

SAN JOSE REPERTORY THEATRE

FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

Armanino McKenna ^{LLP}
Certified Public Accountants & Consultants



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
San Jose Repertory Theatre
San Jose, California

We have audited the accompanying statements of financial position of San Jose Repertory Theatre ("Theatre") as of August 31, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Theatre's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Repertory Theatre as of August 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Theatre will continue as a going concern. As discussed in Note 1 to the financial statements, the Theatre has experienced recurring significant losses and negative cash flows from operating activities. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of operating results on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Armanino McKenna LLP". The signature is written in a cursive, flowing style.

ARMANINO McKENNA LLP

November 29, 2010

SAN JOSE REPERTORY THEATRE
 Statements of Financial Position
 August 31, 2010 and 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 208,190	\$ 345,297
Accounts receivable	26,541	23,442
Contributions receivable, net	252,843	201,414
Merchandise inventories	4,866	2,917
Prepaid expenses and other	298,734	444,634
Total current assets	791,174	1,017,704
Non-current assets		
Contributions receivable	4,000	18,500
Investments - restricted	894,125	994,125
Promised use of building	893,114	1,301,145
Property and equipment, net	904,116	1,148,453
Total assets	\$ 3,486,529	\$ 4,479,927

LIABILITIES AND NET ASSETS

Current liabilities		
Lines of credit	\$ 2,784,942	\$ 2,727,577
Notes payable - related parties	70,000	-
Accounts payable and accrued expenses	470,187	452,102
Deferred revenue	1,490,447	1,523,007
Total current liabilities	4,815,576	4,702,686
Long-term debt, net of current portion	-	146,342
Total liabilities	4,815,576	4,849,028
Net assets		
Unrestricted deficit	(4,982,470)	(4,209,451)
Temporarily restricted	1,361,329	1,705,010
Permanently restricted	2,292,094	2,135,340
Total net assets (deficit)	(1,329,047)	(369,101)
Total liabilities and net assets	\$ 3,486,529	\$ 4,479,927

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

SAN JOSE REPERTORY THEATRE
Statement of Activities
For the Year Ended August 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Admissions	\$ 2,698,251	\$ -	\$ -	\$ 2,698,251
Contributions	1,145,440	400,495	156,754	1,702,689
Facility operations support from City of San Jose	300,000	-	-	300,000
Auxiliary activities and other	169,615	-	-	169,615
Contributed use of building revenue	66,969	-	-	66,969
Silicon Valley Arts Fund	146,342	-	-	146,342
Net assets released from restrictions	744,176	(744,176)	-	-
Total revenues and support	5,270,793	(343,681)	156,754	5,083,866
Expenses				
Program				
Production	4,631,315	-	-	4,631,315
Education programs	127,455	-	-	127,455
Total program	4,758,770	-	-	4,758,770
Support				
General and administrative	772,942	-	-	772,942
Fundraising	512,100	-	-	512,100
Total support	1,285,042	-	-	1,285,042
Total expenses	6,043,812	-	-	6,043,812
Change in net assets	(773,019)	(343,681)	156,754	(959,946)
Net assets (deficit) - beginning of year	(4,209,451)	1,705,010	2,135,340	(369,101)
Net assets (deficit) - end of year	\$ (4,982,470)	\$ 1,361,329	\$ 2,292,094	\$ (1,329,047)

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

SAN JOSE REPERTORY THEATRE
Statement of Activities
For the Year Ended August 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Admissions	\$ 2,916,001	\$ -	\$ -	\$ 2,916,001
Contributions	1,105,007	540,326	2,500	1,647,833
Facility operations support from City of San Jose	300,000	-	-	300,000
Auxiliary activities and other	224,845	-	-	224,845
Contributed use of building revenue	90,673	-	-	90,673
Net assets released from restrictions	984,756	(984,756)	-	-
Total revenues and support	5,621,282	(444,430)	2,500	5,179,352
Expenses				
Program				
Production	4,764,955	-	-	4,764,955
Education programs	138,180	-	-	138,180
Total program	4,903,135	-	-	4,903,135
Support				
General and administrative	998,838	-	-	998,838
Fundraising	469,409	-	-	469,409
Total support	1,468,247	-	-	1,468,247
Total expenses	6,371,382	-	-	6,371,382
Change in net assets	(750,100)	(444,430)	2,500	(1,192,030)
Net assets (deficit) - beginning of year	(3,459,351)	2,149,440	2,132,840	822,929
Net assets (deficit) - end of year	\$ (4,209,451)	\$ 1,705,010	\$ 2,135,340	\$ (369,101)

