

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

**Combined Audited
Financial Statements**

**For The Years Ended
October 31, 2006 and 2005**



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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, 2006 and 2005 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, 2006 and 2005, and the results of their activities and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

McDonald Jacobs, P.C.

January 11, 2007

Strength in Numbers

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
October 31, 2006 and 2005**

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 974,416	\$ 527,022
Investments	3,295,889	4,821,849
Accounts receivable	228,300	189,853
Pledges receivable, net	1,384,930	1,079,223
Due from Endowment Fund	1,350,464	1,157,415
Prepaid expenses	787,448	681,542
Inventory	135,749	138,720
Total current assets	8,157,196	8,595,624
Noncurrent pledges receivable	284,000	26,342
Property and equipment, net	23,727,792	22,138,224
Endowment	30,658,027	27,234,559
 TOTAL ASSETS	 \$ 62,827,015	 \$ 57,994,749
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,285,911	\$ 1,785,887
Due to Endowment Fund	53,679	155,095
Deferred revenue, tickets	237,153	367,578
Deferred revenue, program and other revenues	389,207	361,980
Current portion of long-term debt	80,226	60,384
Total current liabilities	3,046,176	2,730,924
Long-term debt, less current portion	1,839,883	1,222,166
Total liabilities	4,886,059	3,953,090
Net assets:		
Unrestricted:		
Undesignated	13,532,689	10,203,943
Board Designated	-	1,000,000
Net property and equipment	21,807,683	20,855,674
Total unrestricted	35,340,372	32,059,617
Temporarily restricted	2,938,380	2,396,361
Permanently restricted	19,662,204	19,585,681
Total net assets	57,940,956	54,041,659
 TOTAL LIABILITIES AND NET ASSETS	 \$ 62,827,015	 \$ 57,994,749

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, 2006 and 2005**

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
Plays	\$ 14,602,987	\$ -	\$ -	\$ 14,602,987	\$ 13,410,455	\$ -	\$ -	\$ 13,410,455
Other events	245,802	-	-	245,802	225,113	-	-	225,113
Educational programs	221,110	-	-	221,110	243,532	-	-	243,532
Publications	305,304	-	-	305,304	295,821	-	-	295,821
Concessions	303,409	-	-	303,409	272,960	-	-	272,960
Investment income	282,078	-	-	282,078	137,672	-	-	137,672
Support from Endowment Fund	1,345,572	-	-	1,345,572	1,156,187	-	-	1,156,187
Other	585,336	-	-	585,336	586,105	-	-	586,105
Total operating revenue	<u>17,891,598</u>	<u>-</u>	<u>-</u>	<u>17,891,598</u>	<u>16,327,845</u>	<u>-</u>	<u>-</u>	<u>16,327,845</u>
Operating expenses:								
Plays and education	15,643,744	-	-	15,643,744	14,768,924	-	-	14,768,924
Marketing and audience services	3,770,837	-	-	3,770,837	2,977,100	-	-	2,977,100
General and administration	2,330,230	-	-	2,330,230	2,086,066	-	-	2,086,066
Membership and fundraising	1,071,934	-	-	1,071,934	1,416,619	-	-	1,416,619
Total operating expenses	<u>22,816,745</u>	<u>-</u>	<u>-</u>	<u>22,816,745</u>	<u>21,248,709</u>	<u>-</u>	<u>-</u>	<u>21,248,709</u>
Loss from operations	<u>(4,925,147)</u>	<u>-</u>	<u>-</u>	<u>(4,925,147)</u>	<u>(4,920,864)</u>	<u>-</u>	<u>-</u>	<u>(4,920,864)</u>
Support:								
Memberships	2,762,587	464,628	-	3,227,215	2,815,307	395,695	-	3,211,002
Gifts and grants	1,007,739	1,491,653	-	2,499,392	1,441,751	963,387	-	2,405,138
Support groups	201,790	-	-	201,790	194,290	-	-	194,290
Net assets released from restrictions:								
Satisfaction of program restrictions	1,359,082	(1,359,082)	-	-	643,500	(643,500)	-	-
Total support	<u>5,331,198</u>	<u>597,199</u>	<u>-</u>	<u>5,928,397</u>	<u>5,094,848</u>	<u>715,582</u>	<u>-</u>	<u>5,810,430</u>
Income from current endeavors	406,051	597,199	-	1,003,250	173,984	715,582	-	889,566

