

**OREGON SHAKESPEARE
FESTIVAL ASSOCIATION AND
OREGON SHAKESPEARE
FESTIVAL ENDOWMENT FUND**

**Combined Audited
Financial Statements**

**For The Years Ended
October 31, 2004 and 2003**

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**COMBINED STATEMENTS OF FINANCIAL POSITION
October 31, 2004 and 2003**

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,228,488	\$ 928,192
Investments	4,237,961	5,447,843
Accounts receivable	209,955	288,770
Pledges receivable, current portion	743,059	839,136
Due from Endowment Fund	962,684	919,529
Prepaid expenses	711,107	771,753
Inventory	138,941	139,128
Total current assets	8,232,195	9,334,351
Pledges receivable, net of current portion	69,548	133,638
Property and equipment, net	22,178,963	20,914,104
Endowment	25,425,042	23,235,350
TOTAL ASSETS	\$ 55,905,748	\$ 53,617,443
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,448,464	\$ 1,552,798
Due to Endowment Fund	569,705	1,057,651
Deferred revenue, tickets	397,532	271,670
Deferred revenue, memberships and grants	2,791,123	2,878,079
Current portion of long-term debt	57,532	8,326
Total current liabilities	5,264,356	5,768,524
Long-term debt, less current portion	1,281,911	366,552
Total liabilities	6,546,267	6,135,076
Net assets:		
Unrestricted:		
Undesignated	6,755,773	5,895,678
Board Designated	1,000,000	1,000,000
Net property and equipment	20,839,520	20,539,226
Total unrestricted	28,595,293	27,434,904
Temporarily restricted	1,481,493	1,423,174
Permanently restricted	19,282,695	18,624,289
Total net assets	49,359,481	47,482,367
TOTAL LIABILITIES AND NET ASSETS	\$ 55,905,748	\$ 53,617,443

See notes to financial statements.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**COMBINED STATEMENTS OF ACTIVITIES
For the years ended October 31, 2004 and 2003**

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
Plays	\$ 12,855,292	\$ -	\$ -	\$ 12,855,292	\$ 13,150,043	\$ -	\$ -	\$ 13,150,043
Other events	267,024	-	-	267,024	150,212	-	-	150,212
Educational programs	267,486	-	-	267,486	297,322	-	-	297,322
Publications	301,227	-	-	301,227	320,033	-	-	320,033
Concessions	226,507	-	-	226,507	246,806	-	-	246,806
Investment income	166,942	-	-	166,942	236,943	-	-	236,943
Support from Endowment Fund	962,509	-	-	962,509	817,145	-	-	817,145
Other	535,954	-	-	535,954	535,538	-	-	535,538
Total operating revenue	<u>15,582,941</u>	<u>-</u>	<u>-</u>	<u>15,582,941</u>	<u>15,754,042</u>	<u>-</u>	<u>-</u>	<u>15,754,042</u>
Operating expenses:								
Plays and education	12,595,555	-	-	12,595,555	12,583,622	-	-	12,583,622
Marketing and audience services	2,817,550	-	-	2,817,550	2,768,550	-	-	2,768,550
General and administration	3,674,949	-	-	3,674,949	3,412,517	-	-	3,412,517
Membership and fundraising	1,305,583	-	-	1,305,583	1,196,121	-	-	1,196,121
Total operating expenses	<u>20,393,637</u>	<u>-</u>	<u>-</u>	<u>20,393,637</u>	<u>19,960,810</u>	<u>-</u>	<u>-</u>	<u>19,960,810</u>
Loss from operations	<u>(4,810,696)</u>	<u>-</u>	<u>-</u>	<u>(4,810,696)</u>	<u>(4,206,768)</u>	<u>-</u>	<u>-</u>	<u>(4,206,768)</u>
Support:								
Memberships	3,062,907	-	-	3,062,907	2,952,486	-	-	2,952,486
Gifts and grants	1,036,363	548,500	-	1,584,863	873,836	505,559	-	1,379,395
Support groups	198,787	-	-	198,787	204,000	-	-	204,000
Net assets released from restrictions:								
Satisfaction of program restrictions	542,559	(542,559)	-	-	660,486	(660,486)	-	-
Total support	<u>4,840,616</u>	<u>5,941</u>	<u>-</u>	<u>4,846,557</u>	<u>4,690,808</u>	<u>(154,927)</u>	<u>-</u>	<u>4,535,881</u>
Income (loss) from current endeavors	29,920	5,941	-	35,861	484,040	(154,927)	-	329,113