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

SAN JOSE REPERTORY THEATRE
Statements of Cash Flows
For the Years Ended August 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ (959,946)	\$(1,192,030)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Permanently restricted endowment contributions	(156,754)	(2,500)
Depreciation and amortization	306,602	293,241
In-kind rent expense - promised use of facility	475,000	475,000
Contribution of property and equipment	(40,612)	-
Contributed use of building revenue	(66,969)	(90,673)
Loss on disposal of property and equipment	1,428	-
Silicon Valley Arts Fund	(146,342)	-
Changes in operating assets and liabilities		
Accounts receivable	(3,099)	2,136
Contributions receivable, net	(36,929)	233,284
Merchandise inventories	(1,949)	8,885
Prepaid expenses and other	145,900	(87,394)
Accounts payable and accrued expenses	18,085	103,902
Deferred revenue	(32,560)	(99,244)
Net cash used in operating activities	(498,145)	(355,393)
Cash flows from investing activities		
Reinvestment of interest income	-	(2,497)
Purchase of property and equipment	(23,081)	(81,317)
Net cash used in investing activities	(23,081)	(83,814)
Cash flows from financing activities		
Borrowings from permanently restricted endowment	100,000	-
Contributions restricted for endowment	156,754	2,500
Borrowings under lines of credit, net	57,365	601,791
Issuance of notes payable - related parties	70,000	-
Repayment of long-term debt	-	(5,463)
Net cash provided by financing activities	384,119	598,828
Increase (decrease) in cash and cash equivalents	(137,107)	159,621
Cash and cash equivalents, beginning of year	345,297	185,676
Cash and cash equivalents, end of year	\$ 208,190	\$ 345,297
<u>Supplemental disclosure of cash flow information</u>		
Interest paid	\$ 85,923	\$ 107,650

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

SAN JOSE REPERTORY THEATRE
Statement of Functional Expenses
For the Year Ended August 31, 2010

	Program Expenses			Support Expenses			Total
	Production Costs	Education Programs	Total Program	General and Administrative	Fundraising	Total Support	
Salaries and fees	\$ 1,926,475	\$ 92,304	\$ 2,018,779	\$ 311,223	\$ 241,254	\$ 552,477	\$2,571,256
Union benefits	119,940	-	119,940	-	-	-	119,940
Payroll taxes	165,901	7,949	173,850	26,801	20,776	47,577	221,427
Travel	56,689	-	56,689	2,339	-	2,339	59,028
Actor housing	105,234	-	105,234	-	-	-	105,234
Rent expense	162,659	-	162,659	-	-	-	162,659
Production materials	185,549	50	185,599	-	-	-	185,599
Royalties and commissions	196,143	-	196,143	-	-	-	196,143
Printing	123,060	-	123,060	4,213	12,686	16,899	139,959
Advertising	244,959	5,396	250,355	-	-	-	250,355
Insurance - General	151,325	1,068	152,394	58,900	2,792	61,692	214,086
Interest	-	-	-	85,923	-	85,923	85,923
Supplies	22,619	70	22,689	29,772	3,516	33,288	55,977
Telephones	17,031	-	17,031	6,131	1,168	7,299	24,330
Postage	67,678	15	67,693	1,913	1,886	3,799	71,492
Maintenance	85,358	-	85,358	35,214	-	35,214	120,572
Fees and charges	178,179	-	178,179	15,682	-	15,682	193,861
Website maintenance	9,248	487	9,735	-	9,735	9,735	19,469
Software maintenance	17,804	-	17,804	3,561	14,243	17,804	35,607
Utilities	152,111	-	152,111	36,723	28,467	65,190	217,301
Bad debt expense	-	-	-	4,757	-	4,757	4,757
In-kind expense and other	428,733	20,116	448,849	97,974	131,166	229,140	677,989
Miscellaneous	-	-	-	-	4,246	4,246	4,246
Depreciation	214,621	-	214,621	51,815	40,166	91,981	306,602
Total functional expenses	\$ 4,631,315	\$ 127,455	\$ 4,758,770	\$ 772,942	\$ 512,100	\$ 1,285,042	\$6,043,812

