

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

**Combined Audited
Financial Statements**

**For The Years Ended
October 31, 2005 and 2004**



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined statements of financial position of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund (nonprofit corporations) as of October 31, 2005 and 2004 and the related combined statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund as of October 31, 2005 and 2004, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

McDonald Jacobs, P.C.

January 12, 2006

Strength in Numbers

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
October 31, 2005 and 2004**

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 527,022	\$ 1,228,488
Investments	4,821,849	4,237,961
Accounts receivable	189,853	209,955
Pledges receivable, net	1,079,223	743,059
Due from Endowment Fund	1,157,415	962,684
Prepaid expenses	681,542	564,716
Inventory	138,720	138,941
Total current assets	8,595,624	8,085,804
Non current pledges receivable	26,342	69,548
Property and equipment, net	22,138,224	22,178,963
Endowment	27,234,559	25,425,042
	\$ 57,994,749	\$ 55,759,357
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,785,887	\$ 1,448,464
Due to Endowment Fund	155,095	569,705
Deferred revenue, tickets	367,578	397,532
Deferred revenue, program and other revenues	361,980	304,867
Current portion of long-term debt	60,384	57,532
Total current liabilities	2,730,924	2,778,100
Long-term debt, less current portion	1,222,166	1,281,911
Total liabilities	3,953,090	4,060,011
Net assets:		
Unrestricted:		
Undesignated	10,203,943	9,095,638
Board Designated	1,000,000	1,000,000
Net property and equipment	20,855,674	20,839,520
Total unrestricted	32,059,617	30,935,158
Temporarily restricted	2,396,361	1,481,493
Permanently restricted	19,585,681	19,282,695
Total net assets	54,041,659	51,699,346
TOTAL LIABILITIES AND NET ASSETS	\$ 57,994,749	\$ 55,759,357

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, 2005 and 2004**

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
Plays	\$ 13,410,455	\$ -	\$ -	\$ 13,410,455	\$ 12,855,292	\$ -	\$ -	\$ 12,855,292
Other events	225,113	-	-	225,113	267,024	-	-	267,024
Educational programs	243,532	-	-	243,532	267,486	-	-	267,486
Publications	295,821	-	-	295,821	301,227	-	-	301,227
Concessions	272,960	-	-	272,960	226,507	-	-	226,507
Investment income	137,672	-	-	137,672	166,942	-	-	166,942
Support from Endowment Fund	1,156,187	-	-	1,156,187	962,509	-	-	962,509
Other	586,105	-	-	586,105	535,954	-	-	535,954
Total operating revenue	<u>16,327,845</u>	<u>-</u>	<u>-</u>	<u>16,327,845</u>	<u>15,582,941</u>	<u>-</u>	<u>-</u>	<u>15,582,941</u>
Operating expenses:								
Plays and education	14,768,924	-	-	14,768,924	14,087,473	-	-	14,087,473
Marketing and audience services	2,977,100	-	-	2,977,100	2,837,826	-	-	2,837,826
General and administration	2,086,066	-	-	2,086,066	2,136,829	-	-	2,136,829
Membership and fundraising	1,416,619	-	-	1,416,619	1,338,503	-	-	1,338,503
Total operating expenses	<u>21,248,709</u>	<u>-</u>	<u>-</u>	<u>21,248,709</u>	<u>20,400,631</u>	<u>-</u>	<u>-</u>	<u>20,400,631</u>
Loss from operations	<u>(4,920,864)</u>	<u>-</u>	<u>-</u>	<u>(4,920,864)</u>	<u>(4,817,690)</u>	<u>-</u>	<u>-</u>	<u>(4,817,690)</u>
Support:								
Memberships	2,815,307	395,695	-	3,211,002	3,062,828	-	-	3,062,828
Gifts and grants	1,441,751	1,113,387	-	2,555,138	1,130,863	548,500	-	1,679,363
Support groups	194,290	-	-	194,290	198,787	-	-	198,787
Net assets released from restrictions:								
Satisfaction of program restrictions	643,500	(643,500)	-	-	542,559	(542,559)	-	-
Total support	<u>5,094,848</u>	<u>865,582</u>	<u>-</u>	<u>5,960,430</u>	<u>4,935,037</u>	<u>5,941</u>	<u>-</u>	<u>4,940,978</u>
Income from current endeavors	173,984	865,582	-	1,039,566	117,347	5,941	-	123,288