See notes to financial statements.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**COMBINED STATEMENTS OF ACTIVITIES, Continued
For the years ended October 31, 2004 and 2003**

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income (loss) from current endeavors								
Brought forward	29,920	5,941	-	35,861	484,040	(154,927)	-	329,113
Capital campaign and								
Endowment contributions	151,952	-	658,406	810,358	-	-	2,635,462	2,635,462
Other funds net activity	(3,045)	(1,321)	-	(4,366)	-	58,806	-	58,806
Endowment Fund investment income	2,518,000	-	-	2,518,000	4,631,831	-	-	4,631,831
Contributions of gift annuities	-	39,986	-	39,986	-	-	-	-
Change in value of gift annuities	-	13,713	-	13,713	-	(212,454)	-	(212,454)
Endowment support to Festival	(962,509)	-	-	(962,509)	(817,145)	-	-	(817,145)
Endowment expenses	(77,782)	-	-	(77,782)	(64,280)	-	-	(64,280)
Fund transfers	-	-	-	-	(102,854)	(625,959)	728,813	-
New Theatre project	-	-	-	-	23,376	(23,376)	-	-
Costume rental business, net	(4,205)	-	-	(4,205)	-	-	-	-
Depreciation on assets funded by restricted gifts and grants	(491,942)	-	-	(491,942)	(510,799)	-	-	(510,799)
Support and depreciation - Portland Center Stage	-	-	-	-	(5,160)	-	-	(5,160)
Change in net assets	1,160,389	58,319	658,406	1,877,114	3,639,009	(957,910)	3,364,275	6,045,374
Net assets:								
Beginning of year	<u>27,434,904</u>	<u>1,423,174</u>	<u>18,624,289</u>	<u>47,482,367</u>	<u>23,795,895</u>	<u>2,381,084</u>	<u>15,260,014</u>	<u>41,436,993</u>
End of year	<u>\$ 28,595,293</u>	<u>\$ 1,481,493</u>	<u>\$ 19,282,695</u>	<u>\$ 49,359,481</u>	<u>\$ 27,434,904</u>	<u>\$ 1,423,174</u>	<u>\$ 18,624,289</u>	<u>\$ 47,482,367</u>

See notes to financial statements.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**COMBINED STATEMENTS OF CASH FLOWS
For the years ended October 31, 2004 and 2003**

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 1,877,114	\$ 6,045,374
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	838,984	819,630
Net realized/unrealized gain on investments	(32,038)	(92,192)
Contributions restricted for permanent endowment	(658,406)	(2,635,462)
Net increase in Endowment Fund	(1,000,308)	(4,315,045)
(Increase) decrease in:		
Accounts and pledges receivable	238,982	1,450,341
Due to/ due from Endowment Fund	(531,101)	777,094
Other current assets	60,833	95,938
Increase (decrease) in:		
Accounts payable and accrued expenses	(104,334)	446,395
Deferred revenue	38,906	339,803
Net cash provided by operating activities	728,632	2,931,876
Cash flows from investing activities:		
Proceeds from sale of investments	2,984,613	2,726,300
Purchase of investments	(1,742,693)	(5,096,938)
Additions to property and equipment	(2,103,843)	(555,384)
Transfer to Endowment Fund	(1,189,384)	(3,253,181)
Proceeds from contributions restricted for investment in permanent endowment	658,406	2,635,462
Net cash used in investing activities	(1,392,901)	(3,543,741)
Cash flows from financing activities:		
Proceeds from long-term debt	1,000,000	-
Payments on long-term debt	(35,435)	(43,885)
Net cash provided by (used in) financing activities	964,565	(43,885)
Net increase (decrease) in cash and cash equivalents	300,296	(655,750)
Cash and cash equivalents:		
Beginning of year	928,192	1,583,942
End of year	\$ 1,228,488	\$ 928,192
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 20,975	\$ 19,462

See notes to financial statements.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS
October 31, 2004 and 2003**

1. THE ORGANIZATIONS

The Oregon Shakespeare Festival Association (Festival) is an Oregon nonprofit corporation. The Festival is the nation's oldest and largest theater in rotating repertory. Its purpose is to provide for promotion of the arts, theater and music, and to effectuate training, education and performances in the arts.

