

SEATTLE REPERTORY THEATRE

Consolidated Financial Statements

For the Year Ended June 30, 2011

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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, 2011, 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 consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 audited consolidated financial statements and, in our report dated September 9, 2010; we expressed an unqualified opinion on those consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2011, 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 consolidated financial statements as a whole. The supplementary information on pages 20 to 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Certified Public Accountants
September 20, 2011

SEATTLE REPERTORY THEATRE

Consolidated Balance Sheet

June 30, 2011

(With Comparative Totals for 2010)

	<i>Unrestricted</i>				<i>Total</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2011 Total</i>	<i>2010 Total</i>
	<i>Operating</i>	<i>Board Designated</i>	<i>Capital Fund</i>	<i>Foundation</i>					
Assets									
Current Assets:									
Cash	\$ 416,079	\$ -	\$ -	\$ -	\$ 416,079	\$ -	\$ -	\$ 416,079	\$ 249,035
Cash reserves	304,699	287,430	52,691		644,820	88,759		733,579	650,078
Restricted cash			533,985		533,985	269,758		803,743	1,082,448
Investments (Note 3)	202,583				202,583			202,583	226,143
Accounts receivable, net (Note 1)	97,234				97,234			97,234	83,247
Pledges receivable, net (Note 2)	809,176				809,176			809,176	927,527
Interfund receivable/payable	(439,732)		7,130	42,921	(389,681)	389,681			
Prepaid expenses and inventory	388,409				388,409			388,409	310,480
Total Current Assets	1,778,448	287,430	593,806	42,921	2,702,605	748,198		3,450,803	3,528,958
Investments, long-term (Note 3)							13,798,801	13,798,801	12,129,066
Long-term interfund receivable/payable				(1,235,636)	(1,235,636)		1,235,636		
Pledges receivable, long-term, net (Note 2)	101,500				101,500		3,935	105,435	447,368
Property and equipment, net of accumulated depreciation (Note 4)	142,445		4,534,129	5,759	4,682,333			4,682,333	4,732,737
Other long-term assets				56,927	56,927			56,927	56,927
Total Assets	\$ 2,022,393	\$ 287,430	\$ 5,127,935	\$ (1,130,029)	\$ 6,307,729	\$ 748,198	\$ 15,038,372	\$ 22,094,299	\$ 20,895,056
Liabilities and Net Assets									
Current Liabilities:									
Deferred ticket sales revenue	\$ 1,683,849	\$ -	\$ -	\$ -	\$ 1,683,849	\$ -	\$ -	\$ 1,683,849	\$ 1,769,606
Accounts payable and accrued liabilities	338,544	31		17,496	356,071	23,018		379,089	405,575
Total Current Liabilities	2,022,393	31		17,496	2,039,920	23,018		2,062,938	2,175,181
Net Assets (Notes 5, 6, and 7)		287,399	5,127,935	(1,147,525)	4,267,809	725,180	15,038,372	20,031,361	18,719,875
Total Liabilities and Net Assets	\$ 2,022,393	\$ 287,430	\$ 5,127,935	\$ (1,130,029)	\$ 6,307,729	\$ 748,198	\$ 15,038,372	\$ 22,094,299	\$ 20,895,056

See accompanying notes.

SEATTLE REPERTORY THEATRE

Consolidated Statement of Unrestricted Revenue and Expenses For the Year Ended June 30, 2011 (With Comparative Totals for 2010)