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

SAN JOSE REPERTORY THEATRE
Statement of Functional Expenses
For the Year Ended August 31, 2009

	Program Expenses			Support Expenses			Total
	Production Costs	Education Programs	Total Program	General and Administrative	Fundraising	Total Support	
Salaries and fees	\$2,075,621	\$117,271	\$2,192,892	\$ 379,782	\$229,229	\$ 609,011	\$2,801,903
Union benefits	116,194	-	116,194	-	-	-	116,194
Payroll taxes	187,740	12,026	199,766	40,926	23,208	64,134	263,900
Travel	44,935	800	45,735	2,428	-	2,428	48,163
Actor housing	127,926	-	127,926	-	-	-	127,926
Rent expense	164,674	170	164,844	-	-	-	164,844
Production materials	233,313	266	233,579	-	-	-	233,579
Royalties and commissions	273,704	-	273,704	-	-	-	273,704
Printing	119,458	-	119,458	1,802	11,594	13,396	132,854
Advertising	262,628	4,621	267,249	-	-	-	267,249
Insurance - General	150,797	1,481	152,278	60,308	2,895	63,203	215,481
Interest	-	-	-	107,650	-	107,650	107,650
Supplies	37,047	781	37,828	28,607	2,735	31,342	69,170
Telephones	14,754	-	14,754	14,754	-	14,754	29,508
Postage	70,533	195	70,728	1,092	4,101	5,193	75,921
Maintenance	69,381	-	69,381	28,491	-	28,491	97,872
Fees and charges	81,817	-	81,817	25,899	-	25,899	107,716
Website maintenance	10,804	569	11,373	-	11,373	11,373	22,746
Software maintenance	16,472	-	16,472	3,294	13,178	16,472	32,944
Utilities	169,388	-	169,388	49,689	27,159	76,848	246,236
Bad debt expense	-	-	-	16,657	-	16,657	16,657
In-kind expense and other	332,500	-	332,500	174,989	110,000	284,989	617,489
Miscellaneous	-	-	-	2,256	6,179	8,435	8,435
Depreciation	205,269	-	205,269	60,214	27,758	87,972	293,241
Total functional expenses	\$4,764,955	\$138,180	\$4,903,135	\$ 998,838	\$469,409	\$ 1,468,247	\$6,371,382

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

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

1. Business and Significant Accounting Policies

Organization and nature of activities

San Jose Repertory Theatre (the "Theatre") is a not-for-profit tax-exempt corporation (Section 501(c)(3) of the Internal Revenue Code) established to provide professional theater arts to the people of San Jose, California and surrounding communities. The Theatre is supported primarily through admission revenues and donor contributions and grants. The Theatre performs in its 584 seat auditorium located in San Jose, California.

Financial condition

The Theatre has experienced significant losses and incurred negative cash flows from operating activities in the current and prior years. These factors resulted in the Theatre developing a deficit in unrestricted net assets of approximately \$4,980,000 at August 31, 2010. The Theatre is also subject to seasonality of cash flow throughout its fiscal year which requires additional borrowing under its line of credit facility. As of November 30, 2010, the Theatre has used substantially all of its borrowing capacity under its line of credit facilities. However, the Theatre has also taken substantial measures to reduce its operating costs, defer or eliminate certain programs and continue to streamline production costs. In addition, the Board of Trustees continues to support special fundraising efforts designed to pay down debt and secure additional working capital. Based on management's best estimate of future cash flows, these actions are expected to allow the Theatre to operate through August 31, 2011 and prepare for the 2011-2012 season. The Theatre's management is also prepared to employ additional cost-cutting measures if the actual cash flows do not meet the current projections, however, there can be no assurance that these actions will be sufficient. Accordingly, based on this uncertainty, there exists substantial doubt about the Theatre's ability to continue as a going concern through August 31, 2011.

