

**STEPPENWOLF
THEATRE COMPANY**

Consolidated Financial Statements for the
Years Ended August 31, 2012 and 2011

STEPPENWOLF THEATRE COMPANY

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Independent Auditor's Report

The Board of Trustees
Steppenwolf Theatre Company

We have audited the accompanying consolidated statement of financial position of Steppenwolf Theatre Company as of August 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Steppenwolf Theatre Company's 2011 financial statements which were audited by Blackman Kallick, LLP, whose report dated February 1, 2012 expressed an unqualified opinion on those statements. Blackman Kallick, LLP subsequently merged into Plante & Moran, PLLC.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steppenwolf Theatre Company as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The 2012 supplementary information included on page 30 is presented for the purposes of additional analysis and is not a required part of the basic 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, such information is fairly stated in all material respects in relation to the 2012 consolidated financial statements as a whole.

The prior comparative supplemental information on page 30 has been derived from the Steppenwolf Theatre Company's 2011 consolidated financial statements and was subjected to the auditing procedures applied in the 2011 audit of the consolidated financial statements by Blackman Kallick, LLP, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole. Blackman Kallick, LLP subsequently merged with Plante & Moran, PLLC.

Blackman Kallick, LLP previously audited, in accordance with auditing standards generally accepted in the United States of America, the 2010 consolidated financial statements of Steppenwolf Theatre Company (which are not presented herein), and expressed an unqualified opinion on the consolidated financial statements taken as whole. The 2010 supplemental information included on page 30 is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information was subjected to the auditing procedures applied in the 2010 audit of the consolidated financial statements by Blackman Kallick, LLP, whose report on such information stated that it was fairly stated in all material respects in relation to the 2010 financial statements as a whole. Blackman Kallick, LLP subsequently merged with Plante & Moran, PLLC.

Plante & Moran, PLLC

December 20, 2012

**Consolidated Statements of
Financial Position Follow**

STEPPENWOLF THEATRE COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2012 and 2011

ASSETS

CURRENT ASSETS	2012	2011
Cash and Cash Equivalents	\$ 1,280,144	\$ 2,577,163
Investments	13,151,927	13,539,028
Accounts Receivable	74,471	60,369
Contributions Receivable (Net of Allowance)	908,902	1,548,369
Deferred Production, Subscription and Campaign Expenses	843,836	1,068,473
Prepaid Expenses, Deposits and Other Assets	714,424	541,214
Total Current Assets	<u>16,973,704</u>	<u>19,334,616</u>
 PROPERTY AND EQUIPMENT		
Land	4,698,340	1,093,840
Buildings and Improvements	18,091,314	15,256,413
Furniture and Fixtures	507,969	504,935
Equipment and Software	4,001,879	3,472,826
Total	<u>27,299,502</u>	<u>20,328,014</u>
Less Accumulated Depreciation	<u>11,400,803</u>	<u>10,330,223</u>
Net Property and Equipment	<u>15,898,699</u>	<u>9,997,791</u>
 OTHER ASSETS		
Cash and Cash Equivalents Restricted for Endowment	-	115,430
Investments Restricted for Endowment and Artistic Programs	8,640,681	8,007,719
Contributions Receivable Restricted for Endowment (Net of Allowance)	-	10,524
Contributions Receivable - Long-Term (Net of Discount)	510,950	447,665
Deferred Financing Costs (Net)	<u>170,552</u>	<u>97,596</u>
Total Other Assets	<u>9,322,183</u>	<u>8,678,934</u>
 TOTAL ASSETS	 <u><u>\$ 42,194,586</u></u>	 <u><u>\$ 38,011,341</u></u>

See accompanying notes to consolidated financial statements.

STEPPENWOLF THEATRE COMPANY

Consolidated Statements of Financial Position

August 31, 2012 and 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	2012	2011
Accounts Payable	\$ 568,189	\$ 661,218
Deferred Revenue	3,206,739	3,463,853
Deferred Costume Revenue	36,400	629,840
Deferred Rent Revenue	44,936	51,873
Accrued Expenses	518,303	575,551
Loans Payable - Short-Term Portion	292,000	160,000
Annuities Payable - Current Portion	47,824	45,282
Total Current Liabilities	4,714,391	5,587,617
LONG-TERM LIABILITIES		
Bonds Payable	6,100,000	6,100,000
Loans Payable - Long-Term Portion	6,619,000	600,000
Annuities Payable - Long-Term Portion	145,255	193,080
Fair Value of Interest Rate Swap	85,483	-
Total Long-Term Liabilities	12,949,738	6,893,080
Total Liabilities	17,664,129	12,480,697
NET ASSETS		
Unrestricted		
Undesignated	9,506,960	9,201,456
Artistic Enhancement Fund	1,339,220	2,015,447
Facility Enhancement Fund	645,669	599,960
Board-Designated Endowment	2,624,579	2,451,099
Total Unrestricted	14,116,428	14,267,962
Temporarily Restricted	2,276,680	3,125,308
Permanently Restricted		
Ford General Operating Endowment Fund	3,498,939	3,498,939
Ford Artistic Endowment Fund	2,779,000	2,779,000
Doris Duke Artistic Endowment Fund	1,575,247	1,575,272
Other Funds	284,163	284,163
Total Permanently Restricted	8,137,349	8,137,374
Total Net Assets	24,530,457	25,530,644
TOTAL LIABILITIES AND NET ASSETS	\$ 42,194,586	\$ 38,011,341

STEPPENWOLF THEATRE COMPANY
Consolidated Statements of Activities
Year Ended August 31, 2012 with Comparative Totals for the Year Ended August 31, 2011