	<i>Operating</i>	<i>Board Designated</i>	<i>Capital Fund</i>	<i>Foundation</i>	<i>2011 Total</i>	<i>2010 Total</i>
Revenue						
Box Office:						
Subscription revenue	\$ 1,948,234	\$ -	\$ -	\$ -	\$ 1,948,234	\$ 1,984,276
Single ticket revenue	986,887				986,887	1,114,477
Service fees	221,563				221,563	250,821
Total Box Office Revenue	3,156,684				3,156,684	3,349,574
Other Earned:						
Investment income	370	220	541	1,499,115	1,500,246	973,127
Bar and concessions, net of expenses of \$55,133 (2010 - \$72,846)	24,675				24,675	28,621
Production fees	369,354				369,354	269,423
Theatre rental, net of expenses of \$72,576 (2010 - \$85,887)	22,385				22,385	50,416
Miscellaneous	46,002	10,297			56,299	61,984
Total Other Earned Revenue	462,786	10,517	541	1,499,115	1,972,959	1,383,571
Total Earned Revenue	3,619,470	10,517	541	1,499,115	5,129,643	4,733,145
Contributions:						
Individual gifts	1,550,848			10,000	1,560,848	1,359,478
Individuals - release from restriction	442,033				442,033	427,981
Corporate	172,026				172,026	179,379
Corporate - release from restriction	5,000				5,000	5,000
In-kind gifts	39,966	59	318,843	14,941	373,809	127,039
ArtsFund	155,796				155,796	164,930
National Corporate Theatre Fund	28,000				28,000	30,000
Foundations	361,768		11,091		372,859	287,000
Foundations - release from restriction	197,285		44,510		241,795	276,092
Government	254,995				254,995	247,162
Fund raising events, net of expenses of \$185,158 (2010 - \$157,497)	243,073				243,073	261,885
Fund raising - release from restriction	20,000				20,000	
Seattle Repertory Organization	30,000	(2,478)			27,522	49,598
PONCHO	50,268				50,268	25,803
Total Contributions	3,551,058	(2,419)	374,444	24,941	3,948,024	3,441,347
Total Revenue	7,170,528	8,098	374,985	1,524,056	9,077,667	8,174,492
Expenses						
Artistic	1,667,744				1,667,744	1,684,721
Production	2,484,220		239,790		2,724,010	2,742,824
Marketing and communications	1,780,346		50		1,780,396	1,714,499
Development	558,714			30,323	589,037	652,557
Administration	1,235,216	300	218,318	120,667	1,574,501	1,439,757
Total Expenses	7,726,240	300	458,158	150,990	8,335,688	8,234,358
Change in Unrestricted Net Assets Before Unrealized Gains and Transfers						
	(555,712)	7,798	(83,173)	1,373,066	741,979	(59,866)
Unrealized gains on investments				1,124,878	1,124,878	565,456
Interfund transfer of support	813,533	(10,297)		(803,236)		
Interfund transfer of reserves	(258,109)	258,109				
Change in Unrestricted Net Assets	(288)	255,610	(83,173)	1,694,708	1,866,857	505,590
Unrestricted Net Assets:						
Beginning of year	288	31,789	5,211,108	(2,842,233)	2,400,952	1,895,362
End of Year	\$ -	\$ 287,399	\$ 5,127,935	\$ (1,147,525)	\$ 4,267,809	\$ 2,400,952

See accompanying notes.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Unrestricted Net Assets					
Total unrestricted revenue	\$ 8,368,839	\$ -	\$ -	\$ 8,368,839	\$ 7,465,419
Net assets released from restriction	708,828			708,828	709,073
Total unrestricted expenses	(8,335,688)			(8,335,688)	(8,234,358)
Unrealized gains on investments	1,124,878			1,124,878	565,456
Change in Unrestricted Net Assets	1,866,857			1,866,857	505,590
Restricted Net Assets					
Contributions- Individual gifts		126,960	7,829	134,789	160,274
Corporate					5,000
Total Contributions		126,960	7,829	134,789	165,274
Investment Income		451	18,217	18,668	4,019
Total Revenue		127,411	26,046	153,457	169,293
Net assets released from restriction		(638,828)		(638,828)	(709,073)
Release of donor restriction to operations			(70,000)	(70,000)	
Total releases from restriction		(638,828)	(70,000)	(708,828)	
Change in Restricted Net Assets		(511,417)	(43,954)	(555,371)	(539,780)
Total Change in Net Assets	1,866,857	(511,417)	(43,954)	1,311,486	(34,190)
Net assets, beginning of year	2,400,952	1,236,597	15,082,326	18,719,875	18,754,065
Net Assets, End of Year	\$ 4,267,809	\$ 725,180	\$ 15,038,372	\$20,031,361	\$18,719,875