Basis of presentation

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

Net assets and changes therein are classified as follows:

- Permanently restricted net assets - represent contributions to be held in perpetuity as directed by the donors. The income from these contributions is available to support activities of the Theatre as designated by the donors.
- Temporarily restricted net assets - represent contributions whose use by the Theatre is limited in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Theatre according to the intentions of the donors.

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

1. Business and Significant Accounting Policies (continued)

Basis of presentation (continued)

- Unrestricted net assets - represent unrestricted resources available to support the Theatre's operations and temporarily restricted resources that have become available for use by the Theatre in accordance with the intentions of the donors.

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

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Theatre determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3).

The following is a description of the Theatre's categorization of the inputs used in the recurring fair value measurements of its financial instruments included in its statement of financial position as of August 31, 2010 and 2009:

Level 1 - Represents financial instruments whose fair value is determined based upon observable unadjusted quoted market prices for identical financial instruments in active markets that the Theatre has the ability to access.

Level 2 - Represents financial instruments whose fair value is determined based upon: quoted market prices for similar instruments in active markets; quoted market prices for identical instruments in inactive markets; inputs other than quoted market prices that are observable for the instrument such as interest rates or yield curves; or other inputs derived principally from or corroborated from other observable market information.

Level 3 - Represents financial instruments whose fair value is determined based upon inputs that are unobservable, including the Theatre's own determinations of the assumptions that a market participant would use in pricing the instrument. The Theatre currently does not have any Level 3 financial instruments.

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

1. Business and Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash and certificates of deposit with original maturities of three months or less at the date of purchase. The Theatre places its cash and cash equivalents with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

Investments

At August 31, 2010 and 2009, investments consisted of \$894,125 and \$994,125 of certificates of deposits restricted for endowment purposes, of which \$885,000 serve as collateral against the Comerica line of credit (see Note 8).

Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in unrestricted net assets, unless their use is temporarily restricted or permanently restricted by the donor. Temporarily restricted investment income is reported as unrestricted investment income when the restrictions are satisfied in the same reporting period.

Property and equipment

Purchased property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Theatre reports expirations of donor restrictions over the longer of the estimated useful life of the related asset or the expiration of donor stipulations regarding how long those assets must be maintained. The Theatre reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, generally five to ten years. Leasehold improvements are amortized over the shorter of the lease term, generally 15 years, or the useful life of the asset. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Theatre, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined.

Admissions revenue and expense recognition

Admissions revenue and related production expenses are recognized during the period in which the performance occurs. Deferred revenue represents the amount of pre-sold subscriptions and tickets related to performances in the subsequent fiscal year. Expenses related to future performances are recorded as prepaid expenses and charged to operating expense at the time the applicable performance is given.

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

1. Business and Significant Accounting Policies (continued)

Contributions and contributions receivable

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

Unconditional promises to give are recognized as contributions in the period in which the promise is made as contributions receivable. Long-term contributions are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in contribution revenues. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for doubtful contributions receivable, if necessary, is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable.

Donated services and materials

Donated materials and equipment are recorded as contributions based on the estimated fair value at the date of donation. Donated services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Donated services and materials of \$201,653 and \$103,739 for the years ended August 31, 2010 and 2009, respectively, have been reflected in the accompanying financial statements as contributions, with an equivalent amount included in program costs or supporting services as an in-kind expense.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services that benefited from the expense.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates may include, but are not limited to, accounting for the allowances for doubtful contributions and depreciation. Actual results could differ from those estimates.

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

1. Business and Significant Accounting Policies (continued)

Income taxes

The Theatre is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

The Theatre recognizes the effect of uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Theatre records interest related to unrecognized tax benefits and penalties in management and general expenses. The Theatre believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Subsequent events

The Theatre has evaluated subsequent events through November 29, 2010, the date the financial statements were available to be issued.

2. Construction and Operation of Theatre Facility

In December 1995, the Theatre entered into two agreements with the City of San Jose (the "City") for the development, and operation and management, respectively, of the theater facility.