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, 2005 and 2004**

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income from current endeavors								
Brought forward	173,984	865,582	-	1,039,566	117,347	5,941	-	123,288
Capital campaign and								
Endowment contributions	83,800	-	302,986	386,786	152,075	-	658,406	810,481
Other funds net activity	631	(4,471)	-	(3,840)	(3,045)	(1,321)	-	(4,366)
Endowment Fund investment income	2,693,762	-	-	2,693,762	2,517,877	-	-	2,517,877
Contributions of gift annuities	-	29,472	-	29,472	-	39,986	-	39,986
Change in value of gift annuities	-	24,285	-	24,285	-	13,713	-	13,713
Endowment support to Festival	(1,156,187)	-	-	(1,156,187)	(962,509)	-	-	(962,509)
Endowment expenses	(84,801)	-	-	(84,801)	(77,782)	-	-	(77,782)
Costume rental business, net	(82,858)	-	-	(82,858)	(4,205)	-	-	(4,205)
Depreciation on assets funded by restricted gifts and grants	(503,872)	-	-	(503,872)	(491,942)	-	-	(491,942)
Change in net assets	1,124,459	914,868	302,986	2,342,313	1,247,816	58,319	658,406	1,964,541
Net assets:								
Beginning of year	30,935,158	1,481,493	19,282,695	51,699,346	29,687,342	1,423,174	18,624,289	49,734,805
End of year	<u>\$ 32,059,617</u>	<u>\$ 2,396,361</u>	<u>\$ 19,585,681</u>	<u>\$ 54,041,659</u>	<u>\$ 30,935,158</u>	<u>\$ 1,481,493</u>	<u>\$ 19,282,695</u>	<u>\$ 51,699,346</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, 2005 and 2004**

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 2,342,313	\$ 1,964,541
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	854,609	838,984
Net realized/unrealized gain on investments	59,951	(32,038)
Contributions restricted for permanent endowment	(817,596)	(1,266,352)
Net increase in Endowment Fund	(1,095,689)	(1,043,463)
(Increase) decrease in:		
Accounts and pledges receivable	(272,856)	238,982
Due to/ due from Endowment Fund	(609,341)	(531,101)
Other current assets	(116,605)	60,833
Increase (decrease) in:		
Accounts payable and accrued expenses	337,423	(104,334)
Deferred revenue	27,159	(48,521)
Net cash provided by operating activities	709,368	77,531
 Cash flows from investing activities:		
Proceeds from sale of investments	1,295,759	2,984,613
Purchase of investments	(1,939,598)	(1,742,693)
Additions to property and equipment	(813,870)	(2,103,843)
Net cash used in investing activities	(1,457,709)	(861,923)
 Cash flows from financing activities:		
Proceeds from long-term debt	-	1,000,000
Payments on long-term debt	(56,893)	(35,435)
Collection of contributions restricted for investment in permanent endowment	817,596	1,266,352
Transfers to Endowment Fund	(713,828)	(1,146,229)
Net cash provided by financing activities	46,875	1,084,688
 Net increase (decrease) in cash and cash equivalents	(701,466)	300,296
 Cash and cash equivalents:		
Beginning of year	1,228,488	928,192
 End of year	\$ 527,022	\$ 1,228,488
 Supplemental cash flow information:		
Cash paid during the year for interest	\$ 20,454	\$ 20,975

See notes to financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
October 31, 2005 and 2004**