The Festival presents an eight-month season (from March to October) of eleven plays--a mixture of Shakespeare and classic and contemporary playwrights. The plays are performed at the Festival's three theaters; the Elizabethan Stage, the Angus Bowmer Theater, and the New Theater.

The Festival has a contract with the Actors' Equity Association, which provides the employment rules of conduct between the two organizations. The current contract expires in June of 2005. The contract provides that there may be no strikes, boycotts, interruption of work, temporary walk-out or lock-out for any reason during the term of this agreement.

The Oregon Shakespeare Festival Endowment Fund (Endowment Fund) is also an Oregon nonprofit corporation. The Endowment Fund exists to invest certain assets for the benefit of the Festival. A trust agreement between the Festival and the Endowment Fund requires the Endowment Fund to pay the Festival an amount not to exceed 7.0% of the average Endowment Fund assets as annual support. The amount due under this agreement at October 31, 2004 was \$962,509, which represents 5% of the average Endowment Fund assets. The amount due at October 31, 2003 was \$817,145, which represents 5.25% of the average Endowment Fund assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the accounts of the Festival and the Endowment Fund. Intercompany transactions and balances as of October 31, 2004 and 2003 have not been eliminated. Because the transactions represent contractual obligations between the two entities, management believes it is appropriate not to eliminate the transactions in the combined statements.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation

The accompanying financial statements have been prepared to focus on the Organizations as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of the Organizations' fund balances and transactions into three classes of net assets – unrestricted, temporarily restricted and permanently restricted, as follows:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Organizations and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organizations.

Cash and Cash Equivalents

For the purposes of cash flow, the Festival and the Endowment Fund consider unrestricted cash on hand, in checking accounts and overnight sweep accounts to be cash and cash equivalents.

The Festival has entered into a “Customer Sweep Agreement” with Wells Fargo Bank, whereby amounts on deposit in the Festival’s operating account are, at the close of each business day, used to purchase government and government agency securities. All government securities held on behalf of the Festival are then redeemed and credited to the operating bank account the following business day. The government securities are not obligations of the bank and are not insured by the Federal Deposit Insurance Corporation; however, they are backed by the full faith and credit of the U.S. government. The Festival had approximately \$820,000 and \$656,000 held in the Sweep Account at October 31, 2004 and 2003, respectively.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments

Festival investments consist of money market accounts, certificates of deposit, U.S. government securities, mutual funds, common stock, commercial bonds and mortgage backed securities and are carried at fair value. Interest income is included as an increase in unrestricted net assets in the accompanying statements of activities since its use is unrestricted. Endowment Fund investments in marketable securities are stated at estimated market value. Debt instruments are stated at their amortized cost basis which approximates their fair market value.

Prepaid Expenses

Prepaid expenses primarily represent costs incurred in advance related to the following season's productions. These costs are recognized as expenses as the productions are presented.

Inventory

Inventory, consisting of production, plant and office supplies, is stated at the lower of cost, determined by the first-in, first-out method, or market.

Property and Equipment

Purchased equipment is recorded at cost. Donated equipment is recorded at fair market value at the date of the donation. Expenditures for items that exceed \$1,000 are capitalized.

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. Depreciation expense is segregated between depreciation on assets funded from working capital and depreciation on assets funded by restricted gifts and grants.

Ticket Sales, Subscription Revenue and Deferred Revenue

Ticket sales and subscription revenue are recognized as revenue in the period earned as the related productions are presented. Deferred revenue represents monies collected in advance for ticket sales and subscriptions applicable to the following performance season.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributions

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

In-Kind Contributions and Expenses

In-kind contributions are recognized at estimated fair market value and are recognized both as revenue and expense in the period in which they apply. In addition, a number of volunteers have made significant contributions of their time in the furtherance of the Festival's programs. The value of this contributed time is not reflected in the accompanying statements of activities because the amount is not susceptible to objective measurement or valuation.

Expense Allocation

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

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Advertising

The Festival expenses advertising production and communication costs in the year the advertising first takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of direct mail brochures that include order forms for the Festival's tickets and memberships and telemarketing efforts. The capitalized costs of the advertising are amortized over the following season to which the tickets and memberships relate.

Advertising costs approximating \$73,000 and \$173,000 are reported as prepaid expenses at October 31, 2004 and 2003, respectively. Total advertising expense approximated \$1,206,000 and \$1,189,000 for the years ended October 31, 2004 and 2003, respectively.