	2012							2011				
	Unrestricted											
	Artistic Facility		Enhancement Fund		Board Designated Endowment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total		
Operating and Invested Undesignated Net Assets	Assets	Enhancement Fund	Fund									
Operations												
Ticket Revenue												
Subscription Series	\$	5,533,359			\$	5,533,359			\$	5,533,359	\$	5,838,100
Other Series		152,193				152,193				152,193		354,842
Total Ticket Revenue		5,685,552				5,685,552				5,685,552		6,192,942
Other Earned Income- Production Related		1,916,877				1,916,877				1,916,877		1,856,135
Other Earned Income		534,072		319,334		853,406				853,406		464,373
Contributions												
Individual		1,590,755				1,590,755	330,434			1,921,189		2,181,414
Corporate		214,530				214,530	170,000			384,530		595,030
Foundation		712,218				712,218	707,015			1,419,233		1,503,506
Government		64,000				64,000	29,000			93,000		112,000
Events		1,174,627				1,174,627	10,000			1,184,627		1,365,318
In-kind Contributions		347,755				347,755	-			347,755		389,531
Grant Initiatives Released from Restriction*		734,437				734,437	(734,437)			-		-
Operating Net Assets Released from Restriction		1,471,876				1,471,876	(1,471,876)			-		-
Amortization of Discount on Contributions		-				-	1,716			1,716		5,391
Total Contributions		6,310,198	-	-	-	6,310,198	(958,148)	-		5,352,050		6,152,190
Transfer from Investments		847,000				847,000				847,000		560,000
Total Income		15,293,699	-	319,334	-	15,613,033	(958,148)	-		14,654,885		15,225,640
Program Expense												
Artistic and Production		6,314,572				6,314,572				6,314,572		5,369,665
Artistic and Production- Grant Initiatives*		441,418				441,418				441,418		261,086
Touring		-				-				-		98,073
Education Programs and Productions		717,661				717,661				717,661		722,039
Marketing and Advertising		1,725,649				1,725,649				1,725,649		1,632,285
Marketing & Audience Engagement- Grant Initiatives*		293,019				293,019				293,019		325,995
Audience Services		1,094,875				1,094,875				1,094,875		1,074,559
Publications		92,934				92,934				92,934		70,052
Total Program Expense		10,680,128	-	-	-	10,680,128	-	-		10,680,128		9,553,754
Fundraising		955,433				955,433				955,433		957,677
Events		455,786				455,786				455,786		506,908
General Administrative		1,468,323				1,468,323				1,468,323		1,275,136
Facilities and Maintenance		1,542,556		115,878		1,658,434				1,658,434		1,648,523
Depreciation and Amortization		1,025,209		72,264		1,097,473				1,097,473		924,732
Total Fundraising and Administrative Expense		5,447,307	-	188,142	-	5,635,449	-	-		5,635,449		5,312,976
Total Expense		16,127,435	-	188,142	-	16,315,577	-	-		16,315,577		14,866,730
Unrestricted Capital Transfers										-		-
Artistic Enhancement Fund		850,000	(850,000)	-	-	-	-	-		-		-
Total Unrestricted Capital Transfers		850,000	(850,000)	-	-	-	-	-		-		-
Net Increase in Operating Net Assets before investment activity		16,264				16,264				16,264		39,150
Change in Investments												
Investment Income												
Interest and fees		142,977	47,884		72,430	263,291	171,993	-		435,284		485,593
Realized and Change in Unrealized Gains		511,078	125,889		201,519	838,486	319,243	-		1,157,729		1,067,334
Total Investment Income		654,055	173,773	-	273,949	1,101,777	491,236	-		1,593,013		1,552,927
Transfers of investment funds to support operations		(364,815)		-	(100,469)	(465,284)	(381,716)			(847,000)		(560,000)
Total Change in Investments		289,240	173,773	-	173,480	636,493	109,520	-		746,013		992,927
Change in fair value of interest rate swap		-	-	(85,483)	-	(85,483)	-	-		(85,483)		-
Reserve for uncollectable pledges						-	-	(25)		(25)		(22,922)
Change in Net Assets		305,504	(676,227)	45,709	173,480	(151,534)	(848,628)	(25)		(1,000,187)		1,328,915
Beginning of Year Net Assets		9,201,456	2,015,447	599,960	2,451,099	14,267,962	3,125,308	8,137,374		25,530,644		24,201,729
End of Year Net Assets	\$	9,506,960	\$ 1,339,220	\$ 645,669	\$ 2,624,579	\$ 14,116,428	\$ 2,276,680	\$ 8,137,349	\$	24,530,457	\$	25,530,644

* See Note 15

See accompanying notes to consolidated financial statements.

STEPPENWOLF THEATRE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,000,187)	\$ 1,328,915
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	1,097,473	910,345
Loss on disposal of fixed assets	-	14,388
Change in net unrealized gain on investments	(989,717)	(1,250,644)
Net realized (gain)/loss on investments	(168,012)	183,310
Change in fair value of interest rate swap	85,483	-
(Increase) decrease in		
Accounts receivable	(14,102)	21,345
Contributions receivable	639,467	(272,047)
Contributions receivable - Long-term	(63,285)	207,468
Deferred production and subscription expenses	224,637	(261,351)
Prepaid expenses, deposits and other current assets	(248,210)	(128,285)
Increase (decrease) in		
Accounts payable	(18,029)	(153,843)
Deferred revenue	(257,114)	19,630
Other current liabilities	(600,377)	292,315
Accrued expenses	(57,248)	(14,974)
Net cash (used in) provided by operating activities	<u>(1,369,221)</u>	<u>896,572</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(596,488)	(1,045,636)
Purchase of investments	(506,291)	(2,579,258)
Proceeds from sale of investments	1,533,589	483,000
Net cash provided by (used in) investing activities	<u>430,810</u>	<u>(3,141,894)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	10,524	34,421
Proceeds from issuance of loan payable	-	800,000
Payments on loan payable	(224,000)	(40,000)
Payments on annuities	(45,283)	(42,875)
Financing costs incurred	(99,849)	(11,905)
Net cash (used in) provided by financing activities	<u>(358,608)</u>	<u>739,641</u>
Net Decrease in Cash and Cash Equivalents	(1,297,019)	(1,505,681)
Cash and Cash Equivalents, Beginning of Year	<u>2,577,163</u>	<u>4,082,844</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,280,144</u></u>	<u><u>\$ 2,577,163</u></u>

