SEATTLE REPERTORY THEATRE

Consolidated Financial Statements

For the Year Ended June 30, 2017

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Clark Nuber PS

Independent Auditor's Report

To the Boards of Trustees and Directors
Seattle Repertory Theatre
Seattle Repertory Theatre Foundation
Seattle, Washington

We have audited the accompanying consolidated financial statements of Seattle Repertory Theatre and Seattle Repertory Theatre Foundation (collectively, the Organization), which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated statements of revenue and expenses without donor restrictions, changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2017. The requirements of the ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 12, 2016. As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 1 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The operating, board designated, capital fund, and Foundation columns on pages 3 and 4, and the consolidating schedules on pages 20 through 22 are presented for purposes of additional analysis and are 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.

Clark Nuber P.S.

Certified Public Accountants
November 27, 2017

SEATTLE REPERTORY THEATRE

Consolidated Balance Sheet
June 30, 2017
(With Comparative Totals for 2016)

	Without Donor Restrictions				With Donor Restrictions				
	Operating Fund	Board-Designated Fund	Capital Fund	Total	Donor Restricted Fund	Foundation	Total	2017 Total	2016 Total
Assets									
Current Assets:									
Cash	$ -	$ -	$ 91,890	$ 91,890	$ 368,858	$ -	$ 368,858	$ 460,748	$ 649,134
Cash reserves (Note 1)	138,587	35,688		174,275				174,275	161,413
Restricted cash (Note 1 and 8)			883,711	883,711	22,736		22,736	906,447	967,950
Accounts receivable, net (Note 1)	212,094			212,094				212,094	87,559
Pledges receivable, net (Note 1 and 2)	1,461,238			1,461,238				1,461,238	1,017,262
Interfund receivable (payable)	(964,417)	(1,169)	(167,927)	(1,133,513)	778,029	355,484	1,133,513		
Prepaid expenses and inventory	428,813			428,813				428,813	379,722
Total Current Assets	**1,276,315**	**34,519**	**807,674**	**2,118,508**	**1,169,623**	**355,484**	**1,525,107**	**3,643,615**	**3,263,040**
Investments, long-term (Note 3)						10,554,037	10,554,037	10,554,037	10,454,007
Pledges receivable, long-term, net (Note 2)	46,374			46,374		18,870	18,870	65,244	125,321
Property and equipment, net of accumulated depreciation (Note 4)	225,707		3,190,644	3,416,351				3,416,351	3,320,687
Other long-term assets (Note 1)	450,000			450,000		56,927	56,927	506,927	56,927
Total Assets	**$ 1,998,396**	**$ 34,519**	**$ 3,998,318**	**$ 6,031,233**	**$ 1,169,623**	**$ 10,985,318**	**$ 12,154,941**	**$ 18,186,174**	**$ 17,219,982**
Liabilities and Net Assets									
Current Liabilities:									
Deferred ticket revenue (Note 1)	$ 2,526,051	$ -	$ -	$ 2,526,051	$ -	$ -	$ -	$ 2,526,051	$ 2,454,895
Accounts payable and accrued liabilities	1,224,244			1,224,244	19,380		19,380	1,243,624	484,668
Line-of-credit (Note 10)	2,000,000			2,000,000				2,000,000	
Total Current Liabilities	**5,750,295**			**5,750,295**	**19,380**		**19,380**	**5,769,675**	**2,939,563**
Net assets-									
Without donor restrictions (Note 5)	(3,751,899)	34,519	3,998,318	280,938				280,938	3,209,866
With donor restrictions:									
Donor restricted fund (Note 6)					1,150,243		1,150,243	1,150,243	513,808
Endowment corpus (Note 6)						15,523,990	15,523,990	15,523,990	15,529,059
Endowment accumulated deficit (Note 7)						(4,538,672)	(4,538,672)	(4,538,672)	(4,972,314)
Total Net Assets	**(3,751,899)**	**34,519**	**3,998,318**	**280,938**	**1,150,243**	**10,985,318**	**12,135,561**	**12,416,499**	**14,280,419**
Total Liabilities and Net Assets	**$ 1,998,396**	**$ 34,519**	**$ 3,998,318**	**$ 6,031,233**	**$ 1,169,623**	**$ 10,985,318**	**$ 12,154,941**	**$ 18,186,174**	**$ 17,219,982**

See accompanying notes.