See accompanying notes.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)**

	<u>2011</u>	<u>2010</u>
Operating Activities:		
Change in net assets	\$ 1,311,486	\$ (34,190)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	517,966	464,582
Net gain on investments	(2,358,650)	(1,213,714)
Contributions and investment income restricted for endowment	(26,046)	(43,809)
In-kind contribution of fixed assets		(50,000)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(13,987)	2,741
Pledges receivable	380,463	579,725
Prepaid expenses and inventory	(77,929)	148,729
Deferred ticket sales revenue	(85,757)	(26,379)
Accounts payable and accrued liabilities	(26,486)	(14,704)
Net Cash Used by Operating Activities	(378,940)	(187,019)
Investing Activities:		
Purchase of investments	(14,243,687)	(9,450,576)
Proceeds from sale of investments	14,302,193	10,140,997
Net change in cash equivalents included in investments	653,969	74,106
Decrease (increase) in restricted cash	278,705	(201,505)
(Increase) in cash reserves	(83,501)	(410,206)
Purchase of property and equipment	(467,562)	(146,872)
Net Cash Provided by Investing Activities	440,117	5,944
Financing Activities:		
Collections on contributions restricted for endowment	87,650	50,234
Investment income restricted for endowment	18,217	3,603
Net payments on line of credit		(402,500)
Net Cash Provided (Used) by Financing Activities	105,867	(348,663)
Net Change in Cash	167,044	(529,738)
Cash:		
Beginning of year	249,035	778,773
End of Year	\$ 416,079	\$ 249,035
Supplemental Disclosure:		
Cash paid for interest	\$ 725	\$ 5,237

See accompanying notes.

SEATTLE REPERTORY THEATRE

**Consolidated Statement of Operating Functional Expense
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)**

	<u>Artistic</u>	<u>Production</u>	<u>Marketing and Communications</u>	<u>Development</u>	<u>Administration</u>	<u>2011 Total</u>	<u>2010 Total</u>
Payroll Costs:							
Salaries	\$ 666,738	\$1,482,995	\$ 729,837	\$ 315,032	\$ 687,622	\$ 3,882,224	\$ 3,638,471
Benefits and taxes	199,578	437,573	205,214	83,682	151,599	1,077,646	954,023
Total Payroll Costs	866,316	1,920,568	935,051	398,714	839,221	4,959,870	4,592,494
Other Expenses:							
Royalties	175,848					175,848	204,170
Co-production fees	22,250					22,250	320,798
Production materials	3,424	222,909	150		128	226,611	167,870
Artist housing	38,650	27,748				66,398	72,003
Travel, housing, meetings	88,568	25,856	51,970	53,972	21,453	241,819	297,974
Advertising	6,622		223,270	114	431	230,437	296,716
Printing, publications	6,113		174,716	7,241	428	188,498	135,060
Professional fees	450,839	2,630	148,401	41,975	153,322	797,167	754,034
Supplies and equipment	4,346	13,113	9,975	2,562	61,643	91,639	83,525
Postage and shipping	2,329	4,584	82,294	11,801	8,408	109,416	109,972
Facilities	2,439	245,568	88,165		89,842	426,014	451,995
Depreciation		20,982	1,111	2,241	11,571	35,905	34,695
Bank service charges, taxes, misc.		262	65,243	40,094	48,769	154,368	151,881
Total Other Expenses	801,428	563,652	845,295	160,000	395,995	2,766,370	3,080,693
Total Expenses	\$ 1,667,744	\$ 2,484,220	\$ 1,780,346	\$ 558,714	\$ 1,235,216	\$ 7,726,240	\$ 7,673,187

See accompanying notes.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

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.

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.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

Note 1 - Continued

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 consolidated statement of unrestricted revenue and expenses. 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:

Computer equipment	3 years
Other equipment	5 - 7 years
Building and leasehold improvements	Life of lease

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

Cash Reserves - Cash reserves represent working cash reserves for operations.