Under the "Development Agreement," the City and the Theatre were jointly responsible for the construction and furnishing of the theater building on land owned by the City. All improvements purchased with funds contributed by the Theatre became the property of the City when installed.

Under the terms of the "Operation and Management Agreement" with the City, the Theatre is granted rent-free use of the theater facility in exchange for its obligation to operate and maintain the facility on behalf of the City. The term of the agreement is 15 years from the 1998 occupancy date of the theater, with two ten-year renewal options. This agreement also requires the City to contribute amounts annually to the Theatre as partial reimbursement of the Theatre's costs of operating and maintaining the theater facility. The City's operating support is payable in quarterly installments. This operating support is recognized in the period the related costs are incurred by the Theatre and totaled \$300,000 in 2010 and 2009. The Theatre has recorded an asset for the value of the use of the facility in excess of the operation and maintenance obligation (see Note 6).

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

3. Contributions Receivable

Unconditional promises to give are reflected in the accompanying financial statements as contributions receivable and contribution revenue of the appropriate net asset category. Net contributions receivable totaled \$256,843 and \$219,914 at August 31, 2010 and 2009, respectively. The allowance for doubtful accounts totaled \$634 at August 31, 2010 and 2009. Long-term contributions receivable as of August 31, 2010 and 2009 totaled \$4,000 and \$18,500, respectively. All long-term contributions receivable are expected to be received in one to two years. At August 31, 2010 and 2009, management has elected not to record long-term pledges receivable to their present value as any resulting discount has been determined to be immaterial to the financial statements taken as a whole.

4. Conditional Promises to Give

During 2010, the Theatre received a restricted contribution totaling \$150,000 that contained donor conditions (primarily related to meeting certain cash flow related budgets during fiscal 2011). Since this contribution represents a conditional promise to give, it is not recorded as contribution revenue until donor conditions are met. Funds received from the donor in advance of the conditions being met are recorded as refundable advances; and will subsequently be recognized as contribution revenue when donor conditions are met. During 2010, the Theatre met certain conditions specified in the conditional pledge and, accordingly, has recognized \$75,000 as temporarily restricted revenue.

5. Fair Value Measurements

The following are the major categories of assets measured at fair value on a recurring basis during the year ended August 31, 2010, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Item</u>	Level 1: Quoted Prices in Active Markets For Identical <u>Assets</u>	Level 2: Significant Other Observable <u>Inputs</u>	Level 3: Significant Unobservable <u>Inputs</u>	Total as of August 31, <u>2010</u>
Certificates of Deposit	\$ -	\$894,125	\$ -	\$894,125
Total investments	<u>\$ -</u>	<u>\$894,125</u>	<u>\$ -</u>	<u>\$894,125</u>

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

5. Fair Value Measurements (continued)

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

<u>Item</u>	Level 1: Quoted Prices in Active Markets For Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total as of August 31, 2009
Certificates of Deposit	\$ -	\$994,125	\$ -	\$994,125
Total investments	<u>\$ -</u>	<u>\$994,125</u>	<u>\$ -</u>	<u>\$994,125</u>

6. Promised Use of Building

In connection with the use of the facility, the Theatre has recorded an asset to reflect the promised use of the building in connection with its agreement with the City of San Jose. At August 31, the promised use of the facility is as follows:

	<u>2010</u>	<u>2009</u>
Total promised use of building asset	\$950,000	\$1,425,000
Less: discount to present value	<u>(56,886)</u>	<u>(123,855)</u>
Net promised use of building asset	<u>\$893,114</u>	<u>\$1,301,145</u>

In connection with the accounting for the use of the facility, the following amounts have been recognized in the statements of activities:

	<u>2010</u>	<u>2009</u>
Rent expense	\$475,000	\$ 475,000
Additional contribution revenue	<u>(66,969)</u>	<u>(90,673)</u>
Net decrease in temporarily restricted net assets	<u>\$408,031</u>	<u>\$ 384,327</u>

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

7. Property and Equipment

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Theatre improvements	\$4,333,999	\$4,333,999
Furniture and computer equipment	449,831	398,538
Production equipment	<u>188,959</u>	<u>183,995</u>
	4,972,789	4,916,532
Accumulated depreciation and amortization	<u>(4,068,673)</u>	<u>(3,768,079)</u>
	<u>\$ 904,116</u>	<u>\$1,148,453</u>

Depreciation and amortization expense for the years ended August 31, 2010 and 2009 was \$306,602 and \$293,241, respectively.