Income Taxes

The Festival and the Endowment Fund are exempt under Section 501(c)(3) of the Internal Revenue Code from taxes on income derived from operations related to the purpose for which they are organized. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Organizations are not private foundations and have no net unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

3. INVESTMENTS

Investments are recorded at fair value and consist of the following at October 31, 2004 and 2003:

	2004	2003
Money market accounts	\$ 129,585	\$ 1,010,112
Fixed income securities	1,050,381	332,017
Mutual funds	2,776,541	3,838,562
Corporate stocks	40,350	45,952
Certificates of deposit	241,104	221,200
	\$ 4,237,961	\$ 5,447,843

Investment income consists of:

Interest and dividends	\$ 134,904	\$ 144,751
Net realized/unrealized gains	32,038	92,192
	\$ 166,942	\$ 236,943

Certificates of deposit include funds restricted under a security agreement with the Actors' Equity Association. The agreement requires the Festival to maintain funds equal to two weeks' salary for each union actor employed. The funds are invested in a certificate of deposit and are carried at current market value. Interest on the security deposit is recognized by the Festival as earned. The CD secures an irrevocable letter of credit that Actors' Equity could draw on to meet the actors' payroll if needed.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Pledges receivable, due within one year	\$ 891,881	\$ 1,197,772
Pledges receivable, due in one to five years	64,548	228,562
Pledges receivable after five years	<u>5,000</u>	<u>5,075</u>
	961,429	1,431,409
Less allowance for uncollectible pledges	<u>148,822</u>	<u>458,635</u>
	812,607	972,774
Less current portion	<u>743,059</u>	<u>839,136</u>
Long-term portion	\$ <u>69,548</u>	\$ <u>133,638</u>

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

5. ENDOWMENT FUND

The Endowment Fund exists to invest certain assets for the benefit of the Festival. The summarized financial information for the Endowment Fund is as follows:

	<u>2004</u>	<u>2003</u>
ASSETS:		
Cash and equivalents	\$ 554	\$ 671
Investments	26,020,645	23,246,874
Note receivable	158,980	188,132
Due from Festival	569,705	1,057,651
Gifts of future interests	<u>279,390</u>	<u>279,390</u>
 Total assets	 <u>27,029,274</u>	 <u>24,772,718</u>
LIABILITIES:		
Accounts payable	1,920	-
Obligations under gift annuities	594,699	572,910
Deferred support - gift annuities	44,929	44,929
Due to Festival	<u>962,684</u>	<u>919,529</u>
 Total liabilities	 <u>1,604,232</u>	 <u>1,537,368</u>
NET ASSETS:		
Unrestricted	5,361,572	3,883,986
Temporarily restricted	780,775	727,075
Permanently restricted	<u>19,282,695</u>	<u>18,624,289</u>
 Total net assets	 <u>\$ 25,425,042</u>	 <u>\$ 23,235,350</u>

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

5. ENDOWMENT FUND, Continued

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2004 and 2003:

	2004	2003
Cash and cash equivalents	\$ 297,416	\$ 29,477
Mutual funds	15,849,112	15,201,012
Corporate stocks	4,225,882	4,486,029
Limited partnership interests	5,648,235	3,530,356
	\$ 26,020,645	\$ 23,246,874

Investment income consists of:

Interest and dividends	\$ 318,976	\$ 227,732
Net realized/unrealized gains	2,199,024	4,404,099
	\$ 2,518,000	\$ 4,631,831

Commitments for limited liquidity investments not yet funded approximated \$2,189,000 at October 31, 2004.

Endowment Fund Gift Annuities

The Endowment Fund has received several gift annuities and has been named as a beneficiary to a charitable remainder unitrust. Under the terms of the annuity agreements the Endowment Fund will pay out specified amounts periodically over the lives of the annuitants. When terminated, the balance in the annuity account is available to be placed in the Endowment Fund's permanently restricted net assets. The portion of the gift annuity attributable to the present value of the future benefits to be received by the Endowment Fund is recorded in the Statement of Activities as a temporarily restricted contribution in the period the annuity is established. Such contributions totaled \$39,986 for the year ended October 31, 2004. Funds held in separate accounts totaled \$875,498 at October 31, 2004 and \$800,049 at October 31, 2003 and are reported at fair market value and are included in the Endowment Fund's investments. On an annual basis, the Endowment Fund revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$594,699 and \$572,910 at October 31, 2004 and 2003, respectively, is calculated using a discount rate of 2.5% and applicable mortality tables.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

6. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classes as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 1,806,215	\$ 1,423,001
Buildings, partially pledged	15,502,024	14,503,094
Leasehold improvements	7,652,991	7,465,475
Accumulated depreciation	<u>(4,495,441)</u>	<u>(3,931,208)</u>
Land and buildings, net	<u>20,465,789</u>	<u>19,460,362</u>
Equipment	4,651,109	4,125,206
Accumulated depreciation	<u>(2,937,935)</u>	<u>(2,671,464)</u>
Equipment, net	<u>1,713,174</u>	<u>1,453,742</u>
Property and equipment, net	<u>\$ 22,178,963</u>	<u>\$ 20,914,104</u>

As described in Note 10, all other real property used by the Festival is owned by the City of Ashland. Improvements to this property are capitalized by the Festival and amortized over the estimated useful life of 40 years using the straight-line method.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

7. LONG-TERM DEBT

The Festival is obligated on a mortgage payable which is secured by real property as follows:

	<u>2004</u>	<u>2003</u>
Mortgage payable to US Bank in monthly installments of \$7,813, including interest at 4.74% through March 2019; secured by real property.	\$ 972,891	\$ -
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	<u>366,552</u>	<u>374,878</u>
	1,339,443	374,878
Less current portion	<u>57,532</u>	<u>8,326</u>
	<u>\$ 1,281,911</u>	<u>\$ 366,552</u>
Future maturities are:		
Year ending October 31,		
2005	\$ 57,532	
2006	60,384	
2007	63,378	
2008	66,521	
2009	69,820	
Thereafter	<u>1,021,808</u>	
	<u>\$ 1,339,443</u>	

8. BOARD DESIGNATED RESERVES

Following the recommendations of the Ford Foundation, the Board designated a reserve of \$1,000,000. This is included in the unrestricted net assets of the Festival.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	2004	2003
Capital campaign	\$ -	\$ 32,093
NEA challenge grant	500,000	500,000
Funding of future season operations	643,500	610,559
Funding for gifts of future interests	280,775	227,075
Other purpose restricted	57,218	53,447
	\$ 1,481,493	\$ 1,423,174

During the year ended October 31, 1999, the Festival satisfied the conditions of a challenge grant for \$125,000 from the National Endowment for the Arts. The conditions of the grant required the Festival to match the grant with eligible resources on a three to one basis. The grant proceeds along with the matching funds totaling \$500,000 are required to be maintained in a separate term cash reserve in the Endowment Fund for a period of ten years after the grant end date.

10. LEASE COMMITMENTS

All real property used by the Festival, other than that indicated in Note 6, is owned by the City of Ashland. The Festival transferred this property and various leasehold improvements to the City of Ashland, including the construction of the New Theatre and the parking structure. The Festival leases this property rent-free from the City of Ashland. The lease term extends through 2075.

Effective April 1, 2004, the Festival began leasing facilities for their costume storage and rental operations. The lease term is through March 31, 2014; however, the lease may be terminated at any time prior to March 31, 2007 with proper written notification and payment equal to the base rent due and payable through March 31, 2007. The lease may not be terminated after March 31, 2007. Monthly rent through March 31, 2009 is \$6,135 and increases to \$6,749 though the end of the lease.

The Festival also leases copiers under operating leases expiring in 2007 and 2008. Monthly payments total \$1,250.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2004 and 2003**

10. LEASE COMMITMENTS, Continued

Future minimum lease payments are as follows:

October 31, 2005	\$	88,620
2006		88,620
2007		41,980
2008		6,132

11. EMPLOYEES' SAVING AND PROFIT SHARING PLAN

The Oregon Shakespeare Festival Association's retirement plan and deferred compensation plan were established in 1989. Both the Festival and eligible employees contribute to the Plans. The Festival's contributions are voluntary and at the discretion of the Board of Directors. The Festival's contributions for the years ended October 31, 2004 and 2003 were \$280,533 and \$283,311, respectively.

12. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organizations to concentrations of credit risk consist primarily of cash equivalents, pledges receivable, and accounts receivable. To limit credit risk, the Organizations place cash equivalents and other short-term investments with high credit quality financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per institution. Concentrations of credit risk with respect to pledges receivable are limited due to the large number of contributors comprising the Organizations' contributor base and their dispersion across different industries and geographic areas.