Restricted Cash - Restricted cash represents the required maintenance reserve fund for the Seattle Center lease (Note 8) and temporarily restricted donations received in advance of release for donor-imposed restrictions.

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 a \$29,429 valuation allowance for accounts receivable at June 30, 2011 and no allowance at June 30, 2010. See Note 2 for allowance for doubtful accounts for pledges receivable.

Investments - Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the consolidated statement of unrestricted revenues and expenses and the consolidated statement of changes in net assets. Securities are generally held in custodial investment accounts administered by certain financial institutions. See Note 3 for further details.

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 \$23,018 and \$23,578 at June 30, 2011 and 2010, 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.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

Note 1 - Continued

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.

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, 2011, contributed services and materials totaled \$373,809 and were used primarily in program activities. Total donated items for the year ending June 30, 2010, were \$127,039.

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, 2011 and 2010, prepaid subscription campaign expenses included \$42,694 and \$51,047, respectively. Advertising expense for the years ending June 30, 2011 and 2010, was \$229,837 and \$296,288, respectively.

Comparative Amounts for 2010 - The consolidated 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 consolidated financial statements for the year ended June 30, 2010, from which the summarized information was derived.

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

Note 1 - Continued

Reclassifications - Certain amounts on the 2010 financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on the change in net assets or net asset balances as previously reported.

Subsequent Events - The Organization has evaluated subsequent events through September 20, 2011, the date on which the financial statements were available to be issued.

Note 2 - Pledges Receivable

Pledges receivable at June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 953,791	\$ 1,139,942
Due in one to five years	105,063	398,250
	1,058,854	1,538,192
Present value discount (1.54% - 2011; 1.79% - 2010)	(1,593)	(8,847)
Allowance for doubtful accounts	(142,650)	(154,450)
	<u><u>\$ 914,611</u></u>	<u><u>\$ 1,374,895</u></u>

Permanently restricted Foundation pledges receivable of \$3,935 and \$200,715 at June 30, 2011 and 2010, 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 consolidated balance sheet due to the nature of the donor restriction.

Note 3 - Investments

Investments consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 973,420	\$ 1,772,691
Mutual funds	3,109,643	400,997
Common collective trust funds	5,256,132	5,328,382
Publicly traded equity securities	4,662,189	4,853,139
	<u><u>\$ 14,001,384</u></u>	<u><u>\$ 12,355,209</u></u>

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

Note 3 - Continued

Fair Value Measurements - United States generally accepted accounting principles (GAAP) provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants.

The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Cash Equivalents - Consist primarily of money market funds and are valued at the closing price reported on the active market on which the securities are traded.

Equity and Fixed Income Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Organization at year-end.

Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

Common Collective Trust Funds - Valued using the NAV provided by the funds' manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The funds are traded in a private market; however, the unit price is based on observable market data of the funds' underlying assets.

The Organization invests in five common collective trust funds managed by Victory Capital. The funds' investments consist primarily of publicly traded United States and international equity and fixed income securities. The trust funds are privately available to not-for-profit organizations. These investments have no unfunded commitments. Redemptions may be requested and approved by the common collective trust fund Trustee on or before the Valuation Date, which occurs at the end of each business day.

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2011**

Note 3 - Continued

The hierarchy of inputs used to determine the fair value of investments at June 30, 2011, were as follows:

	<i>Fair Value Measurements at June 30, 2011</i>			<i>Total</i>
	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	
Cash equivalents	\$ 973,420	\$ -	\$ -	\$ 973,420
Mutual funds-				
Equities	1,760,256			1,760,256
Fixed income	1,349,387			1,349,387
Total mutual funds	3,109,643			3,109,643
Common collective trust funds-				
U.S. government obligations		2,002,684		2,002,684
Corporate obligations		567,411		567,411
Equities - international		1,750,506		1,750,506
Equities - small cap		935,531		935,531
Total common collective trust funds		5,256,132		5,256,132
Publicly traded equity securities-				
Basic industry	862,727			862,727
Capital goods	496,731			496,731
Consumer cyclical	246,604			246,604
Consumer staples	483,158			483,158
Energy/utilities	1,172,995			1,172,995
Financial	715,073			715,073
Technology	684,901			684,901
Total publicly traded equity securities	4,662,189			4,662,189
	\$ 8,745,252	\$ 5,256,132	\$ -	\$ 14,001,384