8. Lines of Credit

The Theatre has a line of credit agreement with Comerica Bank ("Comerica line of credit"), expiring in November 2011. Borrowings under the agreement are limited to \$885,000 and are secured by substantially all assets of the Theatre and compensating investment account balances required by the bank. Interest is payable monthly at the bank's certificate of deposit rate plus 2% (5.7% at August 31, 2010). At August 31, 2010 and 2009, the borrowings outstanding on this Comerica line of credit were \$791,499 in each year.

The Theatre has a standby letter of credit with Comerica Bank in the amount of \$62,830. The standby letter of credit agreement expires in November 2011, and is being maintained as security for future payments to an actors' union. Any draws against this letter of credit are incorporated as a borrowing against the Comerica line of credit.

The Theatre entered into a line of credit agreement with the City of San Jose ("City line of credit"), maturing in November 2015. Borrowings under the agreement are limited to \$2,000,000 through 2011, \$1,600,000 in 2012, \$1,200,000 in 2013, \$800,000 in 2014 and \$400,000 in 2015. Borrowings bear interest at the City's monthly effective yield earned on the City's investment portfolio (1.385% at August 31, 2010). At August 31, 2010 and 2009, the outstanding balance on this City line of credit was \$1,993,443 and \$1,936,078, respectively.

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

9. Long-Term Debt

Long-term debt consists of:

	<u>2010</u>	<u>2009</u>
Note payable to the Silicon Valley Arts Fund, non-interest bearing, secured by the Theatre's reserve fund balance	\$ -	\$146,342
Less current portion	<u>-</u>	<u>-</u>
Long-term debt	<u>\$ -</u>	<u>\$146,342</u>

The Theatre was a participant in the Silicon Valley Arts Fund ("Arts Fund"), a fund shared by eleven cultural organizations in Santa Clara County. The agreement establishing the Silicon Valley Arts Fund (the "Agreement") provided for the establishment of a reserve fund for each organization that may be borrowed interest free to meet cash shortfalls and is held in trust at the Community Foundation of Silicon Valley ("CFSV"). In June 2010, the CFSV terminated the Silicon Valley Arts Fund ("SVAF"), thereby liquidating the fund held and distributing the proceeds amongst the participants in the SVAF. As part of the SVAF termination agreement, the SVAF distributed the Theatre's endowment fund balance of \$156,754 and reserve fund balance of \$31,016 to the Theatre. Additionally, as part of the SVAF termination agreement, the CFSV accepted repayment of the Theatre's reserve fund note payable from available Theatre reserve fund assets held at the CFSV. As such, the Theatre has classified the repayment of this SVAF note payable as contribution income totaling \$146,342 in the accompanying statements of activities.

10. Restricted Net Assets

Permanently restricted net assets of \$1,273,652 and \$1,116,898 at August 31, 2010 and 2009, respectively, are restricted to investments in perpetuity as a general endowment, the income from which is expendable to support current Theatre operations. During 2010, the Theatre, as permitted by the donor, borrowed \$100,000 from its permanently restricted net assets to cover short term operating cash flow deficits.

Additional permanently restricted net assets of \$1,018,442, at August 31, 2010 and 2009, represent funds generated by contributions for the Critical Moment campaign which, under the terms of the Critical Moment campaign, have been loaned to unrestricted net assets to cover short-term operating cash flow deficits.