SEATTLE REPERTORY THEATRE

Consolidated Statement of Revenue and Expenses Without Donor Restrictions
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Theatre					
	Operating Fund	Board-Designated Fund	Capital Fund	Foundation	2017 Total	2016 Total
Revenue						
Box Office Income:						
Subscription revenue	$ 2,686,577	$ -	$ -	$ -	$ 2,686,577	$ 2,247,960
Single ticket revenue	3,250,705				3,250,705	2,608,724
Service fees	423,579		99,117		522,696	503,966
Total Box Office Income	**6,360,861**		**99,117**		**6,459,978**	**5,360,650**
Other Earned Income:						
Bar and concessions, net of expenses of $170,338 (2016 - $170,829)	44,993				44,993	25,226
Production fees	9,500				9,500	23,212
Theatre rental, net of expenses of $178,565 (2016 - $136,640)	32,940				32,940	53,660
Miscellaneous	35,317	77,260	1,935		114,512	29,865
Total Other Earned Income	**122,750**	**77,260**	**1,935**		**201,945**	**131,963**
Total Earned Income	**6,483,611**	**77,260**	**101,052**		**6,661,923**	**5,492,613**
Contributions:						
Individual gifts	2,701,488	11,205			2,712,693	2,481,785
Individuals - release from restriction	91,500		122,141		213,641	131,500
Corporate	198,050				198,050	174,556
Corporate - release from restriction	5,000				5,000	5,000
In-kind gifts	165,929			2,750	168,679	52,518
ArtsFund	132,720				132,720	140,590
National Corporate Theatre Fund	46,775				46,775	38,000
Foundations	394,528		92,496		487,024	466,455
Foundations - release from restriction	25,000				25,000	27,500
Government	138,934				138,934	165,934
Government - release from restriction	19,300				19,300	44,000
Fund raising events, net of expenses of $267,401 (2016 - $203,960)	700,272				700,272	448,706
Fund raising - release from restriction	28,250				28,250	
Seattle Repertory Organization	30,000	(1,834)			28,166	37,148
Total Contributions	**4,677,746**	**9,371**	**214,637**	**2,750**	**4,904,504**	**4,213,692**
Total Revenue	**11,161,357**	**86,631**	**315,689**	**2,750**	**11,566,427**	**9,706,305**
Expenses:						
Artistic	3,425,169				3,425,169	2,416,273
Production	6,090,450		262,221		6,352,671	3,805,534
Marketing and communications	3,072,217		19,226		3,091,443	2,446,808
Development	840,946		5	5,903	846,854	688,021
Administration	1,470,466		57,896	39,836	1,568,198	1,358,934
Total Expenses	**14,899,248**		**339,348**	**45,739**	**15,284,335**	**10,715,570**
Change in Net Assets Without Donor Restrictions Before Interfund Transfers	**(3,737,891)**	**86,631**	**(23,659)**	**(42,989)**	**(3,717,908)**	**(1,009,265)**
Interfund Transfers and Endowment Appropriation:						
Endowment appropriation				788,980	788,980	873,236
Foundation transfer of support	750,000			(750,000)		
Board-designated transfer of support	77,241	(77,241)				
Operating transfer for interfund borrowing	(4,009)			4,009		
Total Interfund Transfers	**823,232**	**(77,241)**		**42,989**	**788,980**	**873,236**
Change in Net Assets Without Donor Restrictions	**(2,914,659)**	**9,390**	**(23,659)**		**(2,928,928)**	**(136,029)**
Net Assets Without Donor Restrictions:						
Beginning of year	(837,240)	25,129	4,021,977		3,209,866	3,345,895
End of Year	**$ (3,751,899)**	**$ 34,519**	**$ 3,998,318**	**$ -**	**$ 280,938**	**$ 3,209,866**

See accompanying notes.