Supplemental schedule of noncash investing and financing activities:

The Theatre obtained debt in the amount of \$6,375,000 to finance the acquisition of real property at 1700 North Halsted.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1- Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Steppenwolf Theatre Company (the Theatre) is a nonprofit organization which promotes interest in the study of dramatic arts and advances knowledge and appreciation of drama and dramatic arts through theatrical performances. The Theatre provides facilities and support for education and instruction in theatre arts.

The Theatre created two separate foundations on September 22, 1995, Foundation I and II. On October 2, 1995, Steppenwolf Foundation I purchased a partially completed parking garage. The parking garage was completed during the year ending August 31, 1997 and provides additional parking for the Theatre. On July 30, 2003, Steppenwolf Foundation I purchased one condo unit of the first floor and basement of the Administrative Office building. The purchased property provides rental income to support the Theatre.

On October 2, 1995, Steppenwolf Foundation II purchased a vacant parcel of land adjacent to the Theatre. This parcel is subject to potential environmental remediation costs if developed beyond its present use as an open-air parking lot. The cost of potential remediation, if any, is not readily determinable. Therefore, no costs have been accrued.

Principles of Presentation

The accompanying consolidated financial statements include the accounts and activities of the Theatre's related Foundation I and Foundation II. Significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents are highly liquid, short-term investments with maturities at the date of acquisition of three months or less. The Theatre maintains its cash and cash equivalents in bank deposit accounts, which at present are fully FDIC insured. The Theatre believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments consist of publicly traded securities, which are benchmarked against several indices. Accordingly, they do not require significant judgment by the Theatre's management in the assessment of their fair values. See Notes 2 and 3 for additional disclosures.

Investment income and realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Theatre adopted guidance that requires the Theatre to report significant transfers between Level 1 and Level 2 and the reasons for those transfers, as well as disclosing the reason for transfers in or out of Level 3. Additionally, the guidance requires the Theatre to expand existing disclosure requirements about the level of disaggregation and inputs and valuation techniques. The adoption of this guidance did not have an impact on the Theatre's financial statements, other than expanded disclosures.

The guidance also requires the reconciliation of changes in Level 3 fair value measurements to present purchases, sales and settlements separately on a gross basis rather than as a net amount, effective for fiscal years beginning after December 15, 2010. The Theatre does not currently utilize any level 3 inputs.

Derivative Instruments

The Theatre entered into an interest rate swap agreement to manage its exposure on its variable rate loan. The Theatre's derivative is recognized as a liability on the consolidated statements of financial position and measured at fair value. The change in the fair value of the interest rate swap agreement is recognized in the consolidated statements of activities.

Accounts and Contributions Receivable

Unconditional pledges expected to be received over more than one year are initially recorded at fair value by the Theatre as contributions receivable. They are subsequently valued at the present value of future cash flows. The Theatre has established an allowance for uncollectible contributions of \$10,500 and \$28,922 as of August 31, 2012 and 2011, respectively.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Deferred Revenue and Expenses

Revenue, expenses and production costs specifically attributable to ticket sales, productions and events for the season following the fiscal year are deferred to the succeeding fiscal year.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at the date the asset was contributed. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Buildings and improvements	5-30 years
Furniture and fixtures	5-30 years
Equipment and software	4-30 years

Deferred Financing Costs

Financing costs are amortized using the straight-line method over the life of the debt obligation.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Theatre are classified and reported as follows:

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Theatre pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Transfer of Funds

The Theatre has the discretionary right, in accordance with guidelines established in the spending policy by the Theatre's Board of Trustees, to use a portion of the Theatre's donor restricted and board-designated endowment funds and other board-designated and undesignated funds to support operations. The Theatre has a policy of appropriating for distribution each year up to 5% of the endowment funds' fair value for the trailing 12-quarter period using a rolling average. In 2011, the Theatre's Executive Committee suspended distributions from its donor restricted and board-designated endowment funds in order to preserve the historical balances available for future draws from the endowment funds. In 2012 the Theatre resumed the draw from the board designated and donor restricted endowment funds. As a result, the Theatre transferred \$847,000 and \$560,000, respectively, from investments to support operations. Specific information regarding the donor restricted and board-designated endowment funds may be found in Note 16.

The unrestricted Artistic Enhancement Fund was created with the approval of the Executive Committee to allow the Theatre to take advantage of artistic opportunities that may span multiple fiscal years. The amount transferred to the fund is determined annually on a discretionary basis by the Executive Committee. In addition, the Executive Committee approves management's proposed use of these funds. In 2011 the Executive Committee approved a transfer from operations to the Artistic Endowment Fund of \$390,000. In 2012 the Executive Committee approved a transfer from the Artistic Endowment Fund to operations of \$850,000. The Artistic Enhancement Fund balance is \$1,339,220 and \$2,015,447 as of August 31, 2012 and 2011, respectively.

Income Taxes

The Theatre and its related foundations have received notification that they qualify as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of state law. The tax exemption applies to exempt-purpose income and, therefore, the theatre would be required to pay federal and state income taxes on any net unrelated business income.

