

**SAN JOSE REPERTORY THEATRE**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2008 AND 2007**

**Armanino McKenna** <sup>LLP</sup>  
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, 2008 and 2007, 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, 2008 and 2007, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules of operating results on page 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit 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.

*Armanino McKenna LLP*  
ARMANINO McKENNA LLP

November 26, 2008



SAN JOSE REPERTORY THEATRE  
 Statements of Financial Position  
 August 31, 2008 and 2007

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ASSETS

	<u>2008</u>	<u>2007</u>
Current assets		
Cash and cash equivalents	\$ 185,676	\$ 140,800
Accounts receivable	25,578	40,073
Contributions receivable	440,698	210,408
Merchandise inventories	11,802	5,217
Prepaid expenses and other	<u>357,240</u>	<u>243,055</u>
Total current assets	1,020,994	639,553
Non-current assets		
Contributions receivable	12,500	52,500
Investments - restricted	991,628	991,628
Promised use of building	1,685,472	2,047,471
Property and equipment, net	<u>1,360,377</u>	<u>1,707,353</u>
Total assets	<u>\$ 5,070,971</u>	<u>\$ 5,438,505</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Lines of credit	\$ 2,125,786	\$ 1,641,818
Current portion of long-term debt	1,805	454
Accounts payable and accrued expenses	348,200	184,167
Deferred revenue	<u>1,622,251</u>	<u>1,600,906</u>
Total current liabilities	4,098,042	3,427,345
Long-term debt, net of current portion	<u>150,000</u>	<u>150,000</u>
Total liabilities	<u>4,248,042</u>	<u>3,577,345</u>
Net assets		
Unrestricted deficit	(3,459,351)	(2,567,647)
Temporarily restricted	2,149,440	2,295,967
Permanently restricted	<u>2,132,840</u>	<u>2,132,840</u>
Total net assets	<u>822,929</u>	<u>1,861,160</u>
Total liabilities and net assets	<u>\$ 5,070,971</u>	<u>\$ 5,438,505</u>

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

SAN JOSE REPERTORY THEATRE  
Statement of Activities  
For the Year Ended August 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Admissions	\$ 2,640,354	\$ -	\$ -	\$ 2,640,354
Contributions	993,990	523,678	-	1,517,668
Facility operations support from City of San Jose	300,000	-	-	300,000
Auxiliary activities and other	257,962	-	-	257,962
Contributed use of building revenue	113,001	-	-	113,001
Net assets released from restrictions	670,205	(670,205)	-	-
Total revenues and support	4,975,512	(146,527)	-	4,828,985
Expenses				
Program				
Production	4,281,219	-	-	4,281,219
Education programs	163,272	-	-	163,272
Total program	4,444,491	-	-	4,444,491
Support				
General and administrative	960,122	-	-	960,122
Fundraising	462,603	-	-	462,603
Total support	1,422,725	-	-	1,422,725
Total expenses	5,867,216	-	-	5,867,216
Change in net assets	(891,704)	(146,527)	-	(1,038,231)
Net assets (deficit) - beginning of year	(2,567,647)	2,295,967	2,132,840	1,861,160
Net assets (deficit) - end of year	\$ (3,459,351)	\$ 2,149,440	\$ 2,132,840	\$ 822,929

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

SAN JOSE REPERTORY THEATRE  
Statement of Activities  
For the Year Ended August 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Admissions	\$ 2,775,840	\$ -	\$ -	\$2,775,840
Contributions	1,047,639	390,134	2,500	1,440,273
Facility operations support from City of San Jose	300,000	-	-	300,000
Auxiliary activities and other	280,381	-	-	280,381
Contributed use of building revenue	134,031	-	-	134,031
Net assets released from restrictions	666,223	(666,223)	-	-
Total revenues and support	5,204,114	(276,089)	2,500	4,930,525
Expenses				
Program				
Production	4,147,993	-	-	4,147,993
Education programs	108,338	-	-	108,338
Total program	4,256,331	-	-	4,256,331
Support				
General and administrative	926,592	-	-	926,592
Fundraising	409,827	-	-	409,827
Total support	1,336,419	-	-	1,336,419
Total expenses	5,592,750	-	-	5,592,750
Change in net assets	(388,636)	(276,089)	2,500	(662,225)
Net assets (deficit) - beginning of year	(2,179,011)	2,572,056	2,130,340	2,523,385
Net assets (deficit) - end of year	\$ (2,567,647)	\$ 2,295,967	\$ 2,132,840	\$1,861,160