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2011**

Note 3 - Continued

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

	<i>Fair Value Measurements at June 30, 2010</i>			<i>Total</i>
	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	
Cash equivalents	\$ 1,772,691	\$ -	\$ -	\$ 1,772,691
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		715,134		715,134
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	747,799			747,799
Total publicly traded equity securities	4,853,139			4,853,139
	\$ 7,026,827	\$ 5,328,382	\$ -	\$ 12,355,209

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2011**

Note 3 - Continued

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

	<u>2011</u>	<u>2010</u>
Interest income and realized gains - unrestricted	\$ 1,500,246	\$ 973,127
Interest income - temporarily and permanently restricted	18,668	4,019
Unrealized gains - unrestricted	<u>1,124,878</u>	<u>565,456</u>
	<u>\$ 2,643,792</u>	<u>\$ 1,542,602</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).

Note 4 - Property and Equipment

Property and equipment at June 30 was as follows:

	<u>2011</u>	<u>2010</u>
Building and leasehold improvements	\$ 7,811,364	\$ 7,802,768
Equipment and furniture	<u>4,043,533</u>	<u>3,586,669</u>
	11,854,897	11,389,437
Accumulated depreciation	<u>(7,172,564)</u>	<u>(6,656,700)</u>
	<u>\$ 4,682,333</u>	<u>\$ 4,732,737</u>

Note 5 - Board Designated Net Assets

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

	<u>2011</u>	<u>2010</u>
Operations reserve	\$ 18,968	\$ 21,447
Working capital reserves	258,109	
Net realized/unrealized gains reserved for operations	<u>10,322</u>	<u>10,342</u>
	<u>\$ 287,399</u>	<u>\$ 31,789</u>

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

Note 6 - Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
General support for future periods	\$ 120,107	\$ 97,254
Young Audience Initiative	298,437	591,362
Wallace Audience Development Initiative	306,636	547,981
	<u>\$ 725,180</u>	<u>\$ 1,236,597</u>

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>2011</u>	<u>2010</u>
Theatre Operations Funds:		
General	\$ 4,779,652	\$ 4,772,873
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	239,953	238,903
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	1,332,977	1,314,760
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
Net 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	30,000	100,000
Total Permanently Restricted Net Assets	<u><u>\$ 15,038,372</u></u>	<u><u>\$ 15,082,326</u></u>

SEATTLE REPERTORY THEATRE

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2011**

Note 7 - Continued

Interpretation of Relevant Law - The Organization has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) 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, 2011 and 2010, are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
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	565,456			565,456
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	(143,088)			(143,088)
Endowment Net Assets, June 30, 2010	(2,842,233)		15,082,326	12,240,093
Endowment investment return-				
Investment earnings	1,499,115		18,217	1,517,332
Income from interfund loan	10,250			10,250
Unrealized gains	1,124,878			1,124,878
Total endowment investment return	2,634,243		18,217	2,652,460
Contributions	24,941		7,829	32,770
Endowment related expenses	(152,476)			(152,476)
Distribution for operating programs	(812,000)			(812,000)
Release of donor restriction to operations			(70,000)	(70,000)
Endowment Net Assets, June 30, 2011	\$ (1,147,525)	\$ -	\$ 15,038,372	\$ 13,890,847

SEATTLE REPERTORY THEATRE

Notes to Consolidated Financial Statements For the Year Ended June 30, 2011

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, 2011 and 2010, 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 exceeds the potential annual distribution amount of 4%, plus the Consumer Price Index (CPI) rate annually, plus 1%. In addition, the Foundation Investments' total rate of return should exceed: A) The medium return of a universe of managers with similar investment objectives and styles. 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 a 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, 2011

Note 8 - 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 \$8,022 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. The Organization is currently in negotiations to extend the date to September 1, 2015 and increase the value to be \$1,000,000 plus an adjustment for the Consumer Price Index.