SEATTLE REPERTORY THEATRE

Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Theatre				
	All Other Funds	Donor Restricted Fund	Foundation	2017 Total	2016 Total
Net Assets Without Donor Restrictions					
Total revenues	$ 11,272,486	$ -	$ 2,750	$ 11,275,236	$ 9,498,305
Net assets released from restriction	291,191			291,191	208,000
Total revenue	11,563,677		2,750	11,566,427	9,706,305
Total expenses	(15,238,596)		(45,739)	(15,284,335)	(10,715,570)
Endowment appropriation			788,980	788,980	873,236
Foundation transfer of support	750,000		(750,000)		
Operating transfer for interfund borrowing	(4,009)		4,009		
Change in Net Assets Without Donor Restrictions	**(2,928,928)**			**(2,928,928)**	**(136,029)**
Net Assets With Donor Restrictions					
Contributions:					
Individual gifts		455,440	13,915	469,355	221,467
Corporate		36,000		36,000	5,000
Foundations		196,236		196,236	
Government		199,000		199,000	219,300
Fund raising events		40,950		40,950	28,250
Total contributions		927,626	13,915	941,541	474,017
Investment return:					
Investment income (loss), net			186,408	186,408	(51,889)
Investment income - Reinvested in Foundation corpus			48,766	48,766	31,003
Unrealized gains (losses)			968,464	968,464	(280,320)
Total investment return			1,203,638	1,203,638	(301,206)
Total revenue		927,626	1,217,553	2,145,179	172,811
Endowment appropriation			(788,980)	(788,980)	(873,236)
Net assets released from restriction		(291,191)		(291,191)	(208,000)
Change in Net Assets With Donor Restrictions		**636,435**	**428,573**	**1,065,008**	**(908,425)**
Total Change in Net Assets	**(2,928,928)**	**636,435**	**428,573**	**(1,863,920)**	**(1,044,454)**
Net assets, beginning of year	3,209,866	513,808	10,556,745	14,280,419	15,324,873
Net Assets, End of Year	**$ 280,938**	**$ 1,150,243**	**$ 10,985,318**	**$ 12,416,499**	**$ 14,280,419**

See accompanying notes.

SEATTLE REPERTORY THEATRE

Consolidated Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Operating Activities:		
Change in net assets	$ (1,863,920)	$ (1,044,454)
Adjustments to reconcile change in net assets		
to net cash used in operating activities-		
Depreciation	437,664	402,159
Net (gain) loss on investments	(1,040,175)	469,910
Contributions restricted for capital assets	(440,996)	(348,435)
Contributions and investment income restricted for endowment	(44,093)	(26,330)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(124,535)	35,235
Pledges receivable	(304,786)	10,218
Prepaid expenses and inventory	(49,091)	(36,981)
Deferred ticket sales income	71,156	509,802
Accounts payable and accrued liabilities	758,956	(60,722)
Net Cash Used in Operating Activities	**(2,599,820)**	**(89,598)**
Investing Activities:		
Purchase of investments	(711,732)	(896,824)
Proceeds from sale of investments	1,305,707	1,116,942
Net change in cash equivalents included in investments	346,170	187,035
Increase (decrease) in restricted cash	61,503	(144,520)
(Decrease) increase in cash reserves	(12,862)	106,159
Purchase of other long-term assets	(450,000)	
Purchase of property and equipment	(533,328)	(258,681)
Net Cash Provided by Investing Activities	**5,458**	**110,111**
Financing Activities:		
Collections on contributions restricted for capital assets	316,496	139,435
Collections on contributions restricted for endowment	40,714	19,563
Investment income restricted for endowment	48,766	31,003
Draws on line of credit	2,000,000	
Net Cash Provided by Financing Activities	**2,405,976**	**190,001**
Net Change in Cash	**(188,386)**	**210,514**
Cash, beginning of year	649,134	438,620
Cash, End of Year	**$ 460,748**	**$ 649,134**
Supplementary Disclosure:		
Cash paid for interest	$ 49,655	$ 20,490

See accompanying notes.