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, 2006 and 2005**

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income from current endeavors								
Brought forward	406,051	597,199	-	1,003,250	173,984	715,582	-	889,566
Contributions for capitalized expenditures and (release of restrictions)	102,000	(30,000)	-	72,000	-	150,000	-	150,000
Costume rental business, net	(56,708)	-	-	(56,708)	(82,858)	-	-	(82,858)
Other funds, net activity	(2,400)	(5,723)	-	(8,123)	631	(4,471)	-	(3,840)
Depreciation on assets funded by restricted gifts and grants	(542,277)	-	-	(542,277)	(503,872)	-	-	(503,872)
Capital campaign and								
Endowment Fund contributions	7,687	-	76,523	84,210	83,800	-	302,986	386,786
Endowment Fund investment income	4,807,001	26,601	-	4,833,602	2,693,762	18,659	-	2,712,421
Contributions of gift annuities	-	3,878	-	3,878	-	29,472	-	29,472
Change in value of gift annuities	-	(49,936)	-	(49,936)	-	5,626	-	5,626
Endowment support to Festival	(1,345,572)	-	-	(1,345,572)	(1,156,187)	-	-	(1,156,187)
Endowment expenses	(95,027)	-	-	(95,027)	(84,801)	-	-	(84,801)
Change in net assets	3,280,755	542,019	76,523	3,899,297	1,124,459	914,868	302,986	2,342,313
Net assets:								
Beginning 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>
End of year	<u>\$ 35,340,372</u>	<u>\$ 2,938,380</u>	<u>\$ 19,662,204</u>	<u>\$ 57,940,956</u>	<u>\$ 32,059,617</u>	<u>\$ 2,396,361</u>	<u>\$ 19,585,681</u>	<u>\$ 54,041,659</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, 2006 and 2005**

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 3,899,297	\$ 2,342,313
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	984,715	854,609
Net realized/unrealized (gain) loss on investments	(19,183)	59,951
Contributions restricted for permanent endowment	(187,939)	(817,596)
Net increase in Endowment Fund	(3,247,382)	(1,095,689)
(Increase) decrease in:		
Accounts and pledges receivable	(601,812)	(272,856)
Due to/ due from Endowment Fund	(294,465)	(609,341)
Other current assets	(102,935)	(116,605)
Increase (decrease) in:		
Accounts payable and accrued expenses	500,024	337,423
Deferred revenue	(103,198)	27,159
Net cash provided by operating activities	827,122	709,368
 Cash flows from investing activities:		
Proceeds from sale of investments	2,912,431	1,295,759
Purchase of investments	(1,367,288)	(1,939,598)
Additions to property and equipment	(1,874,283)	(813,870)
Net cash used in investing activities	(329,140)	(1,457,709)
 Cash flows from financing activities:		
Payments on long-term debt	(62,441)	(56,893)
Contributions restricted for investment in permanent endowment	187,939	817,596
Transfers to Endowment Fund	(176,086)	(713,828)
Net cash provided by (used in) financing activities	(50,588)	46,875
 Net increase (decrease) in cash and cash equivalents	447,394	(701,466)
 Cash and cash equivalents:		
Beginning of year	527,022	1,228,488
 End of year	\$ 974,416	\$ 527,022
 Supplemental cash flow information:		
Cash paid during the year for interest	\$ 19,960	\$ 20,454

See notes to financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
October 31, 2006 and 2005**

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 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 amounts due under this agreement at October 31, 2006 and 2005 were \$1,345,572 and \$1,156,187, respectively, 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, 2006 and 2005 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 consolidated statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

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 purposes of the statements of cash flows, the Organizations consider all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents held in investment accounts are considered investments.