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, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	\$(1,038,231)	\$ (662,225)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	353,915	363,076
In-kind rent expense - promised use of facility	475,000	475,000
Contributed use of building revenue	(113,001)	(134,031)
Changes in operating assets and liabilities		
Accounts receivable	14,495	13,470
Contributions receivable, net	(190,290)	(79,292)
Merchandise inventory	(6,585)	3,914
Prepaid expenses and other	(114,185)	(57,943)
Accounts payable and accrued expenses	164,033	(435,656)
Deferred revenue	21,345	(365,496)
Net cash used in operating activities	(433,504)	(879,183)
Cash flows from investing activities		
Purchases of investments	-	(5,792)
Purchase of property and equipment	(6,939)	(35,074)
Net cash used in investing activities	(6,939)	(40,866)
Cash flows from financing activities		
Borrowings under lines of credit, net	486,670	800,294
Repayment of long-term debt	(1,351)	(35,341)
Net cash provided by financing activities	485,319	764,953
Increase (decrease) in cash and cash equivalents	44,876	(155,096)
Cash and cash equivalents, beginning of year	140,800	295,896
Cash and cash equivalents, end of year	\$ 185,676	\$ 140,800
<u>Supplemental disclosure of cash flow information</u>		
Interest paid	\$ 101,409	\$ 79,660

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, 2008

	Program Expenses			Support Expenses			Total
	Production Costs	Education Programs	Total Program	General and Administrative	Fundraising	Total Support	
Salaries and fees	\$1,722,317	\$136,351	\$1,858,668	\$ 372,919	\$230,836	\$ 603,755	\$2,462,423
Union benefits	66,079	-	66,079	-	-	-	66,079
Payroll taxes	124,794	11,010	135,804	37,514	22,257	59,771	195,575
Travel	23,383	187	23,570	1,833	-	1,833	25,403
Actor housing	74,298	-	74,298	-	-	-	74,298
Rent expense	166,561	170	166,731	-	-	-	166,731
Production materials	115,383	801	116,184	-	-	-	116,184
Royalties and commissions	292,285	-	292,285	-	-	-	292,285
Printing	112,624	-	112,624	4,054	2,069	6,123	118,747
Advertising	229,260	5,109	234,369	-	-	-	234,369
Insurance - General	124,572	7,232	131,804	34,017	12,243	46,260	178,064
Interest	-	-	-	101,409	-	101,409	101,409
Supplies	27,238	606	27,844	23,694	3,742	27,436	55,280
Telephones	-	-	-	31,923	-	31,923	31,923
Postage	82,789	1,059	83,848	835	1,458	2,293	86,141
Maintenance	94,954	-	94,954	40,150	-	40,150	135,104
Fees and charges	242,998	-	242,998	22,341	-	22,341	265,339
Website maintenance	14,191	747	14,938	-	14,938	14,938	29,876
Software maintenance	17,761	-	17,761	3,552	14,209	17,761	35,522
Utilities	148,524	-	148,524	31,827	31,827	63,654	212,178
Bad debt expense	-	-	-	7,055	-	7,055	7,055
In-kind expense and other	351,327	-	351,327	193,912	75,284	269,196	620,523
Miscellaneous	2,140	-	2,140	-	653	653	2,793
Depreciation	247,741	-	247,741	53,087	53,087	106,174	353,915
<b>Total functional expenses</b>	<b>\$4,281,219</b>	<b>\$163,272</b>	<b>\$4,444,491</b>	<b>\$ 960,122</b>	<b>\$462,603</b>	<b>\$ 1,422,725</b>	<b>\$5,867,216</b>