SUPPLEMENTAL INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Oregon Shakespeare Festival Association and
Oregon Shakespeare Festival Endowment Fund
Ashland, Oregon

Our report on our audit of the basic financial statements of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund for the year ended October 31, 2004 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McDonald Jacobs, P.C.

January 12, 2005

Strength in Numbers

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**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**SUPPLEMENTAL INFORMATION - SCHEDULE I
STATEMENT OF FUNCTIONAL EXPENSES**

**For the year ended October 31, 2004
(With comparative totals for 2003)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2004 Total	2003 Total
Salaries	\$ 8,538,836	\$ 1,353,890	\$ 1,785,254	\$ 602,616	\$ 12,280,596	\$ 12,114,350
Payroll taxes and benefits	1,911,696	334,788	410,544	127,209	2,784,237	2,911,702
Total salaries and related expenses	10,450,532	1,688,678	2,195,798	729,825	15,064,833	15,026,052
Accounting and audit fees	-	-	44,339	-	44,339	38,384
Computer expenses	-	-	74,669	-	74,669	69,085
Costumes	223,867	-	-	-	223,867	194,968
Fees, dues and subscriptions	-	14,240	-	65,272	79,512	72,046
Insurance	-	-	326,803	-	326,803	280,931
Interest	-	-	20,975	-	20,975	19,462
Lighting	55,126	-	-	-	55,126	50,599
Media and public relations	-	291,541	-	34,921	326,462	338,341
Miscellaneous	511,006	351,246	131,102	27,752	1,021,106	1,014,708
Photocopying	19,643	4,695	5,407	2,663	32,408	28,185
Postage and mailing	7,957	73,514	7,285	94,200	182,956	219,888
Printing	743	285,621	-	154,028	440,392	451,353
Properties	84,837	-	-	-	84,837	62,904
Rain-out refunds	-	-	-	-	-	7,242
Repairs and maintenance	-	3,555	138,835	-	142,390	148,482
Royalties	487,516	-	-	-	487,516	337,876
Scenery	218,588	-	-	-	218,588	240,392
Sound	17,982	-	-	-	17,982	15,757
Supplies	13,274	71,006	43,153	42,048	169,481	181,673
Telephone	23,493	11,348	56,739	5,362	96,942	88,883
Training	5,575	4,327	12,806	1,393	24,101	23,117
Travel and cultivation	218,585	17,779	13,550	148,119	398,033	275,376
Utilities	237,136	-	81,333	-	318,469	295,988
Volunteer activities	-	-	43,713	-	43,713	43,195
Subtotal	12,575,860	2,817,550	3,196,507	1,305,583	19,895,500	19,524,887
Depreciation	-	-	347,042	-	347,042	303,671
In-kind expense	-	-	15,079	-	15,079	12,187
Sundry equipment	19,695	-	116,321	-	136,016	120,065
Total current endeavors expenses	12,595,555	2,817,550	3,674,949	1,305,583	20,393,637	19,960,810
Depreciation - restricted	-	-	491,942	-	491,942	510,799
Support and depreciation - Portland Center Stage	-	-	-	-	-	5,160
TOTAL	<u>\$ 12,595,555</u>	<u>\$ 2,817,550</u>	<u>\$ 4,166,891</u>	<u>\$ 1,305,583</u>	<u>\$ 20,885,579</u>	<u>\$ 20,476,769</u>

See auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
AND OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**SUPPLEMENTAL INFORMATION - SCHEDULE II
COMBINING STATEMENTS OF NET ASSETS
October 31, 2004 and 2003**

	2004			2003		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted	\$ 23,233,721	\$ 5,361,572	\$ 28,595,293	\$ 23,550,918	\$ 3,883,986	\$ 27,434,904
Temporarily restricted	700,718	780,775	1,481,493	696,099	727,075	1,423,174
Permanently restricted	-	19,282,695	19,282,695	-	18,624,289	18,624,289
	\$ 23,934,439	\$ 25,425,042	\$ 49,359,481	\$ 24,247,017	\$ 23,235,350	\$ 47,482,367
Total net assets	\$ 23,934,439	\$ 25,425,042	\$ 49,359,481	\$ 24,247,017	\$ 23,235,350	\$ 47,482,367

See auditor's report on supplemental information.