,732,737</u>	<u>\$ 5,000,447</u>

Note 5 - Board Designated Net Assets

As of June 30, the Board designated net assets were for the following purposes:

	<u>2010</u>	<u>2009</u>
Operations reserve	\$ 21,447	\$ 11,848
Working capital reserves		514,425
Net realized/unrealized gains reserved for operations	<u>10,342</u>	<u>9,843</u>
	<u>\$ 31,789</u>	<u>\$ 536,116</u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2010</u>	<u>2009</u>
General support for future periods	\$ 97,254	\$ 188,243
Young Audience Initiative	591,362	872,222
Wallace Audience Development Initiative	547,981	748,657
Other theatre programs		<u>11,064</u>
	<u>\$ 1,236,597</u>	<u>\$ 1,820,186</u>

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 7 - Permanently Restricted Net Assets and Endowments

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All endowment funds are held by the Foundation and have been permanently restricted by donors for the following purposes at June 30. Pledges included within these funds are discounted to present value (Note 2).

	<u>2010</u>	<u>2009</u>
Theatre Operations Funds:		
General	\$ 4,772,873	\$ 4,735,167
Bill & Melinda Gates Foundation	2,500,000	2,500,000
Bagley & Virginia Wright and The Wright Family Fund	1,000,000	1,000,000
Fox Family Endowment in Memory of Rita D. Fox	250,000	250,000
Jim & Camille Uhlir Fund	50,250	50,250
Education:		
Peter Donnelly Fund	238,903	236,403
William Randolph Hearst Endowment for Education	200,000	200,000
The Allen Foundation for the Arts	500,000	500,000
Artistic Development:		
General	25,000	25,000
Daniel Sullivan Artistic Development Fund	1,240,746	1,240,746
Kreielsheimer Signature Works Fund	1,314,760	1,311,157
The Stuart Smailes Signature Works Fund	109,850	109,850
Henry & Nancy Ketcham Foundation	50,000	50,000
George & Carlyn Steiner Guest Artist Fund	50,000	50,000
Actors Fund	50,000	50,000
New Works:		
General	25,000	25,000
Mary Davis Clapp Fund for New Works	2,504,944	2,504,944
Herman & Faye Sarkowsky Commissioning Fund	100,000	100,000
Playwright Commission Fund	100,000	100,000
Total Permanently Restricted Net Assets	<u>\$ 15,082,326</u>	<u>\$ 15,038,517</u>

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 7 - Continued

Interpretation of Relevant Law - The Organization has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (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 Organization 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.

Changes to endowment net assets for the years ended June 30, 2010 and 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ 2,060,698	\$ -	\$ 14,991,727	\$ 17,052,425
Endowment investment return:				
Investment earnings (losses)	(3,261,798)		29,942	(3,231,856)
Income from interfund loan	20,878			20,878
Unrealized losses	<u>(591,632)</u>			<u>(591,632)</u>
Total endowment investment return	(3,832,552)	-	29,942	(3,802,610)
Contributions	14,858		16,848	31,706
Endowment related expenses	(249,278)			(249,278)
Distribution for operating programs	<u>(2,101,708)</u>			<u>(2,101,708)</u>
Endowment Net Assets, June 30, 2009	(4,107,982)	-	15,038,517	10,930,535
Endowment investment return:				
Investment earnings	971,454		3,603	975,057
Income from interfund loan	17,350			17,350
Unrealized gains	<u>565,456</u>			<u>565,456</u>
Total endowment investment return	1,554,260	-	3,603	1,557,863
Contributions	14,971		40,206	55,177
Endowment related expenses	(160,394)			(160,394)
Distribution for operating programs	<u>(143,088)</u>			<u>(143,088)</u>
Endowment Net Assets, June 30, 2010	<u>\$ (2,842,233)</u>	<u>\$ -</u>	<u>\$ 15,082,326</u>	<u>\$ 12,240,093</u>

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2010

Note 7 - Continued

Funds with Deficiencies - From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level that donors require the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2010 and 2009, these deficiencies (total of unrestricted column in the table on the previous page) resulted from unfavorable market fluctuations and appropriations for programs that were deemed prudent by the Foundation's Board of Directors. Subsequent investment income and gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets until such time that they are fully restored; investment returns above that level will be classified as temporarily restricted net assets.