SEATTLE REPERTORY THEATRE

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Artistic	Production	Marketing and Communications	Development	Administration	2017 Total	2016 Total
Operating Fund Expenses							
Payroll costs:							
Salaries	$ 1,133,897	$ 3,276,451	$ 1,173,608	$ 522,735	$ 752,084	$ 6,858,775	$ 5,039,664
Benefits and taxes	358,256	904,100	316,706	119,178	166,067	1,864,307	1,391,151
Total payroll costs	**1,492,153**	**4,180,551**	**1,490,314**	**641,913**	**918,151**	**8,723,082**	**6,430,815**
Other expenses:							
Royalties	428,194					428,194	296,161
Co-production fees	7,500	42,000				49,500	135,205
Production materials	90	822,380				822,470	193,772
Artist housing	50,490	31,217				81,707	94,344
Travel, housing, meetings	815,849	67,559	87,775	73,020	25,022	1,069,225	458,550
Advertising	320	2,266	877,931	1,075		881,592	530,034
Printing, publications	3,962		109,589	14,724	514	128,789	137,023
Professional fees	613,633	165,332	126,479	25,000	201,315	1,131,759	870,950
Supplies and equipment	8,125	229,376	9,595	3,476	100,981	351,553	190,104
Postage and shipping	2,321	42,889	45,230	10,984	9,620	111,044	122,787
Facilities	2,120	476,917	132,559	3,837	132,053	747,486	604,777
Depreciation	412	29,388	3,123	258	12,395	45,576	44,294
Bank service charges, taxes, miscellaneous		575	189,622	66,659	70,415	327,271	254,282
Total other expenses	1,933,016	1,909,899	1,581,903	199,033	552,315	6,176,166	3,932,283
Total Operating Fund Expenses	**3,425,169**	**6,090,450**	**3,072,217**	**840,946**	**1,470,466**	**14,899,248**	**10,363,098**
Capital Fund Expenses							
Travel, housing, meetings							65
Printing, publications							180
Facilities		(6,490)	(2,400)		(43,850)	(52,740)	(35,000)
Depreciation		268,711	21,626	5	101,746	392,088	357,865
Total Capital Fund Expenses		**262,221**	**19,226**	**5**	**57,896**	**339,348**	**323,110**
Foundation Expenses							
Payroll costs:							
Salaries				5,014	22,308	27,322	27,182
Benefits and taxes				924	4,138	5,062	4,530
Total payroll costs				5,938	26,446	32,384	31,712
Travel, housing, meetings					215	215	
Printing, publications				157		157	
Professional fees				450	13,100	13,550	11,373
Supplies and equipment				558		558	586
Facilities							733
Bank service charges, taxes, miscellaneous				(1,200)	75	(1,125)	(15,042)
Total other expenses				(35)	13,390	13,355	(2,350)
Total Foundation Expenses				**5,903**	**39,836**	**45,739**	**29,362**
Total Expenses	**3,425,169**	**6,352,671**	**3,091,443**	**846,854**	**1,568,198**	**15,284,335**	**10,715,570**
Plus bar & concessions, theatre rental and direct benefits to donors netted with revenue		178,565	170,338	267,401		616,304	511,429
Total Functional Expenses	**$ 3,425,169**	**$ 6,531,236**	**$ 3,261,781**	**$ 1,114,255**	**$ 1,568,198**	**$ 15,900,639**	**$ 11,226,999**

See accompanying notes.

Note 1 - Summary of Significant Accounting Policies

General - Seattle Repertory Theatre (the Theatre) was founded on June 13, 1963 and is led by Artistic Director Braden Abraham and Managing Director Jeffrey Herrmann. One of America's premier not-for-profit resident theatres, Seattle Repertory Theatre has achieved international renown for its consistently high production and artistic standards, and was awarded the 1990 Tony Award for Outstanding Regional Theatre. With an emphasis on entertaining plays of true dramatic and literary worth, the Theatre produces a season of plays along with educational programs, new play workshops and special presentations.

The Seattle Repertory Theatre Foundation (the Foundation) was founded on September 11, 1998 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 accounting principles generally accepted in the United States of America (U.S. GAAP) 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 two classes of net assets: net assets without donor restriction and net assets with donor restriction.

> Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.
>
> Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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 donor restricted contributions as without donor restrictions to the extent that donor 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.

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.

Note 1 - Continued

Restricted Cash - Restricted cash represents the required maintenance reserve fund for the Seattle Center lease (Note 8) and cash associated with gift annuities.

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 bad debt expense 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 $12,473 and $0 valuation allowance for accounts receivable as of June 30, 2017 and 2016, respectively. 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 revenues and expenses without donor restrictions 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.

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 - 10 years
Building and improvements	30 years
Leasehold improvements	Shorter of asset life or life of lease

Other Long-Lived Assets - Other operating long-lived assets reported on the consolidated balance sheet at June 30, 2017 totaling $450,000 consists of the set and scenic structure for a play constructed by the Organization that has a useful life longer than one year.

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.

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 to the beneficiaries are recorded as liabilities and totaled $19,380 and $20,014 at June 30, 2017 and 2016, 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 donor restricted revenue.

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 is 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 U.S. GAAP 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 income consists of income from ticket sales, investments, co-production fees, facility rentals, concessions, production related royalties, and other miscellaneous sources. Contributions consist of grants and gifts from individuals, corporations, foundations, and federal, state, and local governmental agencies. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is reported as contribution revenue. Subscriptions for tickets are recorded as income or deferred income, dependent upon the performance season to which they relate. Pledges are recognized as revenue when they are received.

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 years ending June 30, 2017 and 2016, contributed services and materials totaled $168,679 and $52,518, and were used primarily in program activities.

Functional Allocation of Expenses - Expenses consist of costs related to providing artistic, production, marketing, development and administrative functions. These costs have been summarized on a functional basis in the consolidated statement of revenue and expenses without donor restrictions. Costs are directly charged to the functions they benefit. Costs incurred in connection with specific performances are deferred until the show is performed. Facility related expenses are allocated to each function based on square footage utilized by the function.