The Theatre's application of GAAPUSA regarding uncertain tax positions had no effect on its financial position as management believes the Theatre has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. The Theatre would recognize interest and penalties related to unrecognized tax positions in interest and income tax expense, respectively. However, the Theatre has no amounts accrued for interest or penalties as of August 31, 2012 and 2011. The Theatre is no longer subject to examination by federal, state or local tax authorities for periods before 2009.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contributions, including unconditional promises to give, are recognized at fair value in the period received. Conditional promises are not recognized until they become unconditional. This occurs when the conditions on which they depend are substantially met.

The Theatre reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as increases in unrestricted net assets.

Subscriptions and single ticket sales are recognized in the period of the performance.

Cash and in-kind contributions restricted for capital additions are recorded as temporarily restricted net assets and are released from restrictions as the related capital items are depreciated.

Fundraising Costs

Fundraising costs include costs incurred for the annual fund campaign and events.

Advertising

The Theatre follows the policy of charging the costs of advertising to expense as incurred with the exception of advertising costs directly related to the subscription campaign and single production promotion for the succeeding season. During the years ended August 31, 2012 and 2011, subscription campaign expenses were \$662,448 and \$673,537, respectively, of which \$313,792 and \$332,291, respectively, are included in deferred production and subscription expenses. The Theatre's policy is to expense other advertising costs as incurred.

In-Kind Contributions

Contributions of services and materials are reported as contributed revenue and as assets and/or expenses if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. When present, such donated services and materials are measured at their fair value.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with GAAPUSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAPUSA. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended August 31, 2011 from which the summarized information was derived.

Endowment

GAAPUSA addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was enacted in Illinois effective June 30, 2009. A key component of UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. In addition, GAAPUSA requires disclosures about an organization's donor-restricted and board-designated endowment funds. The objective of the disclosures is to provide information so that financial statement users can understand the net asset classification, net asset composition, changes in net asset compositions, spending policy and related investment policy pertaining to an organization's endowment funds.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach, each of which include multiple valuation techniques. GAAPUSA does not prescribe which valuation technique should be used but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which the transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data. The Theatre has a derivative instrument consisting solely of an interest rate swap that is not traded on an exchange and is recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, measure of volatility and correlations of such inputs.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Theatre currently uses no level 3 inputs.

The following tables set forth by level within the fair value hierarchy the Theatre's financial assets and liabilities that were accounted for at fair value on a recurring basis as of August 31, 2012 and 2011. As required by GAAPUSA, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Theatre's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements (Continued)

Description:	Fair Values as of August 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money Market Funds	\$ 834,152	\$ 834,152	\$ -	\$ -
Bond Mutual Funds	647,787	647,787		
Debt Funds				
Loomis Sayles Bond Fund	1,412,587	1,412,587	-	-
Vanguard Inflation-Protected Securities	604,312	604,312	-	-
William Blair Bond Fund	5,251,188	5,251,188	-	-
Total Debt Funds	7,268,087	7,268,087	-	-
Equities				
Small Cap	786,903	786,903	-	-
Mid Cap	1,120,927	1,120,927	-	-
Large Cap	4,922,926	4,922,926	-	-
Total Equities	6,830,756	6,830,756	-	-
Equity Mutual Funds	1,069,398	1,069,398	-	-
International Mutual Funds				
Cullen Inter High Dividend	839,050	839,050	-	-
Dodge & Cox Intl Stock	1,217,061	1,217,061	-	-
William Blair Emg Lead GR-I	541,131	541,131	-	-
William Blair Intl Growth-I	2,506,234	2,506,234	-	-
Total International Mutual Funds	5,103,476	5,103,476	-	-
Real Estate Investment Trusts	23,479	23,479	-	-
Total Investments	\$ 21,777,135	\$ 21,777,135	\$ -	\$ -
Derivative Liability - Interest rate swap	\$ 85,483	\$ -	\$ 85,483	\$ -

Not included in the above table are cash and cash equivalents of \$15,473.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements (Continued)

Description:	Fair Values as of August 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money Market Funds	\$ 288,954	\$ 288,954	\$ -	\$ -
Bond Mutual Funds	1,538,428	1,538,428		
Debt Funds				
Loomis Sayles Bond Fund	1,390,499	1,390,499	-	-
Vanguard Inflation-Protected Securities	572,549	572,549	-	-
Harbor Bond Fund	624,531	624,531	-	-
William Blair Bond Fund	5,081,946	5,081,946	-	-
Total Debt Funds	7,669,525	7,669,525	-	-
Equities				
Small Cap	1,566,479	1,566,479	-	-
Mid Cap	3,855,949	3,855,949	-	-
Large Cap	2,361,407	2,361,407	-	-
Total Equities	7,783,835	7,783,835	-	-
Equity Mutual Funds	593,055	593,055	-	-
International Mutual Funds				
Dodge & Cox Intl Stock	1,258,091	1,258,091	-	-
William Blair Intl Growth-I	2,393,162	2,393,162	-	-
Total International Mutual Funds	3,651,253	3,651,253	-	-
Real Estate Investment Trusts	21,697	21,697	-	-
Total Investments	\$ 21,546,747	\$ 21,546,747	\$ -	\$ -

Level 1 Inputs

Estimated fair values for the Theatre's money market funds, bond mutual funds, debt funds, equities, equity mutual funds, international mutual funds and real estate investment trusts were based on quoted market prices.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements (Continued)

Level 2 Inputs

The Theatre's derivative instrument consists solely of an interest rate swap that is not traded on an exchange and is recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, credit curves, measure of volatility and correlations of such inputs. Valuation adjustments may be made in the determination of fair value, which was obtained by an independent third-party advisor.