Investments

Festival investments consist of money market accounts, certificates of deposit, U.S. government securities, mutual funds, commercial bonds and mortgage backed securities. Festival investments 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 carried at fair value. Investments in limited partnership interests and other equity securities have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners determined based upon their most recent audited financial statements adjusted for any activity from the date of their audit through October 31st.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be insignificant.

Prepaid Expenses

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

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

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

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.

Contributions of Long-Lived Assets

Contributions of land, buildings and equipment, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

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 CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

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 \$163,000 and \$161,000 are reported as prepaid expenses at October 31, 2006 and 2005, respectively. Total advertising expense approximated \$706,000 and \$709,000 for the years ended October 31, 2006 and 2005, 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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

3. INVESTMENTS

Investments are recorded at fair value and consist of the following at October 31, 2006 and 2005:

	2006	2005
Money market accounts	\$ 199,928	\$ 657,661
Fixed income securities	902,737	972,379
Domestic and international equities	1,899,935	2,902,117
Corporate stocks	40,350	40,350
Certificates of deposit	252,939	249,342
Total investments	\$ 3,295,889	\$ 4,821,849
Investment income consists of:		
Interest and dividends	\$ 261,446	\$ 197,623
Net realized/unrealized gain (loss)	20,632	(59,951)
Total investment income	\$ 282,078	\$ 137,672

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 fair 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 CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2006 and 2005 consist of the following:

	2006	2005
Pledges receivable, due within one year	\$ 1,414,795	\$ 1,148,921
Pledges receivable, due in one to five years	306,000	26,342
	1,720,795	1,175,263
Less discount on long-term pledges	22,000	-
Less allowance for uncollectible pledges	29,865	69,698
	1,668,930	1,105,565
Less current portion	1,384,930	1,079,223
Long-term portion	\$ 284,000	\$ 26,342

Significant long-term pledges are discounted to present value using a rate of 5%.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classes as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 1,972,895	\$ 1,806,215
Buildings, partially pledged	16,651,493	15,587,646
Leasehold improvements	7,663,878	7,671,512
Accumulated depreciation	<u>(5,680,043)</u>	<u>(5,082,388)</u>
Land and buildings, net	<u>20,608,223</u>	<u>19,982,985</u>
Equipment	6,724,984	5,373,465
Accumulated depreciation	<u>(3,605,415)</u>	<u>(3,218,226)</u>
Equipment, net	<u>3,119,569</u>	<u>2,155,239</u>
Property and equipment, net	<u>\$ 23,727,792</u>	<u>\$ 22,138,224</u>

As described in Note 11, 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 an estimated useful life of 40 years using the straight-line method.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

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>2006</u>	<u>2005</u>
ASSETS:		
Cash and equivalents	\$ 584	\$ 498
Investments	32,204,265	28,467,289
Note receivable	92,367	127,141
Due from Festival	53,679	155,095
Gifts of future interests	<u>279,390</u>	<u>279,390</u>
 Total assets	 <u>32,630,285</u>	 <u>29,029,413</u>
LIABILITIES:		
Accounts payable	8,088	2013
Due to Festival	1,350,464	1,157,415
Obligations under gift annuities	592,508	614,836
Deferred support - gift annuities	<u>21,198</u>	<u>20,590</u>
 Total liabilities	 <u>1,972,258</u>	 <u>1,794,854</u>
NET ASSETS:		
Unrestricted	10,180,748	6,814,346
Temporarily restricted	815,075	834,532
Permanently restricted	<u>19,662,204</u>	<u>19,585,681</u>
 Total net assets	 <u>\$ 30,658,027</u>	 <u>\$ 27,234,559</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 661,453	\$ 179,612
Domestic and international equities	22,874,049	17,572,077
Corporate stocks	-	3,515,146
Limited partnership interests and other equity securities	<u>8,668,763</u>	<u>7,200,454</u>
Total investments	<u>\$ 32,204,265</u>	<u>\$ 28,467,289</u>
Investment income consists of:		
Interest and dividends	\$ 625,184	\$ 632,099
Net realized/unrealized gains	<u>4,208,418</u>	<u>2,080,322</u>
Total investment income	<u>\$ 4,833,602</u>	<u>\$ 2,712,421</u>