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, 2007

	Program Expenses			Support Expenses			Total
	Production Costs	Education Programs	Total Program	General and Administrative	Fundraising	Total Support	
Salaries and fees	\$ 1,751,947	\$ 89,253	\$1,841,200	\$ 434,211	\$ 212,635	\$ 646,846	\$2,488,046
Union benefits	67,766	-	67,766	-	-	-	67,766
Payroll taxes	115,787	5,140	120,927	28,697	14,053	42,750	163,677
Travel	28,770	-	28,770	2,322	-	2,322	31,092
Actor housing	82,683	-	82,683	-	-	-	82,683
Rent expense	155,592	165	155,757	-	-	-	155,757
Production materials	169,425	9,157	178,582	-	-	-	178,582
Royalties and commissions	211,817	-	211,817	-	-	-	211,817
Printing	105,614	568	106,182	752	16,641	17,393	123,575
Advertising	243,608	269	243,877	-	-	-	243,877
Insurance	134,443	1,873	136,316	50,972	4,464	55,436	191,752
Interest	-	-	-	79,660	-	79,660	79,660
Supplies	37,704	790	38,494	29,840	2,090	31,930	70,424
Telephones	-	-	-	26,687	-	26,687	26,687
Postage	47,009	674	47,683	2,434	5,106	7,540	55,223
Maintenance	90,522	-	90,522	36,038	-	36,038	126,560
Fees and charges	141,507	-	141,507	24,380	-	24,380	165,887
Website maintenance	8,522	449	8,971	-	8,971	8,971	17,942
Software maintenance	18,192	-	18,192	3,638	14,554	18,192	36,384
Utilities	147,974	-	147,974	42,571	20,847	63,418	211,392
Bad debt expense	-	-	-	7,500	-	7,500	7,500
In-kind rent expense and other	332,500	-	332,500	71,250	71,250	142,500	475,000
Miscellaneous	2,458	-	2,458	12,523	3,410	15,933	18,391
Depreciation	254,153	-	254,153	73,117	35,806	108,923	363,076
<b>Total functional expenses</b>	<b>\$ 4,147,993</b>	<b>\$ 108,338</b>	<b>\$4,256,331</b>	<b>\$ 926,592</b>	<b>\$ 409,827</b>	<b>\$ 1,336,419</b>	<b>\$5,592,750</b>

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

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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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 Sobrato 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 \$3,459,351 at August 31, 2008. 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 26, 2008, the Theatre has used substantially all of its borrowing capacity under its line of credit facilities. Based on cash flow projections through August 31, 2009, management has instituted a plan to accelerate and increase the receipt of certain cash inflows and defer and reduce certain cash outflows. Based on management's best estimates, this plan will allow the Theatre to operate through August 31, 2009 and prepare for the 2009-2010 season. However, the Theatre's management is prepared to employ additional cost-cutting measures if the actual cash flows do not meet the current projections.

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.
- 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.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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1. Business and Significant Accounting Policies (continued)

Basis of presentation (continued)

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.

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, 2008 and 2007, investments consisted of \$991,628 of certificates of deposits restricted for endowment purposes, of which \$885,000 serve as collateral against the Comerica line of credit (see Note 6).

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.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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1. Business and Significant Accounting Policies (continued)

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.

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 using a risk-free interest rate. 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. At August 31, 2008 and 2007, the Theatre's management has determined that an allowance for uncollectible contributions receivable is not necessary.

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 \$145,523 and \$12,528 for the years ended August 31, 2008 and 2007 has 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.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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1. Business and Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 2008 and 2007. 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 4).

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 \$453,198 and \$262,908 at August 31, 2008 and 2007, respectively. At August 31, 2008 and 2007, no allowance for doubtful contributions was recorded. Long-term contributions receivable for the years ended August 31, 2008 and 2007 totaled \$12,500 and \$52,500, respectively. All long-term contributions receivable are expected to be received in one to five years.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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4. 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>2008</u>	<u>2007</u>
Total promised use of building asset	\$1,900,000	\$2,375,000
Less: discount to present value	<u>(214,528)</u>	<u>(327,529)</u>
Net promised use of building asset	<u>\$1,685,472</u>	<u>\$2,047,471</u>

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

	<u>2008</u>	<u>2007</u>
Rent expense	\$475,000	\$475,000
Additional contribution revenue	<u>(113,001)</u>	<u>(134,031)</u>
Net decrease in temporarily restricted net assets	<u>\$361,999</u>	<u>\$340,969</u>

5. Property and Equipment

Property and equipment consist of the following:

	<u>2008</u>	<u>2007</u>
Theater improvements	\$4,287,022	\$4,287,022
Furniture and computer equipment	387,574	384,348
Production equipment	<u>167,135</u>	<u>163,422</u>
	4,841,731	4,834,792
Accumulated depreciation and amortization	<u>(3,481,354)</u>	<u>(3,127,439)</u>
	<u>\$1,360,377</u>	<u>\$1,707,353</u>

Depreciation expense for the years ended August 31, 2008 and 2007 was \$353,915 and \$363,076, respectively.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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6. Lines of Credit

The Theatre has a line of credit agreement with Comerica Bank ("Comerica line of credit"), expiring in November 2010. 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% (4.9% at August 31, 2008). At August 31, 2008 and 2007, the borrowings outstanding on this Comerica line of credit were \$791,524 in each year.

The Theatre has a standby letter of credit with Comerica Bank in the amount of \$43,474. The standby letter of credit agreement expires in November 2010, 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 (4.1% at August 31, 2008). At August 31, 2008 and 2007, the outstanding balance on this City line of credit was \$1,334,262 and \$850,294, respectively.