The carrying value and estimated fair value of the Theatre's bonds payable that are not included in the previous table include the following:

		August 31, 2012	
		Carrying Value	Estimated Fair Value
Liabilities			
Bonds payable	\$ 6,100,000	\$ 6,141,236	

		August 31, 2011	
		Carrying Value	Estimated Fair Value
Liabilities			
Bonds payable	\$ 6,100,000	\$ 6,138,247	

The fair value of the bonds is based on the rates currently in effect for bonds issued by similar issuers with similar terms. In addition, the carrying value of the loans payable approximates fair value.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 3 - Investments

The components of total investment return for the years ended August 31, 2012 and 2011 are as follows:

	2012	2011
Unrestricted and Temporarily Restricted Net Assets		
Money Market Interest Income	<u>\$30,568</u>	<u>\$9,841</u>
Interest and dividend income	619,997	625,097
Change in unrealized and realized income (loss) on investments reported at fair value	1,157,729	1,067,334
Investment fees	<u>(184,713)</u>	<u>(139,504)</u>
	1,593,013	1,552,927
 Total Investment Return	 <u><u>\$ 1,623,581</u></u>	 <u><u>\$1,562,768</u></u>

NOTE 4 - Contributions Receivable

Contributions receivable are stated at fair value in the first year and present value thereafter. The Theatre discounted contributions due in more than one year using rates between .27% - .71%.

Contributions receivable are expected to be collected as follows as of August 31, 2012:

Receivables due in less than one year	\$ 919,402
Receivables due in less than five years	513,080
Discount on receivable	(2,130)
Allowance	<u>(10,500)</u>
	<u><u>\$1,419,852</u></u>

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 5 - Bonds Payable

In July 1998, the Theatre received financing from the Illinois Development Finance Authority through the issuance of Series 1998 tax-exempt revenue bonds in the amount of \$6,100,000. The financing was for the purchase of an office building and the repayment of prior debt. The Series 1998 bonds bear interest at 5.5%. Interest payments are payable semi-annually, and the bonds are due on October 1, 2028. The Series 1998 bonds are secured by a \$6,271,000 irrevocable, transferable direct pay letter-of-credit that expires on July 1, 2013.

Under the provisions of the direct pay letter-of-credit, which carries an annual Credit Facility of 1.25%, the Theatre is required to maintain minimum levels of unrestricted cash and investments of \$12,500,000 and \$7,500,000 as of August 31, 2012 and 2011, respectively. The Theatre is also subject to certain covenants related to debt service, capital expenditures, additional debt and the pledging of assets. As of August 31, 2012 and 2011, the Theatre is in compliance with these financial covenants.

In the event that the remarketing agent is unable to remarket the bonds, the bonds become a demand note under the letter of credit. If the letter of credit cannot be renewed, and an alternative letter of credit cannot be obtained, the bonds require immediate payment.

NOTE 6 - Loans Payable

The Theatre entered into a loan agreement with Bank of America, N.A., due on April 22, 2016 with quarterly payments of principal in the amount of \$40,000. Interest payments are made monthly at the annual rate of 4.65%. This loan is secured by a mortgage on property located at 1650 N. Halsted and 758 W. North Avenue, assignment of rents and leases, a security agreement and a fixture filing. As of August 31, 2012 and 2011, the Theatre was obligated under a loan with Bank of America, N.A. for \$600,000 and \$760,000, respectively.

In 2012, a second loan agreement was entered into with Bank of America, N.A., due on January 22, 2015, with quarterly payments due. Interest payments are made quarterly based on a floating rate equal to the BBA LIBOR rate plus two (2) percentage points. The loan is secured by mortgages on property located at 1650 N. Halsted, 1624 N. Halsted, 758 W. North Avenue and 1700 North Halsted Street. Additionally, the loan is also secured by substantially all assets of the Theatre. As of August 31, 2012 the Theatre was obligated under a loan with Bank of America, N.A. for \$6,311,000.

Under the provisions of the loan agreements, the Theatre is required to maintain minimum levels of unrestricted cash and investments of \$12,500,000 and \$7,500,000 as of August 31, 2012 and 2011, respectively. The Theatre is also subject to certain covenants related to debt service, capital expenditures, changes in unrestricted net assets, fixed charge coverage ratio, additional debt and the pledging of assets. As of August 31, 2012, the Theatre is in compliance with these financial covenants.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 6 - Loans Payable (Continued)

	2012	2011
Loans	\$ 6,911,000	\$ 760,000
Less current maturities	(292,000)	(160,000)
	<u>\$ 6,619,000</u>	<u>\$ 600,000</u>

Maturities on long-term debt are as follows:

2014	\$ 296,000
2015	6,203,000
2016	120,000
	<u>\$ 6,619,000</u>

NOTE 7 - Annuities Payable

The Theatre received a charitable gift annuity whereby the donor contributed assets to the Theatre in exchange for the right to receive a fixed dollar annual return over the donor's lifetime. The fair value of the gift annuity over the present value of the liability for future payments, determined on an actuarial basis, was recognized as an unrestricted contribution of \$366,524 at the date of the gift. At the Board's discretion, the contribution may be transferred to the board-designated general operating endowment.

The present value of the estimated future actuarial liability of the gift annuity as of August 31, 2012, discounted at 5.5% is as follows:

	<u>Year</u>	<u>Amount</u>
	2013	\$47,824
	2014	50,510
	2015	53,346
	2016	41,399
Total		<u>\$193,079</u>

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 8 - Derivative - Interest Rate Swap

On January 17, 2012, the Theatre entered into interest rate swap agreement to manage its exposure on its Variable Real Estate Loan with Bank of America, N.A. The agreement exchange a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus two percentage points for a fixed rate.