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

10. Restricted Net Assets (continued)

Temporarily restricted net assets consisted of the following at August 31:

	<u>2010</u>	<u>2009</u>
Time restricted		
Promised use of building facility	\$ 893,114	\$1,301,145
Other revenues, time restriction not satisfied	309,703	316,173
Purpose restricted		
Contributions receivable	20,500	75,000
Other revenues, purpose restriction not satisfied	<u>138,012</u>	<u>12,692</u>
Total	<u>\$1,361,329</u>	<u>\$1,705,010</u>

11. Endowment

The Theatre's endowment consists of certificates of deposit to be held in perpetuity. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees (the "Board") to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

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

- (1) The duration and preservation of the fund
- (2) The purposes of the Theatre and the endowment fund
- (3) General economic conditions

SAN JOSE REPERTORY THEATRE

Notes to Financial Statements

August 31, 2010 and 2009

11. Endowment (continued)

Interpretation of relevant law (continued)

- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Theatre
- (7) The investment policies of the Theatre.

Return objectives and risk parameters

The Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that ensure safety of principal, liquidity needs, and earn a competitive return, while assuming a moderate level of investment risk. The Theatre expects its endowment funds, over time, to provide an average rate of return of approximately 4% annually. When the funds are no longer used as collateral for loans, investment options will be more aggressive and target return should increase to 7%. Actual returns in any given year may vary from this amount.

Spending policy and how the investment objectives relate to spending policy

From time to time, endowment gifts may be received to provide ongoing funds for a specific Theatre activity. In these cases the proceeds of that portion of the endowment is restricted for that specific program or activity. Proceeds from use-specific endowment gifts shall be tracked separately and are temporarily restricted revenue. Proceeds may be distributed as needed to fund the activity. Proceeds will be distributed upon Board approval of Investment Committee recommendations.

Proceeds from endowment gifts that have not been restricted by the donor may be designated for a particular activity or use by Board vote. In the case of a Board-imposed designation, the proceeds are considered unrestricted assets. The Board can remove designated use of endowment proceeds by vote.

Proceeds from endowment gifts that have not been restricted by donor or designated by Board action are considered unrestricted assets and may be made available to fund general operating expenses. Such proceeds may be distributed as needed. Proceeds will be distributed upon Board approval of Investment Committee recommendations.

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

11. Endowment (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Theatre relies on a return strategy in which investment returns are achieved through current yield (interest). The Theatre targets an asset allocation that places a greater emphasis on investments in certificates of deposits to achieve its long-term return objectives within prudent risk constraints.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Theatre to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$1,118,442 and \$1,018,442 as of August 31, 2010 and 2009, respectively. The deficiencies represent funds generated by contributions for the Theatre's Critical Moment campaign and subsequently borrowed by the Theatre to cover short-term operating cash flow deficits (see Note 10). Additionally, in 2010 the Theatre borrowed an additional \$100,000 from a permanently restricted gift to cover short term operating cash flow deficits (see Note 10).

Endowment net asset composition by type of fund as of August 31, 2010 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(1,118,442)	\$ -	\$2,292,094	\$1,173,652
Total funds	<u>\$(1,118,442)</u>	<u>\$ -</u>	<u>\$2,292,094</u>	<u>\$1,173,652</u>

Changes in endowment net assets for the fiscal year ended August 31, 2010:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$(1,018,442)	\$ -	\$2,135,340	\$1,116,898
Investment return				
Investment income	-	25,352	-	25,352
Contributions	-	-	156,754	156,754
Borrowings against endowment	(100,000)	-	-	(100,000)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(25,352)</u>	<u>-</u>	<u>(25,352)</u>
Total funds	<u>\$(1,118,442)</u>	<u>\$ -</u>	<u>\$2,292,094</u>	<u>\$1,173,652</u>

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

11. Endowment (continued)

Endowment net asset composition by type of fund as of August 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	(<u>\$1,018,442</u>)	<u>-</u>	<u>\$2,135,340</u>	<u>\$1,116,898</u>
Total funds	<u>(<u>\$1,018,442</u>)</u>	<u>\$ -</u>	<u>\$2,135,340</u>	<u>\$1,116,898</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$(1,018,442)	\$ -	\$2,132,840	\$1,114,398
Investment return				
Investment income	-	33,808	-	33,808
Contributions	-	-	2,500	2,500
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(33,808)</u>	<u>-</u>	<u>(33,808)</u>
Total funds	<u>(<u>\$1,018,442</u>)</u>	<u>\$ -</u>	<u>\$2,135,340</u>	<u>\$1,116,898</u>

12. Operating Lease Obligations

The Theatre leases its storage and production facility under an operating lease agreement, expiring in May 2011, which currently requires monthly payments of approximately \$13,775. The Theatre leases apartments under four operating lease agreements with aggregate monthly payments of approximately \$7,020. These leases expire at various times through June 2011. The Theatre also leases office equipment under two operating lease agreements, with aggregate monthly payments of approximately \$1,113. These leases expire in November 2013 and April 2014, respectively.