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 June 30, 2011; with one-half and two-thirds of scheduled payments being due by December 31, 2011 and December 31, 2012, respectively, and full scheduled payments due thereafter. The balance in the fund held by the Organization was \$533,985 and \$533,444 as of June 30, 2011 and 2010, 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.

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

Year Ending June 30,

2012	\$ 101,776
2013	101,776
2014	101,776
2015	5,527
2016	5,527
Thereafter	<u>55,270</u>
	<u><u>\$ 371,652</u></u>

Total rental expense under the leases was \$238,110 and \$234,585 for the years ending June 30, 2011 and 2010, respectively.

SEATTLE REPERTORY THEATRE

***Notes to Consolidated Financial Statements
For the Year Ended June 30, 2011***

Note 9 - 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, 2011 and 2010. The Plan qualified as a tax deferred plan under section 403(b) of the Internal Revenue Code and was converted to a tax deferred plan under section 401(k) of the Internal Revenue Code as of June 1, 2010.

Note 10 - Bank Line of Credit

During fiscal year 2011 the Organization increased their line of credit with a bank from \$1,000,000 to \$2,500,000 that expires on February 28, 2012. The renewed line carries interest at the one-month LIBOR rate plus 2.75% (2.94% at June 30, 2011). The former line of credit carried interest at the one-month LIBOR rate plus 2.9% (3.14% at June 30, 2010). The Organization has a policy of paying off all lines of credit before fiscal year end. There were no outstanding borrowings on the line at June 30, 2011 and 2010. The line is secured by the investments held by the Foundation (at another bank) and requires a minimum balance of 143% of amounts outstanding on the line; formerly the line required a minimum balance of \$4,000,000.

SUPPLEMENTARY INFORMATION

SEATTLE REPERTORY THEATRE

Consolidating Schedule - Balance Sheet
June 30, 2011

	<u>Theatre</u>	<u>Foundation</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 416,079	\$ -	\$ 416,079
Cash reserves	733,579		733,579
Restricted cash	803,743		803,743
Investments	202,583		202,583
Accounts receivable, net of allowance for doubtful accounts \$29,429	97,234		97,234
Pledges receivable, net of allowance for doubtful accounts \$19,900	809,176		809,176
Interfund receivable/payable	(42,921)	42,921	
Prepaid expenses and inventory	388,409		388,409
Total Current Assets	3,407,882	42,921	3,450,803
Investments, long-term		13,798,801	13,798,801
Pledges receivable, long-term, net of allowance for doubtful accounts (Theatre - \$0, Foundation - \$122,750) and present value discount (Theatre - \$1,563, Foundation - \$30)	101,500	3,935	105,435
Property and equipment, net of accumulated depreciation of \$7,164,019 (Theatre) and \$8,545 (Foundation)	4,676,574	5,759	4,682,333
Other long-term assets		56,927	56,927
Total Assets	\$ 8,185,956	\$ 13,908,343	\$ 22,094,299
Liabilities and Net Assets			
Current Liabilities:			
Deferred ticket sales revenue	\$ 1,683,849	\$ -	\$ 1,683,849
Accounts payable and accrued liabilities	361,593	17,496	379,089
Total Current Liabilities	2,045,442	17,496	2,062,938
Net Assets	6,140,514	13,890,847	20,031,361
Total Liabilities and Net Assets	\$ 8,185,956	\$ 13,908,343	\$ 22,094,299

See independent auditors' report.