Advertising Costs - The Organization prepays 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. Prepaid direct-response advertising costs are expensed in the advertised season. At June 30, 2017 and 2016, prepaid subscription campaign expenses were $92,038 and $70,406, respectively. Advertising expense for the years ending June 30, 2017 and 2016, was $880,162 and $527,348, respectively.

Note 1 - Continued

New Accounting Pronouncement - During the year ended June 30, 2017, the Organization elected to early adopt the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years ending 2019. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 11).

The accompanying summarized information from the 2016 financial statements has been restated to conform to the 2017 presentation and disclosure requirements of ASU 2016-14. As a result, previously reported net assets without donor restrictions (unrestricted net assets) have been increased by $4,972,314 and net assets with donor restrictions has been decreased by the same amount as of June 30, 2016 from the reclassification of the accumulated deficit associated with deficiency in endowment funds resulting from appropriations for programs that were deemed prudent by the Foundation’s Board of Directors that exceeded net investment returns (Note 7).

Comparative Amounts for 2016 - The consolidated financial statements include certain summarized comparative information in total, but not by net asset class, for the year ended June 30, 2016. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through November 27, 2017, the date on which the financial statements were available to be issued and no additional disclosures were required.

Note 2 - Pledges Receivable

Pledges receivable at June 30 were as follows:

	2017	2016
Due in less than one year	$ 1,529,621	$ 1,139,109
Due in one to five years	64,232	107,903
	1,593,853	1,247,012
Present value discount (1.89% - 2017; 1.01% - 2016)	(1,189)	(1,037)
Allowance for doubtful accounts	(66,182)	(103,392)
	$ 1,526,482	**$ 1,142,583**

Foundation pledges receivable of $57,365 and $134,837 for the years ended June 30, 2017 and 2016 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:

	2017	2016
Cash equivalents	$ 59,974	$ 359,471
Mutual funds-		
Fixed income	2,155,408	2,541,400
Equities - international	2,138,109	1,967,748
Equities - large cap	3,552,569	3,352,930
Equities - mid/small cap	1,290,623	1,170,674
Total mutual funds	9,136,709	9,032,752
Alternative funds-		
Real assets	548,202	661,247
Absolute Return Assets	396,506	
Equity return assets	412,646	400,537
Total alternative funds	1,357,354	1,061,784
	$ 10,554,037	**$ 10,454,007**

Note 3 - Continued

Fair Value Measurements - U.S. 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, 2017 and 2016.

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

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

All investments of the Organization are valued using Level 1 inputs. The valuation methodologies used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization’s management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	2017	2016
Interest and dividends	$ 213,913	$ 213,060
Realized gain (loss), net of investment fees	21,261	(233,946)
Unrealized gain (loss)	968,464	(280,320)
	$ 1,203,638	**$ (301,206)**

Note 4 - Property and Equipment

Property and equipment at June 30 was as follows:

	2017	2016
Building and leasehold improvements	$ 8,018,490	$ 7,896,245
Equipment and furniture	5,289,641	4,920,630
	13,308,131	12,816,875
Accumulated depreciation	(9,891,780)	(9,496,188)
	$ 3,416,351	**$ 3,320,687**

Note 5 - Board-Designated Net Assets

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

	2017	2016
Operations reserve	$ 10,655	$ 1,285
Working capital reserves	12,852	12,856
Net realized/unrealized gains reserved for operations	11,012	10,988
	$ 34,519	**$ 25,129**

Note 6 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	2017	2016
Subject to the Passage of Time or Expenditure for Specified Purpose:		
General support for future periods	$ 673,884	$ 263,808
Support for investment in capital assets	476,359	250,000
Total Subject to the Passage of Time or Expenditure for Specified Purpose	1,150,243	513,808
Endowment Funds:		
Original gifts and required retained earnings (corpus) -		
Theatre operations funds-		
General	4,812,507	4,880,261
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
Mary F. Stowe Fund	103,637	100,618
Jim & Camille Uhlir Fund	50,250	50,250
Education-		
Peter Donnelly Fund	240,953	240,953
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	1,517,185	1,471,437
The Stuart Smailes Signature Works Fund	109,850	109,850
Henry & Nancy Ketcham Foundation	50,000	50,000
George & Carlyn Steiner Guest Artist Fund	63,918	50,000
Actors Fund	50,000	50,000
New Works-		
General	25,000	25,000
Mary Davis Clapp Fund for New Works	2,504,944	2,504,944
Laura Lundgren Fund for New Work	100,000	100,000
Herman & Faye Sarkowsky Commissioning Fund	100,000	100,000
Jerry Manning Fund for New Work	50,000	50,000
Playwright Commission Fund	30,000	30,000
	15,523,990	15,529,059
Accumulated deficit	(4,538,672)	(4,972,314)
Total Endowment Funds	**10,985,318**	**10,556,745**
Total Net Assets With Donor Restrictions	**$ 12,135,561**	**$ 11,070,553**

Note 7 - Endowment Funds

The Organization's endowment consists of 22 individual funds established within a framework of four restricted purposes: theatre operations, education, artistic development and new works. The donor contributions are maintained in perpetuity, the income of which is expendable for the donors' intended purpose in proportion to each fund's percentage of the total endowment fund corpus. Annual distributions are in accordance with the Organization's distribution policy.