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

12. Operating Lease Obligations (continued)

Future minimum annual lease payments required under these agreements are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
2011	\$159,100	\$13,362	\$172,462
2012	-	13,362	13,362
2013	-	13,362	13,362
2014	-	<u>3,795</u>	<u>3,795</u>
	<u>\$159,100</u>	<u>\$43,881</u>	<u>\$202,981</u>

Total rent expense, excluding in-kind rent, for the years ended August 31, 2010 and 2009 was \$162,659 and \$164,844, respectively.

13. Net Assets Released from Restrictions

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

	<u>2010</u>	<u>2009</u>
Promised use of facility	\$408,031	\$384,327
Satisfaction of purpose restrictions	44,672	408,706
Expiration of time restrictions	<u>291,473</u>	<u>191,723</u>
Total net assets released from restrictions	<u>\$744,176</u>	<u>\$984,756</u>

14. Concentrations of Credit Risk

At August 31, 2010 and 2009, approximately 64% and 98%, respectively, of the total contributions receivable were due from members of the Theatre's Board of Trustees and from the City of San Jose.

15. Retirement Plans

The Theatre has adopted a tax deferred annuity plan under Internal Revenue Code Section 403(b) (the "Plan") covering substantially all full-time employees, which provides for voluntary salary deferrals up to certain amounts. For each Plan year, the Board of Trustees of the Theatre determines the amount (if any) to be contributed to the Plan by the Theatre. There were no contributions to the Plan for the years ended August 31, 2010 and 2009.

SAN JOSE REPERTORY THEATRE
Notes to Financial Statements
August 31, 2010 and 2009

16. Related Party Transactions

The Theatre had contributions receivable due from various members of its Board of Trustees. At August 31, 2010 and 2009, contributions receivable due from various members of the Theatre's Board of Trustees totaled approximately \$137,200 and \$114,000, respectively.

The Theatre had short-term unsecured notes payable due to various members of its Board of Trustees. At August 31, 2010, notes payable due to various members of the Theatre's Board of Trustees totaled \$70,000. The notes payable bear interest at rates ranging from 0% to 2.7% per annum and mature in November 2010. The Theatre has not imputed interest on notes containing below market rates as the Theatre's management has determined that any resulting imputed interest would not be material to the financial statements taken as a whole.

Contributions made by members of the Theatre's Board of Trustees were approximately \$236,505 and \$311,130 in 2010 and 2009, respectively.

SUPPLEMENTARY SCHEDULE

SAN JOSE REPERTORY THEATRE
Supplementary Schedule of Operating Results
For the Years Ended August 31, 2010 and 2009

	2010	2009
Revenues and support		
Admissions	\$ 2,698,251	\$ 2,916,001
Contributions	1,499,700	1,505,344
Facility operations support from City of San Jose	300,000	300,000
Auxiliary activities and other	169,615	224,845
Total revenues and support	4,667,566	4,946,190
Operating expenses		
Program		
Production	3,987,961	4,227,186
Education programs	107,339	138,180
Total program	4,095,300	4,365,366
Support		
General and administrative	537,230	655,985
Fundraising	340,768	331,651
Total support	877,998	987,636
Total operating expenses	4,973,298	5,353,002
Change in net assets from operations	(305,732)	(406,812)
Capital activities		
Contributed use of building revenue	66,969	90,673
Silicon Valley Arts Fund	146,342	-
In-kind rent expense	(475,000)	(475,000)
Depreciation and amortization	(306,602)	(293,241)
Interest expense	(85,923)	(107,650)
Net capital activities	(654,214)	(785,218)
Change in net assets	\$ (959,946)	\$ (1,192,030)