Commitments for limited partnership investments not yet funded approximated \$3,783,000 at October 31, 2006.

Investments in limited partnership interests and other equity securities have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners determined based upon their most recent audited financial statements adjusted for any activity from the date of their audit through October 31st.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

6. ENDOWMENT FUND, Continued

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 \$3,878 for the year ended October 31, 2006 and \$29,472 for the year ended October 31, 2005. Funds held in separate accounts totaled \$991,765 at October 31, 2006 and \$930,692 at October 31, 2005 and are reported at fair market value and are included in the Endowment Fund's investments.

On an annual basis, the Endowment Fund redetermines its obligation for payments to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$613,706 and \$635,425 at October 31, 2006 and 2005, respectively, is calculated using a discount rate of 2.5% and applicable mortality tables. The calculation of the present value of the estimated future payments is based on the methodology used to determine the state minimum reserve requirements and is not in accordance with generally accepted accounting principles. The difference in the present value calculations has been determined to be immaterial to the financial statements as a whole.

7. LINE OF CREDIT

At October 31, 2006, the Festival has a \$500,000 stand-alone revolving line of credit with US Bank. Interest on the line is payable monthly at the bank's prime rate less 0.75%. The line matures on April 1, 2007 and is secured by assets of the Festival. There were no advances on the line at October 31, 2006.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

8. LONG-TERM DEBT

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

	2006	2005
Mortgage payable to US Bank in monthly installments of \$7,813, including interest at 4.74% through March 2019; secured by real property.	\$ 874,442	\$ 924,847
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	348,362	357,703
Note Payable to an individual in monthly installments of \$5,427 including interest at 7.0% through August 2026; secured by real property	697,305	-
	1,920,109	1,282,550
Less current portion	80,226	60,384
	\$ 1,839,883	\$ 1,222,166
Future maturities are:		
Year ending October 31,		
2007	\$ 80,226	
2008	84,587	
2009	89,192	
2010	94,055	
2011	99,192	
Thereafter	1,472,857	
	\$ 1,920,109	

9. BOARD DESIGNATED RESERVES

In past years, following the recommendations of the Ford Foundation, the Board designated a reserve of \$1,000,000, included in unrestricted net assets of the Festival. During the year ended 2006, the Board voted to remove the designation on the funds.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

10. TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
NEA challenge grant	\$ 500,000	\$ 500,000
Funding of future season operations	1,915,428	1,509,082
Gifts of future interests	315,075	334,532
Other purpose restricted	207,877	52,747
	\$ 2,938,380	\$ 2,396,361

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.

11. 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. 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 CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

11. LEASE COMMITMENTS, Continued

Future minimum lease payments are as follows:

October 31, 2007	\$	41,980
2008		6,132

12. 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. Effective July 1, 2006, the Board approved amending the retirement plan to add a Roth deferral option. The Festival's contributions for the years ended October 31, 2006 and 2005 were \$332,281 and \$301,228, respectively.

13. 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 CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2006 and 2005**

14. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 2006, noncash investing and financing activities included the acquisition of real property financed through a note payable of \$700,000.