The interest rate for the current notional amount matures on January 25, 2015. The Theatre will pay the counterparties interest at the variable rate as noted and the counterparties will pay the Theatre interest at a fixed rate. The effect of the agreement is to limit the interest rate exposure to notional amounts as described in the following table:

<u>Notional Amount</u>	<u>Fixed Rate</u>
<u>\$ 6,311,000</u>	<u>0.83%</u>

By using derivative financial instruments to hedge exposures to changes in interest rates, the Theatre exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes the Theatre. When the fair value of a derivative contract is negative, the Theatre owes the counterparty, if the Theatre terminated the contract. The Theatre minimizes the credit risk in derivative instruments by entering transactions with a high-quality counterparty.

Market risk is the adverse effect on the value of financial instruments that results from a change in interest rate. The market risk associated with the interest rate contract is managed by establishing parameters that limit the types and degree of market risk that may be undertaken. See Note 2 for valuation techniques.

The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense. Interest expense for the year ended August 31, 2012 was \$113,292, of which \$22,641 was related to the swap agreement.

The swap agreement is recorded at fair value with subsequent changes in fair value included in the consolidated statements of activities. The Theatre recorded unrealized loss of \$85,483 for the year ended August 31, 2012 which is included as change in investments in net assets.

The following table presents the amount and the location of the amount relating to the Theatre's interest rate swap in the Theatre's financial statements as of and for the year ended August 31, 2012.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 8 - Derivative - Interest Rate Swap (Continued)

	2012
Statement of Financial Position Information:	
Long-term interest rate swap	\$ 85,483
Statement of Activity Information:	
Change in fair value of interest rate swap	\$ (85,483)
Facilities and Maintenance	\$ (22,641)
Total interest rate swap loss in the Statement of Activity	\$ (108,124)

NOTE 9 - Leases

At various times during the fiscal year, the Theatre entered into leases for individual apartments in Chicago, Illinois, that are used for out-of-town actors, designers, directors and other visiting artistic personnel. Rent expense totaled \$63,885 and \$68,805 for the years ended August 31, 2012 and 2011, respectively.

The Theatre has two operating leases for equipment expiring in October and November of 2014. Rent expense amounted to \$27,162 and \$30,585 the years ended August 31, 2012 and 2011, respectively. The following is a schedule of future minimum lease payments under these leases as of August 31:

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 9 - Leases (Continued)

<u>For the Year Ending</u>	<u>Amount</u>
2013	\$ 20,695
2014	20,693
2015	5,174
	<u>\$46,562</u>

The Theatre leases a portion of its space under a noncancelable operating leases. Rental income relating to these leases amounted to \$389,906 and \$380,338 for the years ended August 31, 2012 and 2011, respectively. The following is a schedule of future minimum rental income under these operating leases for the next three years and in the aggregate as of August 31:

<u>For the Year Ending</u>	<u>Amount</u>
2013	\$ 468,209
2014	408,165
2015	418,369
	<u>\$1,294,743</u>

NOTE 10 - Employee Benefits

Effective September 1, 1994, the Theatre established a profit-sharing plan to which it makes discretionary contributions. Employees may participate in the plan when they complete one year of service, as defined, and have reached 21 years of age. No contributions were made to the plan for the years ended August 31, 2012 and 2011.

Effective September 1, 2006, the Theatre adopted a nonstandardized 401(k) and profit sharing plan covering all eligible employees. The Board determines discretionary matching contributions to the plan. For the years ended August 31, 2012 and 2011, the Theatre contributed \$139,383 and \$138,626 to the plan, respectively.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 10 - Employee Benefits (Continued)

Beginning in 2007, the Theatre established a 457 Plan covering employees with certain contractual arrangements. The benefits under the plan are contingent upon completion of contractual obligations and are valued on an annual basis to reflect the return on the Theatre's investments. The value of these funds is \$291,773 and \$205,374 as of August 31, 2012 and 2011, respectively. The Theatre has contributed benefits of \$31,000 under 457(b) for years ended August 31, 2012 and 2011.

NOTE 11 - In-Kind Contributions

The Theatre received certain contributed professional services and materials with a fair value of \$347,755 and \$389,531 for the years ended August 31, 2012 and 2011, respectively, which are represented as operating expenses in the Consolidated Statements of Activities.

NOTE 12 - Chicago Community Foundation Endowment Fund

On August 26, 1996, the Theatre accepted a 10-year conditional grant of \$750,000 from the Chicago Community Trust to establish and maintain the Chicago Community Foundation Endowment Fund (the Fund) designated for the Theatre. As of August 31, 2006, the Fund has received the full \$750,000. Since the principal will not be released to the Theatre, the assets of the Fund have not been reflected in these consolidated financial statements. The Theatre is entitled to the income earned in the Fund, and the income has been drawn and used for the general operations of the Theatre. The estimated fair value of the Fund as of August 31, 2012 and 2011 is \$831,395 and \$873,508, respectively.

NOTE 13 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of annual fund and other contributions received and pledges made for use in future fiscal years.

Net assets were released from restrictions by incurring expenses satisfying the donor's restricted purposes, by the occurrence of other events specified by the donors or by the passage of time. Net assets released from restrictions during the years ended August 31, 2012 and 2011 were as follows:

	2012	2011
Contributions - Annual Fund		
Individual	\$ 343,072	\$ 204,045
Corporate	250,000	120,000
Foundation	1,415,911	1,084,076
Government	29,000	-
Events	75,000	5,350
In-kind	93,330	93,330
	<u>\$ 2,206,313</u>	<u>\$1,506,801</u>

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 14 - New Initiatives

As of August 31, 2009, the Theatre received a restricted grant from the Andrew W. Mellon Foundation in the amount of \$600,000. The purpose of the multi-year grant is to identify and implement ways in which the First Look program model can be applied to the new play development programming. It will support two areas of concentration: (1) expand the model of developing new plays that allows playwrights to create work on a larger canvas and uses the Theatre's ensemble resources to the best advantage; and (2) apply strategies for access and transparency of the play development process to a larger audience constituency. In 2012 and 2011, programming expenses included \$418,678 and \$124,303, respectively, related to this initiative.