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 2008. The contract provides that there may be no strike, boycott, 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% of the average Endowment Fund assets as annual support. The amount due under this agreement at October 31, 2005 was \$1,156,187, which represents 5% of the average Endowment Fund assets. The amount due at October 31, 2004 was \$962,509, which represents 5% 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, 2005 and 2004 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, 2005 and 2004**

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 \$247,000 and \$820,000 held in the Sweep Account at October 31, 2005 and 2004, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2005 and 2004**

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, 2005 and 2004**

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. 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 the commitment is 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.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. 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 since the criteria for recording donated services has not been met.

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, 2005 and 2004**

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 relate.

Advertising costs approximating \$161,000 and \$73,000 are reported as prepaid expenses at October 31, 2005 and 2004, respectively. Total advertising expense approximated \$1,306,000 and \$1,206,000 for the years ended October 31, 2005 and 2004, 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, 2005 and 2004**

3. INVESTMENTS

Investments are recorded at fair value and consist of the following at October 31, 2005 and 2004:

	2005	2004
Money market accounts	\$ 657,661	\$ 129,585
Fixed income securities	972,379	1,050,381
Mutual funds	2,902,117	2,776,541
Corporate stocks	40,350	40,350
Certificates of deposit	249,342	241,104
	\$ 4,821,849	\$ 4,237,961

Investment income consists of:

Interest and dividends	\$ 197,623	\$ 134,995
Net realized/unrealized gain (loss)	(59,951)	31,947
	\$ 137,672	\$ 166,942

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, 2005 and 2004**

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2005 and 2004 consist of the following:

	2005	2004
Pledges receivable, due within one year	\$ 1,148,921	\$ 891,881
Pledges receivable, due in one to five years	26,342	64,548
Pledges receivable after five years	-	5,000
	1,175,263	961,429
Less allowance for uncollectible pledges	69,698	148,822
	1,105,565	812,607
Less current portion	1,079,223	743,059
Long-term portion	\$ 26,342	\$ 69,548

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2005 and 2004**

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classes as follows:

	2005	2004
Land	\$ 1,806,215	\$ 1,806,215
Buildings, partially pledged	15,587,646	15,502,024
Leasehold improvements	7,671,512	7,652,991
Accumulated depreciation	(5,082,388)	(4,495,441)
Land and buildings, net	19,982,985	20,465,789
Equipment	5,373,465	4,651,109
Accumulated depreciation	(3,218,226)	(2,937,935)
Equipment, net	2,155,239	1,713,174
Property and equipment, net	\$ 22,138,224	\$ 22,178,963

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, 2005 and 2004**

6. 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>2005</u>	<u>2004</u>
ASSETS:		
Cash and equivalents	\$ 498	\$ 554
Investments	28,467,289	26,020,645
Note receivable	127,141	158,980
Due from Festival	155,095	569,705
Gifts of future interests	<u>279,390</u>	<u>279,390</u>
 Total assets	 <u>29,029,413</u>	 <u>27,029,274</u>
LIABILITIES:		
Accounts payable	2013	1,920
Due to Festival	1,157,415	962,684
Obligations under gift annuities	614,836	594,699
Deferred support - gift annuities	<u>20,590</u>	<u>44,929</u>
 Total liabilities	 <u>1,794,854</u>	 <u>1,604,232</u>
NET ASSETS:		
Unrestricted	6,814,346	5,361,572
Temporarily restricted	834,532	780,775
Permanently restricted	<u>19,585,681</u>	<u>19,282,695</u>
 Total net assets	 <u>\$ 27,234,559</u>	 <u>\$ 25,425,042</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2005 and 2004**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2005 and 2004:

	2005	2004
Cash and cash equivalents	\$ 179,612	\$ 297,416
Mutual funds	15,861,950	15,849,112
Corporate stocks	3,515,146	4,225,882
Limited partnership interests	8,910,581	5,648,235
	\$ 28,467,289	\$ 26,020,645
Investment income consists of:		
Interest and dividends	\$ 613,440	\$ 318,853
Net realized/unrealized gains	2,080,322	2,199,024
	\$ 2,693,762	\$ 2,517,877

Commitments for limited partnership investments not yet funded approximated \$3,292,000 at October 31, 2005.