The Organization is subject to the Washington State Prudent Management of Institutional Funds Act (PMIFA). The Board of Trustees of the Organization has interpreted PMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted PMIFA to permit spending from deficient funds in accordance with the prudent measures required under the law. Additionally, in accordance with PMIFA, the Organization considers the following factors, included in its distribution policy, in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of the organization and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the organization; and
7. The investment policies of the Organization.

Utilizing the framework of total investment return, the investment objective and guidelines of the endowment portfolio emphasizes long-term growth of capital while providing annual distributions from the endowment fund to support Theatre operations over the long term, while limiting volatility. It is acknowledged that volatility is inherent in any long-term growth strategy. Short-term volatility will be tolerated to the extent it is consistent with the volatility of a comparable market 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. During the year ended June 30, 2014, the Foundation made a $500,000 loan to the Theatre as part of its annual distribution to support operations. The Theatre is current on interest payments to the Foundation. During the years ended June 30, 2017 and 2016, the Theatre Board authorized the application of $43,629 and $68,746, respectively in shared expense receivables from the Foundation against the outstanding loan in lieu of a cash payment, leaving $175,195 outstanding. Future shared expense receivables will continue to be applied against the loan balance until it is fully repaid.

Note 7 - Continued

As market returns allow, the Foundation has made advances of its operating support to the Theatre. An operating advance of $650,000 on fiscal 2018 support was made during the year ended June 30, 2017 and an operating advance of $250,000 on fiscal 2017 support was made during the year ended June 30, 2016.

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.

Changes to endowment net assets for the years ended June 30, 2017 and 2016, are as follows:

	Endowment Corpus	Accumulated Deficit	Total
Endowment net assets, June 30, 2015	$ 15,502,729	$ (3,766,869)	$ 11,735,860
Total endowment investment return	31,003	(332,209)	(301,206)
Adjustment to pledges receivable	(4,673)		(4,673)
Endowment related expenses		(29,361)	(29,361)
Foundation transfer of support		(850,000)	(850,000)
Operating transfer for interfund borrowing		6,125	6,125
Endowment Net Assets, June 30, 2016	**15,529,059**	**(4,972,314)**	**10,556,745**
Endowment investment return	48,766	1,154,872	1,203,638
Contributions	13,915	2,750	16,665
Release of pledge receivable to testamentary gift	(50,000)	50,000	
Final write-off of uncollectible pledges receivable	(17,750)	17,750	
Endowment related expenses		(45,739)	(45,739)
Foundation transfer of support		(750,000)	(750,000)
Operating transfer for interfund borrowing		4,009	4,009
Endowment Net Assets, June 30, 2017	**$ 15,523,990**	**$ (4,538,672)**	**$ 10,985,318**

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. Deficiencies of this nature exist in all of the individual endowment funds and total to the accumulated deficit shown above. These deficiencies resulted from appropriations for programs that were deemed prudent by the Foundation's Board of Directors that exceeded net investment returns.

Note 8 - Operating Leases

The Organization has a lease agreement with the City of Seattle for the Bagley Wright Theatre. The rental cost for the theatre was $8,546 per month, adjusted for the change in All-Urban Consumer Price Index (CPI) on January 1st of each year through September 30, 2014. On September 30, 2014, rent was reduced to $1.00 per month until the expiration of the lease in June 2026, contingent on the Theatre expending $1,000,000 in 2010 dollars (plus an adjustment for the change in CPI) on capital renovations and improvement to the Bagley Wright Theater premises by September 30, 2018 along with other required milestones related to those capital projects.

If the capital contingency described in the prior paragraph is not met, the Theatre will be responsible to pay a lump sum rental payment for the period October 1, 2014 through September 30, 2018, at the rental rate in existence prior to October 1, 2014, ($8,546 per month), as adjusted annually by CPI. Additionally, commencing September 30, 2018, the Organization would pay monthly rent at a market rate as determined in accordance with the lease agreement.