SUPPLEMENTAL INFORMATION

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

**SUPPLEMENTAL INFORMATION - SCHEDULE I
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended October 31, 2006
(With comparative totals for 2005)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2006 Total	2005 Total
Salaries	\$ 9,196,918	\$ 1,524,419	\$ 1,918,360	\$ 674,833	\$ 13,314,530	\$ 12,685,757
Payroll taxes and benefits	2,319,924	374,354	445,918	147,385	3,287,581	3,145,581
Total salaries and related expenses	<u>11,516,842</u>	<u>1,898,773</u>	<u>2,364,278</u>	<u>822,218</u>	<u>16,602,111</u>	<u>15,831,338</u>
Accounting and audit fees	-	-	45,614	-	45,614	45,189
Computer expenses	-	-	96,433	-	96,433	71,106
Costumes	259,220	-	-	-	259,220	224,647
Fees, dues and subscriptions	-	74,567	-	23,937	98,504	111,475
Insurance	-	-	257,360	-	257,360	408,006
Interest	-	-	19,960	-	19,960	20,454
Lighting	61,704	-	-	-	61,704	53,646
Media and public relations	-	393,922	-	-	393,922	382,528
Miscellaneous	737,436	383,865	218,446	7,027	1,346,774	1,020,999
Photocopying	25,555	4,753	9,229	3,181	42,718	35,177
Postage and mailing	7,920	245,278	9,959	7,659	270,816	212,931
Printing	798	475,612	-	11,168	487,578	443,620
Properties	70,871	-	-	-	70,871	53,733
Repairs and maintenance	-	4,352	151,153	-	155,505	142,129
Royalties	405,883	-	-	-	405,883	356,908
Scenery	247,444	-	-	-	247,444	231,412
Sound	17,186	-	-	-	17,186	13,837
Supplies	17,813	181,141	54,958	9,434	263,346	189,141
Telephone	20,862	38,607	56,865	3,911	120,245	87,448
Training	7,340	6,239	9,560	13,020	36,159	20,592
Travel and cultivation	297,177	38,395	24,257	138,499	498,328	422,942
Utilities	267,809	-	95,035	-	362,844	360,345
Volunteer activities	-	-	46,916	-	46,916	50,439
Subtotal	<u>13,961,860</u>	<u>3,745,504</u>	<u>3,460,023</u>	<u>1,040,054</u>	<u>22,207,441</u>	<u>20,790,042</u>
Depreciation	-	-	442,438	-	442,438	350,737
In-kind expense	7,800	3,495	24,554	1,345	37,194	32,573
Sundry equipment	67,236	-	59,824	2,612	129,672	75,357
Allocation of occupancy costs	1,606,848	21,838	(1,656,609)	27,923	-	-
Total current endeavors expenses	<u>15,643,744</u>	<u>3,770,837</u>	<u>2,330,230</u>	<u>1,071,934</u>	<u>22,816,745</u>	<u>21,248,709</u>
Depreciation - restricted	-	-	542,277	-	542,277	503,872
Total expenses	<u>\$ 15,643,744</u>	<u>\$ 3,770,837</u>	<u>\$ 2,872,507</u>	<u>\$ 1,071,934</u>	<u>\$ 23,359,022</u>	<u>\$ 21,752,581</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, 2006 and 2005**

	2006			2005		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted	\$ 25,159,624	\$ 10,180,748	\$ 35,340,372	\$ 25,245,271	\$ 6,814,346	\$ 32,059,617
Temporarily restricted	2,123,305	815,075	2,938,380	1,561,829	834,532	2,396,361
Permanently restricted	-	19,662,204	19,662,204	-	19,585,681	19,585,681
Total net assets	<u>\$ 27,282,929</u>	<u>\$ 30,658,027</u>	<u>\$ 57,940,956</u>	<u>\$ 26,807,100</u>	<u>\$ 27,234,559</u>	<u>\$ 54,041,659</u>