SEATTLE REPERTORY THEATRE

**Consolidating Schedule - Statement of Changes in Net Assets
For the Year Ended June 30, 2011**

	<i>Theatre</i>	<i>Foundation</i>	<i>Total</i>
Earned Revenue:			
Total box office revenue	\$ 3,156,684	\$ -	\$ 3,156,684
Total other earned revenue - Theatre, net of expenses of \$127,709	474,295	1,517,332	1,991,627
Total Earned Revenue	3,630,979	1,517,332	5,148,311
Contributed Revenue:			
Individual gifts	1,677,808	17,829	1,695,637
Individuals - release from restriction	442,033		442,033
Corporate	172,026		172,026
Corporate - release from restriction	5,000		5,000
In-kind gifts	358,868	14,941	373,809
ArtsFund	155,796		155,796
National Corporate Theatre Fund	28,000		28,000
Foundations	372,859		372,859
Foundations - release from restriction	241,795		241,795
Government	254,995		254,995
Fund raising events - net of expenses of \$185,160	243,073		243,073
Fund raising - release from restriction	20,000		20,000
Seattle Repertory Organization	27,522		27,522
PONCHO	50,268		50,268
Total Contributed Income	4,050,043	32,770	4,082,813
Total Revenue	7,681,022	1,550,102	9,231,124
Expenses:			
Artistic	1,667,744		1,667,744
Production	2,724,010		2,724,010
Marketing and communications	1,780,396		1,780,396
Development	558,714	30,323	589,037
Administration	1,453,834	120,667	1,574,501
Total Expenses	8,184,698	150,990	8,335,688
Change in Net Assets			
Before Unrealized Gains and Transfers	(503,676)	1,399,112	895,436
Unrealized gains on investments		1,124,878	1,124,878
Net assets released from restriction	(638,828)		(638,828)
Release of donor restrictions to operations		(70,000)	(70,000)
Transfer to Seattle Repertory Theatre	803,236	(803,236)	
Change in Net Assets	(339,268)	1,650,754	1,311,486
Net Assets:			
Beginning of year	6,479,782	12,240,093	18,719,875
End of Year	\$ 6,140,514	\$ 13,890,847	\$ 20,031,361

See independent auditors' report.

SEATTLE REPERTORY THEATRE

**Consolidating Schedule - Statement of Cash Flows
For the Year Ended June 30, 2011**

	<u>Theatre</u>	<u>Foundation</u>	<u>Total</u>
Operating Activities:			
Change in net assets	\$ (339,268)	\$ 1,650,754	\$ 1,311,486
Adjustments to reconcile change in net assets to net cash provided by operating activities-			
Depreciation	516,709	1,257	517,966
Net gain on investments		(2,358,650)	(2,358,650)
Contributions and investment income restricted for endowment		(26,046)	(26,046)
Cash provided (used) by changes in operating assets and liabilities:			
Accounts receivable	(13,987)		(13,987)
Pledges receivable	400,463	(20,000)	380,463
Prepaid expenses and inventory	(77,929)		(77,929)
Interfund receivable/payable	44,156	(44,156)	
Deferred ticket sales revenue	(85,757)		(85,757)
Accounts payable and accrued liabilities	(28,545)	2,059	(26,486)
Net Cash Provided (Used) by Operating Activities	415,842	(794,782)	(378,940)
Investing Activities:			
Purchase of investments	23,560	(14,267,247)	(14,243,687)
Proceeds from sale of investments		14,302,193	14,302,193
Net change in cash equivalents included in investments		653,969	653,969
Decrease in restricted cash	278,705		278,705
(Increase) in cash reserves	(83,501)		(83,501)
Purchase of property and equipment	(467,562)		(467,562)
Net Cash (Used) Provided by Investing Activities	(248,798)	688,915	440,117
Financing Activities:			
Collections on contributions restricted for endowment		87,650	87,650
Investment income restricted for endowment		18,217	18,217
Net Cash Provided by Financing Activities		105,867	105,867
Net Change in Cash	167,044		167,044
Cash:			
Beginning of year	249,035		249,035
End of Year	\$ 416,079	\$ -	\$ 416,079
Supplemental Disclosure:			
Cash paid for interest	\$ 725	\$ -	\$ 725

See independent auditors' report.