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 and building systems in the Bagley Wright Theatre. The balance in the fund held by the Organization was $883,711 and $942,941 as of June 30, 2017 and 2016, respectively, and is included in restricted cash on the consolidated balance sheet.

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.

Total rental expense under the leases was $141,663 and $151,360 for the years ending June 30, 2017 and 2016, respectively.

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. There were no employer contributions made to the Plan during the years ended June 30, 2017 and 2016, respectively. The Plan qualifies as a tax deferred plan under section 401(k) of the Internal Revenue Code. The Theatre made retirement related payments on behalf of its employees participating in collective bargaining units totaling $155,148 and $108,938 during the years ended June 30, 2017 and 2016, respectively.

Note 10 - Line-of-Credit

The Organization has a line-of-credit with a bank with an available borrowing limit of $4.5 million that expires on February 28, 2018. The line carries interest at the one-month LIBOR rate plus 1.85% (a total borrowing rate of 3.073% and 2.469% at June 30, 2017 and 2016, respectively). The outstanding balance at June 30, 2017 was $2 million. There were no outstanding borrowings on the line at June 30, 2016. The line is secured by the investments held by the Foundation (at another bank).

Note 11 - Liquidity and Availability of Financial Assets

The Theater's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for prepaid subscriptions in the fourth quarter of the fiscal year and a concentration of contributions received near calendar year end and fiscal year end. Monthly cash outflows vary each year based on the specific requirements of the productions programmed that season. To manage liquidity the Theater maintains a line of credit of $4.5 million with a bank that is drawn upon as needed during the year to manage cash flow. See Note 10 for further description of this line.

The following reflects the Theater's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Theatre or Foundation Board approves that action.

	2017	2016
Cash	$ 1,541,470	$ 1,778,497
Accounts receivable, net, collected in less than one year	212,094	87,559
Pledges receivable, net, collected in less than one year	1,461,238	1,017,262
Investments	10,554,037	10,454,007
Total financial assets, excluding noncurrent receivables	13,768,839	13,337,325
Contractual or donor-imposed restrictions-		
Cash restricted by lessor and others to specific uses	(906,447)	(967,950)
Endowment fund investments	(10,554,037)	(10,454,007)
Add back: amount appropriated for following year less cash received prior to beginning of fiscal year	250,000	500,000
Other donor restrictions	(1,150,243)	(513,808)
Add back: amounts available for donor-specified expenditures in following year, including investment in capital assets	1,123,808	419,050
Board designations-		
Operating reserves and other	(34,519)	(25,129)
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	**$ 2,497,401**	**$ 2,295,481**

SUPPLEMENTARY INFORMATION

SEATTLE REPERTORY THEATRE

Consolidating Schedule - Balance Sheet
June 30, 2017

	Theatre	Foundation	Total
Assets			
Current Assets:			
Cash	$ 460,748	$ -	$ 460,748
Cash reserves	174,275		174,275
Restricted cash	906,447		906,447
Accounts receivable, net of allowance for doubtful accounts $12,473	212,094		212,094
Pledges receivable, net of allowance for doubtful accounts $28,000	1,461,238		1,461,238
Interfund receivable/payable	(355,484)	355,484	
Prepaid expenses and inventory	428,813		428,813
Total Current Assets	**3,288,131**	**355,484**	**3,643,615**
Investments, long-term		10,554,037	10,554,037
Pledges receivable, long-term, net of allowance for doubtful accounts (Theatre - $0, Foundation - $38,182) and present value discount (Theatre - $876, Foundation - $313)	46,374	18,870	65,244
Property and equipment, net of accumulated depreciation $9,481,883 (Theatre) and $14,305 (Foundation)	3,416,351		3,416,351
Other long-term assets	450,000	56,927	506,927
Total Assets	**$ 7,200,856**	**$ 10,985,318**	**$ 18,186,174**
Liabilities and Net Assets			
Current Liabilities:			
Deferred ticket revenue	$ 2,526,051	$ -	$ 2,526,051
Accounts payable and accrued liabilities	1,243,624		1,243,624
Line of credit	2,000,000		2,000,000
Total Current Liabilities	**5,769,675**		**5,769,675**
Net Assets:			
Without donor restrictions	280,938		280,938
With donor restrictions-			
Donor restricted fund	1,150,243		1,150,243
Endowment corpus		15,523,990	15,523,990
Endowment accumulated deficit		(4,538,672)	(4,538,672)
Total Net Assets	**1,431,181**	**10,985,318**	**12,416,499**
Total Liabilities and Net Assets	**$ 7,200,856**	**$ 10,985,318**	**$ 18,186,174**

See independent auditor’s report.