Return Objectives, Risk Parameters and Spending Policies - The goal of the Organization's investment and spending policies for endowment assets is to provide a predictable stream of funding to programs supported by its endowments while maintaining the purchasing power of the endowment assets.

The investment objective of the endowment funds emphasizes long-term growth of capital. Investments are managed within a total return concept. A diversified group of financial assets, common stocks, fixed income securities and cash equivalents is utilized, to generate the highest level of returns commensurate with a moderate level of risk.

The Organization's total return objective for endowment investments over a 3 and 5 year moving time period is that it exceed the potential annual distribution amount of 4%, plus the Consumer Price Index (CPI) rate annually, plus 1%. In addition, the investments' total rate of return should exceed: a) The medium return of a universe of managers with similar investment objectives and styles; and b) The benchmark that includes the composite performance of the securities markets by 1.0% annually. The securities markets are represented by the returns of the Standard and Poors 500 Index (S&P 500) (equity) or the appropriate asset class specific index (i.e.: Russell 2000, Value, Growth, etc.), the Lehman Aggregate Government/Corporate Index (fixed income), 91 day T-Bills (cash equivalents) and EAFE (international stocks). Performance benchmarks will include a custom index.

The Organization has a 4% distribution policy, based on a three-year rolling average of market value of endowment investments at December 31 each year. This distribution is approved by the Foundation Board of Directors for use in the next fiscal year of the Theatre's operations. From time to time, the Foundation may make additional distributions to the Theatre.

In addition to review of monthly investment performance reports, the Organization meets with the endowment's investment manager quarterly to ensure that the investment guidelines and objectives are being followed.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2010

Note 7 - Continued

Endowment Fund Loans - As part of the budget process for the year ended June 30, 2009, the Foundation approved a \$1,101,708 grant from investment earnings to support the Theatre's operations. During the fall of 2008, the market value of the endowment funds fell below book value, making an earnings distribution unavailable. After consultation with legal council, the Foundation approved a no-interest operating loan for the amount of the approved grant. The Foundation also approved a \$1 million matching grant of new and increased gifts raised by the Theatre during the year ended June 30, 2009. This grant was structured as a loan, bearing interest at the prime rate, as stipulated by the Foundation. As of June 30, 2009, the \$1 million match had been met and was distributed to the Theatre during the year ended June 30, 2010. During the year ended June 30, 2010, both operating loans were forgiven by the Foundation.

Note 8 - Related Party Transaction

During the year ended June 30, 2009, the Organization contracted with a consulting firm for whom a Board member of the Theatre is CEO and founding partner. The firm provided consulting services related to an organizational advancement initiative to help inform strategic planning and institutional positioning of the Theatre. The Theatre's conflict of interest policy was followed, including comparable fee analysis, competency verification, thorough discussion and approval by the Theatre's Board of Trustees (without the CEO/founding partner of the consulting firm present) prior to the consulting firm beginning work. The project was completed during the year ended June 30, 2009, and \$47,356 was paid to the consulting firm.

Note 9 - Commitments

Operating Leases - The Organization has a lease agreement with the City of Seattle for the Bagley Wright Theatre. The current rental cost for the theatre is \$7,998 per month. The Organization is currently negotiating with the City of Seattle to extend the current agreement to pay this rate, as adjusted on January 1st of each year for the change in All-Urban Consumer Price Index, from May 31, 2009 to May 31, 2014, at which time it would revert back to the existing agreement of paying \$1.00 per month until the expiration of the lease in May 2026, contingent on the Theatre expending \$1,000,000 on capital renovations and improvements to the Bagley Wright Theatre premises by September 1, 2010 (currently being negotiated to \$1,160,000 by September 1, 2015).