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 \$29,472 for the year ended October 31, 2005 and \$39,986 for the year ended October 31, 2004. Funds held in separate accounts totaled \$930,692 at October 31, 2005 and \$875,498 at October 31, 2004 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 \$635,425 and \$594,699 at October 31, 2005 and 2004, respectively, is calculated using a discount rate of 2.5% and applicable mortality tables.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2005 and 2004**

7. LONG-TERM DEBT

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

	2005	2004
Mortgage payable to US Bank in monthly installments of \$7,813, including interest at 4.74% through March 2019; secured by real property.	\$ 924,847	\$ 972,891
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	357,703	366,552
	1,282,550	1,339,443
Less current portion	60,384	57,532
	\$ 1,222,166	\$ 1,281,911
Future maturities are:		
Year ending October 31,		
2006	\$ 60,384	
2007	63,378	
2008	66,521	
2009	69,820	
2010	73,283	
Thereafter	949,164	
	\$ 1,282,550	

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, 2005 and 2004**

9. TEMPORARILY RESTRICTED NET ASSETS

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

	2005	2004
NEA challenge grant	500,000	500,000
Funding of future season operations	1,509,082	643,500
Gifts of future interests	334,532	280,775
Other purpose restricted	52,747	57,218
	\$ 2,396,361	\$ 1,481,493

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 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 5, 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 parking structure. The Festival leases this property rent-free from the City of Ashland. The lease term extends through 2075. At the end of the lease term, title to the New Theatre will be transferred to the City of Ashland.

Effective April 1, 2004, the Festival began leasing facilities for 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 through 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, 2005 and 2004**

10. LEASE COMMITMENTS, Continued

Future minimum lease payments are as follows:

October 31, 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, 2005 and 2004 were \$301,228 and \$280,533, 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, marketable securities, and pledges receivable. These financial instruments may subject the Organizations to concentration of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the values of securities are subject to changes in market values. 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.

Management believes that risk with respect to investment balances is minimal, due to the placement of the Organizations' investments with a wide array of financial institutions with high credit ratings, and the establishment of a diversified investment policy which limits the Organizations' exposure to credit risk and to concentrations of credit risk.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2005 and 2004**

13. RESTATEMENT TO PRIOR YEAR FINANCIAL STATEMENTS

The 2004 financial statements were restated to reflect the change in revenue recognition for memberships. Prior to the restatement, memberships received in advance of the subsequent Festival season were recorded as deferred revenue and the related membership expenses were recorded as prepaid expenses. In accordance with generally accepted accounting principles, memberships, which primarily represent contributions, are recognized as revenue when received and the related expenditures are expensed as incurred. The effect of the restatement on the financial statements as of and for the year ended October 31, 2004 decreased total liabilities by \$2,486,256, decreased total assets by \$146,391, increased beginning net assets by \$2,252,438 and increased the change in net assets by \$87,427. The 2004 financial statements also reflect reclassification of occupancy costs among program and supporting services for comparative purposes to conform with the presentation in the current-year financial statements.