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE III
STATEMENTS OF FINANCIAL POSITION
October 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 584	\$ 498
Investments	32,204,265	28,467,289
Note receivable	92,367	127,141
Due from Festival	53,679	155,095
Gift of future interests	279,390	279,390
 TOTAL ASSETS	 \$ 32,630,285	 \$ 29,029,413
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 8,088	\$ 2,013
Due to Festival	1,350,464	1,157,415
Obligations under gift annuities	592,508	614,836
Deferred support - gift annuities	21,198	20,590
 Total liabilities	 1,972,258	 1,794,854
Net assets:		
Unrestricted	10,180,748	6,814,346
Temporarily restricted	815,075	834,532
Permanently restricted	19,662,204	19,585,681
Total net assets	30,658,027	27,234,559
 TOTAL LIABILITIES AND NET ASSETS	 \$ 32,630,285	 \$ 29,029,413

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, 2006 and 2005

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	\$ -	\$ -	\$ 76,523	\$ 76,523	\$ -	\$ -	\$ 302,986	\$ 302,986
Interest and dividends	598,583	26,601	-	625,184	613,440	18,659	-	632,099
Net realized/unrealized gain on investments	4,208,418	-	-	4,208,418	2,080,322	-	-	2,080,322
Contributions of gift annuity	-	3,878	-	3,878	-	29,472	-	29,472
Change in value of gift annuities	-	(49,936)	-	(49,936)	-	5,626	-	5,626
Total support and revenue	<u>4,807,001</u>	<u>(19,457)</u>	<u>76,523</u>	<u>4,864,067</u>	<u>2,693,762</u>	<u>53,757</u>	<u>302,986</u>	<u>3,050,505</u>
Expenses:								
Support to Festival	1,345,572	-	-	1,345,572	1,156,187	-	-	1,156,187
General and administrative	95,027	-	-	95,027	84,801	-	-	84,801
Total expenses	<u>1,440,599</u>	<u>-</u>	<u>-</u>	<u>1,440,599</u>	<u>1,240,988</u>	<u>-</u>	<u>-</u>	<u>1,240,988</u>
Change in net assets	<u>3,366,402</u>	<u>(19,457)</u>	<u>76,523</u>	<u>3,423,468</u>	<u>1,452,774</u>	<u>53,757</u>	<u>302,986</u>	<u>1,809,517</u>
Net assets:								
Beginning 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>
End of year	<u>\$ 10,180,748</u>	<u>\$ 815,075</u>	<u>\$ 19,662,204</u>	<u>\$ 30,658,027</u>	<u>\$ 6,814,346</u>	<u>\$ 834,532</u>	<u>\$ 19,585,681</u>	<u>\$ 27,234,559</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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Interest and dividends received	\$ 625,184	\$ 631,599
Support to Festival	(1,152,523)	(962,509)
Annuity payments	(77,778)	(68,604)
Endowment expenses	(88,952)	(83,655)
Net cash used in operating activities	(694,069)	(483,169)
Cash flows from investing activities:		
Proceeds from sale of investments	1,375,512	1,418,705
Purchase of investments	(904,070)	(1,785,027)
Proceeds from note receivable	34,774	31,839
Net cash provided by (used in) investing activities	506,216	(334,483)
Cash flows from financing activities:		
Contributions restricted for permanent endowment	187,939	817,596
Net cash provided by financing activities	187,939	817,596
Net increase (decrease) in cash and cash equivalents	86	(56)
Cash and cash equivalents:		
Beginning of year	498	554
End of year	\$ 584	\$ 498
Reconciliation of the change in net assets to net cash used in operating activities:		
Change in net assets	\$ 3,423,468	\$ 1,809,517
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized gain on investments	(4,208,418)	(2,080,322)
Contributions restricted for permanent endowment	(187,939)	(817,596)
Increase (decrease) in:		
Due to/due from Festival	294,465	609,341
Accounts payable	6,075	93
Obligations and deferred support - gift annuities	(21,720)	(4,202)
Net cash used in operating activities	\$ (694,069)	\$ (483,169)

See auditor's report on supplemental information.