The lease also requires annual payments averaging approximately \$150,000 through the remainder of the lease term to a "maintenance reserve fund" to support the theatrical systems in the Bagley Wright Theatre. The Organization is currently in negotiation to suspend those payments through 2010; with one-third and two-thirds of scheduled payments being due in 2011 and 2012, respectively, and full scheduled payments due thereafter. The balance in the fund held by the Organization was \$533,444 and \$533,716 as of June 30, 2010 and 2009, respectively.

The Theatre has a lease agreement with the City of Seattle for the land on which the Leo K Theatre was constructed. The lease requires an annual payment of \$5,515 and expires in the year 2026. Upon expiration of the lease, ownership of the Leo K Theatre will transfer to the City of Seattle.

The Theatre leases storage space and apartments under operating leases on a month-to-month basis, and leases rehearsal space as needed on a week-to-week basis.

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2010**

Note 9 - Continued

Amounts due under non-cancellable lease commitments are as follows:

Year ending June 30,

2011	\$ 100,916
2012	100,916
2013	100,916
2014	92,967
2015	5,527
Thereafter	<u>60,797</u>
	<u>\$ 462,039</u>

Total rental expense under the leases was \$234,585 and \$232,386 for the years ending June 30, 2010 and 2009, respectively.

Note 10 - Employee Retirement Plan

The Theatre has a Tax Deferred Annuity Plan (the Plan) allowing all eligible employees to defer a portion of their earnings on a pre-tax basis. No employer contributions were made to the Plan during the years ending June 30, 2010 and 2009. The Plan qualifies as a tax deferred plan under section 403(b) of the Internal Revenue Code.

Note 11 - Bank Line of Credit

The Theatre has a \$1,000,000 line of credit with a bank that expires on February 28, 2011. The line carries interest at the one-month LIBOR rate plus 2.9% (3.14% at June 30, 2010). Outstanding borrowings on the line totaled \$0 and \$402,500 at June 30, 2010 and 2009, respectively. The line is secured by the investments held by the Foundation (at another bank) and requires a minimum balance of \$4,000,000.

SUPPLEMENTAL INFORMATION

SEATTLE REPERTORY THEATRE

**Consolidating Schedule - Balance Sheet
June 30, 2010**

	<u>Theatre</u>	<u>Foundation</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash	\$ 249,035	\$ -	\$ 249,035
Investments	1,958,669		1,958,669
Accounts receivable, net	83,247		83,247
Pledges receivable, net of allowance for doubtful accounts (Theatre - \$11,700, Foundation - \$0)	927,527		927,527
Interfund receivable/payable	1,235	(1,235)	
Prepaid expenses and inventory	310,480		310,480
Total Current Assets	3,530,193	(1,235)	3,528,958
Investments, long-term		12,129,066	12,129,066
Pledges receivable, long-term, net of allowance for doubtful accounts (Theatre - \$0, Foundation - \$142,750) and present value discount (Theatre - \$8,638, Foundation - \$209)	383,612	63,756	447,368
Property and equipment, net of accumulated depreciation of \$6,649,411 (Theatre) and \$7,289 (Foundation)	4,725,721	7,016	4,732,737
Other long-term assets		56,927	56,927
Total Assets	\$ 8,639,526	\$ 12,255,530	\$ 20,895,056
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Deferred ticket sales revenue	\$ 1,769,606	\$ -	\$ 1,769,606
Accounts payable and accrued liabilities	390,138	15,437	405,575
Total Current Liabilities	2,159,744	15,437	2,175,181
Net assets	6,479,782	12,240,093	18,719,875
Total Liabilities and Net Assets	\$ 8,639,526	\$ 12,255,530	\$ 20,895,056

See independent auditors' report.