SUPPLEMENTAL INFORMATION



MCDONALD JACOBS

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of counsel

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, 2005 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 through V 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, 2006

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, 2005
(With comparative totals for 2004)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2005 Total	2004 Total
Salaries	\$ 8,861,502	\$ 1,433,782	\$ 1,792,235	\$ 598,238	\$ 12,685,757	\$ 12,280,596
Payroll taxes and benefits	2,221,856	363,760	429,605	130,360	3,145,581	2,784,237
Total salaries and related expenses	<u>11,083,358</u>	<u>1,797,542</u>	<u>2,221,840</u>	<u>728,598</u>	<u>15,831,338</u>	<u>15,064,833</u>
Accounting and audit fees	-	-	45,189	-	45,189	44,339
Computer expenses	-	-	71,106	-	71,106	74,669
Costumes	224,647	-	-	-	224,647	223,867
Fees, dues and subscriptions	-	18,022	-	93,453	111,475	79,512
Insurance	-	-	408,006	-	408,006	326,803
Interest	-	-	20,454	-	20,454	20,975
Lighting	53,646	-	-	-	53,646	55,126
Media and public relations	-	342,077	-	40,451	382,528	326,462
Miscellaneous	558,457	298,990	94,731	68,821	1,020,999	1,028,100
Photocopying	17,267	3,442	7,807	6,661	35,177	32,408
Postage and mailing	8,167	72,333	9,076	123,355	212,931	182,956
Printing	340	289,462	-	153,818	443,620	440,392
Properties	53,733	-	-	-	53,733	84,837
Repairs and maintenance	-	3,660	138,469	-	142,129	142,390
Royalties	356,908	-	-	-	356,908	487,516
Scenery	231,412	-	-	-	231,412	218,588
Sound	13,837	-	-	-	13,837	17,982
Supplies	13,154	77,897	48,258	49,832	189,141	169,481
Telephone	22,159	9,590	52,108	3,591	87,448	96,942
Training	2,477	6,204	9,726	2,185	20,592	24,101
Travel and cultivation	255,071	31,605	20,613	115,653	422,942	398,033
Utilities	267,715	-	92,630	-	360,345	318,469
Volunteer activities	-	-	50,439	-	50,439	43,713
Subtotal	<u>13,162,348</u>	<u>2,950,824</u>	<u>3,290,452</u>	<u>1,386,418</u>	<u>20,790,042</u>	<u>19,902,494</u>
Depreciation	-	-	350,737	-	350,737	347,042
In-kind expense	3,594	4,807	21,423	2,749	32,573	15,079
Sundry equipment	23,246	-	52,111	-	75,357	136,016
Allocation of occupancy costs	1,579,736	21,469	(1,628,657)	27,452	-	-
Total current endeavors expenses	<u>14,768,924</u>	<u>2,977,100</u>	<u>2,086,066</u>	<u>1,416,619</u>	<u>21,248,709</u>	<u>20,400,631</u>
Depreciation - restricted	-	-	503,872	-	503,872	491,942
TOTAL	<u><u>\$ 14,768,924</u></u>	<u><u>\$ 2,977,100</u></u>	<u><u>\$ 2,589,938</u></u>	<u><u>\$ 1,416,619</u></u>	<u><u>\$ 21,752,581</u></u>	<u><u>\$ 20,892,573</u></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, 2005 and 2004**

	2005			2004		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted	\$ 25,245,271	\$ 6,814,346	\$ 32,059,617	\$ 25,573,586	\$ 5,361,572	\$ 30,935,158
Temporarily restricted	1,561,829	834,532	2,396,361	700,718	780,775	1,481,493
Permanently restricted	-	19,585,681	19,585,681	-	19,282,695	19,282,695
Total net assets	<u>\$ 26,807,100</u>	<u>\$ 27,234,559</u>	<u>\$ 54,041,659</u>	<u>\$ 26,274,304</u>	<u>\$ 25,425,042</u>	<u>\$ 51,699,346</u>

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE III
STATEMENTS OF FINANCIAL POSITION
October 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 498	\$ 554
Investments	28,467,289	26,020,645
Note receivable	127,141	158,980
Due from Festival	155,095	569,705
Gift of future interests	279,390	279,390
 TOTAL ASSETS	 \$ 29,029,413	 \$ 27,029,274
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 2,013	\$ 1,920
Due to Festival	1,157,415	962,684
Obligations under gift annuities	614,836	594,699
Deferred support - gift annuities	20,590	44,929
 Total liabilities	 1,794,854	 1,604,232
Net assets:		
Unrestricted	6,814,346	5,361,572
Temporarily restricted	834,532	780,775
Permanently restricted	19,585,681	19,282,695
Total net assets	27,234,559	25,425,042
 TOTAL LIABILITIES AND NET ASSETS	 \$ 29,029,413	 \$ 27,029,274