As of August 31, 2010, the Theatre was awarded a \$1 million grant by the Doris Duke Charitable Foundation administered by the Nonprofit Finance Fund. This multi-year initiative aims to engage young artists and multi-generational audiences through (1) an innovative program for directors in the Next Up Series Initiative coordinated with (2) revised producing models for the young companies hosted by the Theatre through the Visiting Companies Initiative. Each of these initiatives generated a 3-production rotating repertory as part of the Garage Series at the Theatre. The primary activities involved in executing these initiatives are performance, research, and technological enhancements. A major goal of this project is to enlist the broader participation of Chicago's large and diverse post-secondary student populations, both as artists and audiences. In 2012 and 2011, programming expenses included \$315,759 and \$462,778, respectively, related to this initiative.

NOTE 15 - Endowment Value

From 2000 through 2006, the Theatre created an endowment to secure future artistic and operating initiatives of the Theatre.

On April 1, 2000, the Theatre accepted a three-year, five-month challenge grant of \$1,750,000 from the Ford Foundation to establish and maintain the Ford Foundation Endowment Fund designated for the Theatre. The purposes of the grant, as awarded on April 1, 2000, are to increase the Theatre's individual donor base and to establish a working capital reserve for artistic programming. The endowment fund was funded in a lump-sum payment made on May 10, 2000. Of these grant funds, \$750,000 is designated for a permanently restricted general operating endowment and \$1,000,000 is designated for a permanently restricted artistic endowment fund.

Ford General Operating Endowment Fund

The Theatre agreed to match the Ford Foundation's contribution by raising an additional \$2,800,000 in new or increased contributions from individual donors and family foundations on or before the expiration of the grant term, which was August 31, 2003. The Theatre has fulfilled its obligations under the grant. The Ford Foundation grant funds and matching contributions are permanently restricted. The Theatre may not borrow from, pledge, mortgage or otherwise encumber the general operating endowment.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 15 - Endowment Value (Continued)

Ford Artistic Endowment Fund

The Theatre raised an additional \$1,800,000 of new or increased contributions from individual donors and family foundations on or before the expiration of the grant term, which was August 31, 2003. On December 10, 2001, the working capital reserve for artistic programming was modified in writing to establish an artistic endowment fund, the corpus, including the matching contributions, of which will be permanently restricted and the interest earnings of which may be used on an annual basis at the Theatre's discretion for artistic initiatives according to the guidelines established by the Theatre's Board of Trustees. The grant document provides for certain provisions that must be maintained through the end of the grant term, August 31, 2003, and thereafter until the Ford Foundation notified the Theatre otherwise. The Theatre has fulfilled its obligations under the grant.

Doris Duke Artistic Endowment Fund

On November 15, 2004, the Theatre was awarded a three-year grant in the amount of \$700,000 from the Doris Duke Charitable Foundation to establish an endowment restricted to artistic programming. The grant requires a dollar-for-dollar cash match by the Theatre by September 30, 2007. As of August 31, 2006, the Theatre met the dollar-for-dollar cash match.

Interpretation of Relevant Law

The Board of Trustees of Steppenwolf Theatre Company has interpreted the Illinois Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and when possible (4) the portion of the investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, if the endowment assets earn investment returns sufficient to do so, each year the Theatre adjusts permanently restricted net assets by recommendation of the Investment or Finance committee of the Board of Trustees. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, the excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated by the Board for expenditure. In accordance with the Act, the Theatre considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the Theatre
- (7) The investment policies of the Theatre

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 15 - Endowment Value (Continued)

Return Objectives and Risk Parameters

The Theatre has adopted investment 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 endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. 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 approximate the risk and return characteristics of several indices while assuming a moderately conservative investment risk. The objective of the allocation is to maintain purchasing power after the spending allocation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Theatre has a policy of appropriating for distribution each year up to 5% of the donor restricted and board-designated endowment funds' fair value for the trailing 12-quarter period using a rolling average. In establishing this policy, the Theatre considered the long-term expected return on its endowment. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Theatre relies on a total return strategy in which investment returns are achieved both through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Theatre targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of the 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 accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets as of August 31, 2012 and 2011 were \$0 and \$141,798, respectively. The deficiency in 2011 resulted from unfavorable market fluctuations.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 15 - Endowment Value (Continued)

Endowment Net Asset Composition by Fund Type as of August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated Endowment Fund	\$ 2,624,579	\$ -	\$ -	\$ 2,624,579
Ford Endowment Funds	-	109,520	6,277,939	6,387,459
Doris Duke Artistic Endowment Fund	-	-	1,575,247	1,575,247
Other	-	-	284,163	284,163
Total Funds	\$ 2,624,579	\$ 109,520	\$ 8,137,349	\$ 10,871,448

Changes in Endowment Net Assets for the Fiscal Year Ended August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 2,309,298	\$ -	\$ 8,137,374	\$ 10,446,672
Investment Return:				
Interest and Fees	72,430	171,993	-	244,423
Net gains (realized and change in unrealized)	343,320	319,243	-	662,563
Total Investment Return	415,750	491,236	-	906,986
Contributions (net of allowance for uncollectable pledges)	-	-	(25)	(25)
Appropriations	(100,469)	(381,716)	-	(482,185)
Endowment Net Assets, End of Year	\$ 2,624,579	\$ 109,520	\$ 8,137,349	\$ 10,871,448