SEATTLE REPERTORY THEATRE

**Consolidating Schedule - Statement of Changes in Net Assets
Year Ended June 30, 2010**

	<i>Theatre</i>	<i>Foundation</i>	<i>Total</i>
Earned Revenue:			
Total box office revenue	\$ 3,098,753	\$ -	\$ 3,098,753
Total other earned revenue	663,354	975,057	1,638,411
Total earned revenue	3,762,107	975,057	4,737,164
Contributed Revenue:			
Individual gifts	1,479,546	40,206	1,519,752
Individuals - release from restriction	427,981		427,981
Corporate	184,379		184,379
Corporate - release from restriction	5,000		5,000
In-kind gifts	112,068	14,971	127,039
ArtsFund	164,930		164,930
National Corporate Theatre Fund	30,000		30,000
Foundations	287,000		287,000
Foundations - release from restriction	276,092		276,092
Government	247,162		247,162
Fund raising events - net of expenses of \$157,497	261,885		261,885
Seattle Repertory Organization	49,598		49,598
PONCHO	25,803		25,803
Total contributed income	3,551,444	55,177	3,606,621
Total Revenue	7,313,551	1,030,234	8,343,785
Expenses:			
Artistic	1,684,721		1,684,721
Production	2,742,824		2,742,824
Marketing and communications	1,714,499		1,714,499
Development	610,173	42,384	652,557
Administration	1,323,737	116,020	1,439,757
Total Expenses	8,075,954	158,404	8,234,358
Change in Net Assets			
Before Unrealized Gains and Transfers	(762,403)	871,830	109,427
Unrealized gains on investments		565,456	565,456
Net assets released from restriction	(709,073)		(709,073)
Transfer to Seattle Repertory Theatre	127,728	(127,728)	
Change in Net Assets	(1,343,748)	1,309,558	(34,190)
Net Assets:			
Beginning of year	7,823,530	10,930,535	18,754,065
End of Year	\$ 6,479,782	\$ 12,240,093	\$ 18,719,875

See independent auditors' report.

SEATTLE REPERTORY THEATRE

**Consolidating Schedule - Statement of Cash Flows
Year Ended June 30, 2010**

	<u>Theatre</u>	<u>Foundation</u>	<u>Total</u>
Operating Activities:			
Change in net assets	\$ (1,343,748)	\$ 1,309,558	\$ (34,190)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	463,325	1,257	464,582
Net (gains) losses on investments	(1,947)	(1,211,767)	(1,213,714)
Contributions and investment income restricted for endowment		(43,809)	(43,809)
In-kind contribution of fixed assets	(50,000)		(50,000)
Cash provided (used) by changes in operating assets and liabilities:			
Accounts receivable	2,741		2,741
Pledges receivable	579,725		579,725
Prepaid expenses and inventory	148,729		148,729
Interfund receivable/payable	997,784	(997,784)	
Deferred ticket sales revenue	(26,379)		(26,379)
Accounts payable and accrued liabilities	(15,267)	563	(14,704)
Net Cash Provided (Used) by Operating Activities	754,963	(941,982)	(187,019)
Investing Activities:			
Purchase of investments	(7,638,906)	(14,494,041)	(22,132,947)
Proceeds from the sale of investments	6,903,577	15,382,186	22,285,763
Purchase of property and equipment	(146,872)		(146,872)
Net Cash (Used) Provided by Investing Activities	(882,201)	888,145	5,944
Financing Activities:			
Collections on contributions restricted for endowment		50,234	50,234
Investment income restricted for endowment		3,603	3,603
Net proceeds from line of credit	(402,500)		(402,500)
Net Cash (Used) Provided by Financing Activities	(402,500)	53,837	(348,663)
Net Change in Cash	(529,738)		(529,738)
Cash:			
Beginning of year	778,773		778,773
End of Year	\$ 249,035	\$ -	\$ 249,035
Supplemental Disclosure			
Cash paid for interest	\$ 5,237		\$ 5,237

See independent auditors' report.