SEATTLE REPERTORY THEATRE

Consolidating Schedule - Statement of Changes in Net Assets
For the Year Ended June 30, 2017

	Theatre	Foundation	Total
Revenue			
Earned Income:			
Total box office income	$ 6,459,978	$ -	$ 6,459,978
Total other earned income-			
Theatre, net of expenses of $348,903	201,945	235,174	437,119
Total Earned Income	**6,661,923**	**235,174**	**6,897,097**
Contributions:			
Individual gifts	3,168,133	13,915	3,182,048
Individuals - release from restriction	213,641		213,641
Corporate	234,050		234,050
Corporate - release from restriction	5,000		5,000
In-kind gifts	165,929	2,750	168,679
ArtsFund	132,720		132,720
National Corporate Theatre Fund	46,775		46,775
Foundations	683,260		683,260
Foundations - release from restriction	25,000		25,000
Government	337,934		337,934
Government - release from restriction	19,300		19,300
Fund raising events - net of expenses of $267,401	741,222		741,222
Fund raising - release from restriction	28,250		28,250
Seattle Repertory Organization	28,166		28,166
Total Contributions	**5,829,380**	**16,665**	**5,846,045**
Total Revenue	**12,491,303**	**251,839**	**12,743,142**
Expenses:			
Artistic	3,425,169		3,425,169
Production	6,352,671		6,352,671
Marketing and communications	3,091,443		3,091,443
Development	840,951	5,903	846,854
Administration	1,528,362	39,836	1,568,198
Total Expenses	**15,238,596**	**45,739**	**15,284,335**
Change in Net Assets Before Unrealized Losses and Transfers	**(2,747,293)**	**206,100**	**(2,541,193)**
Unrealized gains on investments		968,464	968,464
Net assets released from restriction	(291,191)		(291,191)
Foundation transfer of support	750,000	(750,000)	
Operating transfer for interfund borrowing	(4,009)	4,009	
Change in Net Assets	**(2,292,493)**	**428,573**	**(1,863,920)**
Net Assets:			
Beginning of year	3,723,674	10,556,745	14,280,419
End of Year	**$ 1,431,181**	**$ 10,985,318**	**$ 12,416,499**

See independent auditor's report.

SEATTLE REPERTORY THEATRE

Consolidating Schedule - Statement of Cash Flows
For the Year Ended June 30, 2017

	Theatre	Foundation	Total
Operating Activities:			
Change in net assets	$ (2,292,493)	$ 428,573	$ (1,863,920)
Adjustments to reconcile change in net assets			
to net cash used in operating activities-			
Depreciation	437,664		437,664
Net gains on investments		(1,040,175)	(1,040,175)
Contributions restricted for capital assets	(440,996)		(440,996)
Contributions and investment income			
restricted for endowment		(44,093)	(44,093)
Cash provided (used) by changes in			
operating assets and liabilities:			
Accounts receivable	(124,535)		(124,535)
Pledges receivable	(285,756)	(19,030)	(304,786)
Prepaid expenses and inventory	(49,091)		(49,091)
Interfund receivable/payable	354,900	(354,900)	
Deferred ticket sales income	71,156		71,156
Accounts payable and accrued liabilities	758,956		758,956
Net Cash Used in Operating Activities	**(1,570,195)**	**(1,029,625)**	**(2,599,820)**
Investing Activities:			
Purchase of investments		(711,732)	(711,732)
Proceeds from sale of investments		1,305,707	1,305,707
Net change in cash equivalents included			
in investments		346,170	346,170
Increase in restricted cash	61,503		61,503
Increase in cash reserves	(12,862)		(12,862)
Purchase of other long-term assets	(450,000)		(450,000)
Purchase of property and equipment	(533,328)		(533,328)
Net Cash Provided by (Used in) Investing Activities	**(934,687)**	**940,145**	**5,458**
Financing Activities:			
Collections on contributions restricted for capital assets	316,496		316,496
Collections on contributions restricted for endowment		40,714	40,714
Investment income restricted for endowment		48,766	48,766
Draws on line of credit	2,000,000		2,000,000
Net Cash Provided by Financing Activities	**2,316,496**	**89,480**	**2,405,976**
Net Change in Cash	**(188,386)**		**(188,386)**
Cash, beginning of year	649,134		649,134
Cash, End of Year	**$ 460,748**	**$ -**	**$ 460,748**
Supplementary Disclosure:			
Cash paid for interest	$ 49,655	$ -	$ 49,655

See independent auditor's report.