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE IV
STATEMENTS OF ACTIVITIES
For the years ended October 31, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	\$ -	\$ -	\$ 302,986	\$ 302,986	\$ -	\$ -	\$ 658,406	\$ 658,406
Interest and dividends	613,440	-	-	613,440	318,853	-	-	318,853
Net realized/unrealized gain on investments	2,080,322	-	-	2,080,322	2,199,024	-	-	2,199,024
Contributions of gift annuity	-	29,472	-	29,472	-	39,986	-	39,986
Change in value of gift annuities	-	24,285	-	24,285	-	13,713	-	13,713
Total support and revenue	<u>2,693,762</u>	<u>53,757</u>	<u>302,986</u>	<u>3,050,505</u>	<u>2,517,877</u>	<u>53,699</u>	<u>658,406</u>	<u>3,229,982</u>
Expenses:								
Support to Festival	1,156,187	-	-	1,156,187	962,509	-	-	962,509
General and administrative	84,801	-	-	84,801	77,780	-	-	77,780
Total expenses	<u>1,240,988</u>	<u>-</u>	<u>-</u>	<u>1,240,988</u>	<u>1,040,289</u>	<u>-</u>	<u>-</u>	<u>1,040,289</u>
Change in net assets	1,452,774	53,757	302,986	1,809,517	1,477,588	53,699	658,406	2,189,693
Net assets:								
Beginning of year	<u>5,361,572</u>	<u>780,775</u>	<u>19,282,695</u>	<u>25,425,042</u>	<u>3,883,984</u>	<u>727,076</u>	<u>18,624,289</u>	<u>23,235,349</u>
End of year	<u>\$ 6,814,346</u>	<u>\$ 834,532</u>	<u>\$ 19,585,681</u>	<u>\$ 27,234,559</u>	<u>\$ 5,361,572</u>	<u>\$ 780,775</u>	<u>\$ 19,282,695</u>	<u>\$ 25,425,042</u>

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE V
STATEMENTS OF CASH FLOWS
For the years ended October 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Interest and dividends received	\$ 631,599	\$ 336,306
Support to Festival	(962,509)	(817,145)
Annuity payments	(68,604)	(61,965)
Endowment expenses	(83,655)	(178,069)
Net cash used in operating activities	(483,169)	(720,873)
Cash flows from investing activities:		
Proceeds from sale of investments	1,418,705	1,188,020
Purchase of investments	(1,785,027)	(1,762,768)
Proceeds from note receivable	31,839	29,152
Net cash used in investing activities	(334,483)	(545,596)
Cash flows from financing activities:		
Collection of contributions restricted for investment in permanent endowment	817,596	1,266,352
Net cash provided by financing activities	817,596	1,266,352
 Net decrease in cash and cash equivalents	(56)	(117)
Cash and cash equivalents:		
Beginning of year	554	671
End of year	\$ 498	\$ 554
Reconciliation of the change in net assets to net cash used in operating activities:		
Change in net assets	\$ 1,809,517	\$ 2,189,693
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized gain on investments	(2,080,322)	(2,199,024)
Contributions restricted for permanent endowment	(817,596)	(1,266,352)
(Increase) decrease in:		
Due to/due from Festival	609,341	531,101
Increase (decrease) in:		
Accounts payable	93	1,920
Obligations and deferred support - gift annuities	(4,202)	21,789
Net cash used in operating activities	\$ (483,169)	\$ (720,873)

See auditor's report on supplemental information.