7. Long-Term Debt

Long-term debt consists of:

	<u>2008</u>	<u>2007</u>
Note payable to the Silicon Valley Arts Fund, non-interest bearing, secured by the Theatre's reserve fund balance	\$150,000	\$150,000
Other	<u>1,805</u>	<u>454</u>
	151,805	150,454
Less current portion	<u>(1,805)</u>	<u>(454)</u>
Long-term debt	<u>\$150,000</u>	<u>\$150,000</u>

The Theatre is 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") provides for the establishment of a reserve fund for each organization that may be borrowed interest free, to meet cash shortfalls. The Theatre's reserve fund balance in the Arts Fund was \$175,733 at August 31, 2008, which is pledged to secure the note payable of \$150,000. The Agreement provides that no cultural organization has an ownership interest in the Arts Fund.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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8. Restricted Net Assets

Permanently restricted net assets of \$1,114,398 at August 31, 2008 and 2007 are restricted to investments in perpetuity as a general endowment, the income from which is expendable to support current Theatre operations. Additional permanently restricted net assets of \$1,018,442, at August 31, 2008 and 2007, 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.

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

	<u>2008</u>	<u>2007</u>
Time restricted		
Promised use of building facility	\$1,685,472	\$2,047,471
Other revenues, time restriction not satisfied	221,028	1,926
Purpose restricted		
Contributions receivable	236,000	242,208
Other revenues, purpose restriction not satisfied	<u>6,940</u>	<u>4,362</u>
Total	<u>\$2,149,440</u>	<u>\$2,295,967</u>

9. 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 \$13,125. The Theatre leases apartments under three operating lease agreements with aggregate monthly payments of approximately \$4,860. These leases expire at various times through July 2009. The Theatre also leases office equipment under an operating lease agreement, expiring in November 2008, with aggregate monthly payments of approximately \$900.

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>
2009	\$208,765	\$2,691	\$211,456
2010	162,375	-	162,375
2011	<u>123,975</u>	<u>-</u>	<u>123,975</u>
	<u>\$495,115</u>	<u>\$2,691</u>	<u>\$497,806</u>

Total rent expense, excluding in-kind rent, for the years ended August 31, 2008 and 2007 was approximately \$250,000 and \$248,000, respectively.

SAN JOSE REPERTORY THEATRE  
Notes to Financial Statements  
August 31, 2008 and 2007

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10. 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>2008</u>	<u>2007</u>
Promised use of facility	\$361,999	\$340,969
Write off of uncollectible contributions receivable	-	7,500
Satisfaction of purpose restrictions	118,198	146,722
Expiration of time restrictions	<u>190,008</u>	<u>171,032</u>
Total net assets released from restrictions	<u>\$670,205</u>	<u>\$666,223</u>

11. Concentrations of Credit Risk

At August 31, 2008 and 2007, approximately 48% and 98%, respectively, of the total contributions receivable was due from members of the Theatre's Board of Trustees and from the City of San Jose.

12. 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, 2008 and 2007.

13. Related Party Transactions

The Theatre had contributions receivable due from various members of its Board of Trustees. At August 31, 2008 and 2007, contributions receivable due from various members of the Theatre's Board of Trustees totaled approximately \$108,000 and \$140,000, respectively.

Contributions made by members of the Theatre's Board of Trustees were approximately \$115,000 and \$125,000 in 2008 and 2007, respectively.

SUPPLEMENTARY SCHEDULES

SAN JOSE REPERTORY THEATRE  
Supplementary Schedules of Operating Results  
For the Years Ended August 31, 2008 and 2007

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	2008	2007
Revenues and support		
Admissions	\$ 2,640,354	\$ 2,775,840
Contributions	1,517,668	1,440,273
Facility operations support from City of San Jose	300,000	300,000
Auxiliary activities and other	257,962	280,381
Total revenues and support	4,715,984	4,796,494
Operating expenses		
Program		
Production	3,781,886	3,561,340
Education programs	163,272	108,338
Total program	3,945,158	3,669,678
Support		
General and administrative	640,009	702,565
Fundraising	351,725	302,771
Total support	991,734	1,005,336
Total operating expenses	4,936,892	4,675,014
Change in net assets from operations	(220,908)	121,480
Capital activities		
Contributed use of building revenue	113,001	134,031
In-kind rent expense	(475,000)	(475,000)
Depreciation and amortization	(353,915)	(363,076)
Interest expense	(101,409)	(79,660)
Net capital activities	(817,323)	(783,705)
Change in net assets	\$ (1,038,231)	\$ (662,225)