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **Years Ended August 31, 2012 and 2011**

NOTE 15 - Endowment Value (Continued)

<u>Endowment Net Asset Composition by Fund Type as of August 31, 2011</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated Endowment Fund	\$ 2,451,099	\$ -	\$ -	\$ 2,451,099
Ford Endowment Funds	(78,263)	-	6,277,939	6,199,676
Doris Duke Artistic Endowment Fund	(63,538)	-	1,575,272	1,511,734
Other	-	-	284,163	284,163
Total Funds	<u>\$ 2,309,298</u>	<u>\$ -</u>	<u>\$ 8,137,374</u>	<u>\$ 10,446,672</u>
<u>Changes in Endowment Net Assets for the Fiscal Year Ended August 31, 2011</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,310,687	\$ -	\$ 8,160,296	\$ 9,470,983
Investment Return:				
Interest and Fees	277,809	-	-	277,809
Net gains (realized and change in unrealized)	613,162	-	-	613,162
Total Investment Return	<u>890,971</u>	<u>-</u>	<u>-</u>	<u>890,971</u>
Contributions (net of allowance for uncollectable pledges)	<u>107,640</u>	<u>-</u>	<u>(22,922)</u>	<u>84,718</u>
Endowment Net Assets, End of Year	<u>\$ 2,309,298</u>	<u>\$ -</u>	<u>\$ 8,137,374</u>	<u>\$ 10,446,672</u>

NOTE 16 - Other Cash Flow Information

Interest paid was \$481,324 and \$347,912 for the years ended August 31, 2012 and 2011, respectively. The interest is related to the bond payable of \$6,100,000 and loans of \$6,911,000 for the year ended August 31, 2012.

As of August 31, 2012 and 2011, construction in progress and property and equipment purchases amounting to \$0 and \$75,000, respectively, were included in accounts payable.

STEPPENWOLF THEATRE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2012 and 2011

NOTE 17 - Reclassifications

The following reclassifications have been made to 2011 assets and liabilities to conform to the presentation used in 2012:

- \$1,538,428 of low duration mutual funds was reclassified from cash and cash equivalents to current investments
- \$132,753 was reclassified from equipment and software to buildings and improvements
- \$235,373 of accrued benefits was reclassified from accounts payable to accrued expenses

NOTE 18 - Subsequent Events

The Theatre has evaluated subsequent events through December 20, 2012, the date the consolidated financial statements were issued.

STEPPENWOLF THEATRE COMPANY

Supplemental Schedule of Activities: 3-year Comparative on Selected Unrestricted Net Assets

	2012		2011		2010	
	Operating and Invested Undesignated Net Assets	Artistic Enhancement Fund	Operating and Invested Undesignated Net Assets	Artistic Enhancement Fund	Operating and Invested Undesignated Net Assets	Artistic Enhancement Fund
Operations						
Ticket Revenue						
Subscription Series	\$ 5,533,359		5,838,100		5,417,387	
Other Series	152,193		354,842		261,060	
Total Ticket Revenue	5,685,552		6,192,942		5,678,447	
Other Earned Income- Production Related	1,916,877		1,856,135		1,721,631	
Other Earned Income	534,072		464,373		508,771	
Contributions						
Individual	1,590,755		1,698,600		1,690,742	
Corporate	214,530		345,030		392,000	
Foundation	712,218		939,500		826,536	
Government	64,000		83,000		63,000	
Events	1,174,627		1,259,968		1,225,157	
In-kind Contributions	347,755		389,531		238,775	
Operating Net Assets Released from Restriction	1,471,876		919,720		867,859	
Grant Initiatives Released from Restriction (see note 15)	734,437		587,081		118,955	
Amortization of Discount on Contributions	-		-		-	
Total Contributions	6,310,198	-	6,222,430		5,423,024	
Transfer from Investments	847,000		560,000		483,000	
Total Income	15,293,699	-	15,295,880	-	13,814,873	-
Program Expense						
Artistic and Production	6,314,572		5,369,665		4,665,849	
Artistic and Production- Grant Initiatives	441,418		261,086		118,955	
Touring	-		98,073		210,577	
Education Programs and Productions	717,661		722,039		637,467	
Marketing and Advertising	1,725,649		1,632,285		1,607,707	
Marketing & Audience Engagement- Grant Initiatives	293,019		325,995		-	
Audience Services	1,094,875		1,074,559		951,154	
Publications	92,934		70,052		83,042	
Total Program Expense	10,680,128		9,553,754		8,274,751	
Annual Fund	955,433		957,677		907,507	
Events	455,786		506,908		605,465	
General Administrative	1,468,323		1,275,136		1,302,689	
Facilities and Maintenance	1,542,556		1,648,523		1,449,306	
Depreciation and Amortization	1,025,209		924,732		830,726	
Total Fundraising and Administrative Expense	5,447,307		5,312,976		5,095,693	
Total Expense	16,127,435		14,866,730		13,370,444	
Unrestricted Capital Transfers						
Artistic Enhancement Fund	850,000	(850,000)	(390,000)	390,000	(433,934)	433,934
Total Unrestricted Capital Transfers	850,000	(850,000)	(390,000)	390,000	(433,934)	433,934
Net Increase/ (Decrease) in Operating Net Assets	16,264		39,150		10,495	
Total Investment Activity	289,240	173,773	624,131	108,226	510,379	(23,624)
Beginning of Year Net Assets	9,201,456	2,015,447	8,538,175	1,517,221	8,017,301	1,106,911
End of Year Net Assets	\$ 9,506,960	\$ 1,339,220	\$ 9,201,456	\$ 2,015,447	\$ 8,538,175	\$ 1,517,221

See independent auditor's report regarding supplemental information.