

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

**Combined Audited
Financial Statements**

**For The Years Ended
October 31, 2007 and 2006**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

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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, 2007 and 2006 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 auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. 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, 2007 and 2006, and the results of their activities and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobs, P.C.

January 29, 2008

Strength in Numbers

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
October 31, 2007 and 2006**

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 299,159	\$ 974,416
Investments	3,250,047	3,295,889
Accounts receivable	128,001	228,300
Pledges receivable, net	1,373,859	1,384,930
Due from Endowment Fund	1,531,209	1,350,464
Prepaid expenses	973,812	787,448
Inventory	162,596	135,749
Total current assets	7,718,683	8,157,196
Noncurrent pledges receivable	148,300	284,000
Property and equipment, net	23,966,086	23,727,792
Endowment	36,040,539	30,709,122
 TOTAL ASSETS	 \$ 67,873,608	 \$ 62,878,110
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 500,000	\$ -
Accounts payable and accrued expenses	1,822,261	2,360,715
Due to Endowment Fund	155,614	53,679
Deferred revenue, tickets	460,731	237,153
Deferred revenue, program and other revenues	508,669	389,207
Current portion of long-term debt	84,587	80,226
Total current liabilities	3,531,862	3,120,980
Long-term debt, less current portion	1,755,930	1,839,883
Total liabilities	5,287,792	4,960,863
Net assets:		
Unrestricted:		
Undesignated	17,459,991	13,457,885
Net property and equipment	22,125,569	21,807,683
Total unrestricted	39,585,560	35,265,568
Temporarily restricted	3,197,671	2,989,475
Permanently restricted	19,802,585	19,662,204
Total net assets	62,585,816	57,917,247
 TOTAL LIABILITIES AND NET ASSETS	 \$ 67,873,608	 \$ 62,878,110

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, 2007 and 2006**

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
Plays	\$ 15,487,517	\$ -	\$ -	\$ 15,487,517	\$ 14,602,987	\$ -	\$ -	\$ 14,602,987
Other events	271,627	-	-	271,627	245,802	-	-	245,802
Educational programs	222,725	-	-	222,725	221,110	-	-	221,110
Publications	266,345	-	-	266,345	305,304	-	-	305,304
Concessions	311,526	-	-	311,526	303,409	-	-	303,409
Investment income	215,557	-	-	215,557	282,078	-	-	282,078
Support from Endowment Fund	1,494,061	-	-	1,494,061	1,345,572	-	-	1,345,572
Other	455,924	-	-	455,924	585,336	-	-	585,336
Total operating revenue	<u>18,725,282</u>	<u>-</u>	<u>-</u>	<u>18,725,282</u>	<u>17,891,598</u>	<u>-</u>	<u>-</u>	<u>17,891,598</u>
Operating expenses:								
Plays and education	17,051,948	-	-	17,051,948	15,701,197	-	-	15,701,197
Marketing and audience services	3,867,810	-	-	3,867,810	3,280,481	-	-	3,280,481
General and administration	2,382,352	-	-	2,382,352	2,347,581	-	-	2,347,581
Membership and fundraising	1,404,312	-	-	1,404,312	1,562,290	-	-	1,562,290
Total operating expenses	<u>24,706,422</u>	<u>-</u>	<u>-</u>	<u>24,706,422</u>	<u>22,891,549</u>	<u>-</u>	<u>-</u>	<u>22,891,549</u>
Loss from operations	<u>(5,981,140)</u>	<u>-</u>	<u>-</u>	<u>(5,981,140)</u>	<u>(4,999,951)</u>	<u>-</u>	<u>-</u>	<u>(4,999,951)</u>
Support:								
Memberships	3,003,475	521,120	-	3,524,595	2,762,587	464,628	-	3,227,215
Gifts and grants	1,182,653	1,120,755	-	2,303,408	1,007,739	1,491,653	-	2,499,392
Support groups	205,325	-	-	205,325	201,790	-	-	201,790
Net assets released from restrictions:								
Satisfaction of program restrictions	1,539,428	(1,539,428)	-	-	1,359,082	(1,359,082)	-	-
Total support	<u>5,930,881</u>	<u>102,447</u>	<u>-</u>	<u>6,033,328</u>	<u>5,331,198</u>	<u>597,199</u>	<u>-</u>	<u>5,928,397</u>
Income (loss) from current endeavors	(50,259)	102,447	-	52,188	331,247	597,199	-	928,446

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, 2007 and 2006**

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income (loss) from current endeavors								
Brought forward	(50,259)	102,447	-	52,188	331,247	597,199	-	928,446
Artistic Director transition expenses	(256,256)	-	-	(256,256)	-	-	-	-
Contributions for capitalized expenditures and (release of restrictions)	45,260	31,039	-	76,299	102,000	(30,000)	-	72,000
Costume rental business, net	(60,080)	-	-	(60,080)	(56,708)	-	-	(56,708)
Other funds, net activity	(17,903)	104,752	-	86,849	(2,400)	(5,723)	-	(8,123)
Depreciation on assets funded by restricted gifts and grants	(557,944)	-	-	(557,944)	(542,277)	-	-	(542,277)
Capital campaign and								
Endowment Fund contributions	(3,904)	-	164,771	160,867	7,687	-	76,523	84,210
Endowment Fund investment income	6,498,514	22,002	-	6,520,516	4,807,001	26,601	-	4,833,602
Contributions of gift annuities	-	8,715	-	8,715	-	54,973	-	54,973
Change in value of gift annuities	-	(60,759)	325,610	264,851	-	(49,936)	-	(49,936)
Transfers	350,000	-	(350,000)	-	-	-	-	-
Endowment support to Festival	(1,494,061)	-	-	(1,494,061)	(1,345,572)	-	-	(1,345,572)
Endowment expenses	(133,375)	-	-	(133,375)	(95,027)	-	-	(95,027)
Change in net assets	4,319,992	208,196	140,381	4,668,569	3,205,951	593,114	76,523	3,875,588
Net assets:								
Beginning of year	<u>35,265,568</u>	<u>2,989,475</u>	<u>19,662,204</u>	<u>57,917,247</u>	<u>32,059,617</u>	<u>2,396,361</u>	<u>19,585,681</u>	<u>54,041,659</u>
End of year	<u>\$ 39,585,560</u>	<u>\$ 3,197,671</u>	<u>\$ 19,802,585</u>	<u>\$ 62,585,816</u>	<u>\$ 35,265,568</u>	<u>\$ 2,989,475</u>	<u>\$ 19,662,204</u>	<u>\$ 57,917,247</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, 2007 and 2006**

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 4,668,569	\$ 3,875,588
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,124,839	984,715
Net realized/unrealized (gain) loss on investments	28,552	(19,183)
Contributions restricted for permanent endowment	(182,836)	(187,939)
Net increase in Endowment Fund	(5,269,232)	(3,298,477)
(Increase) decrease in:		
Accounts and pledges receivable	247,070	(601,812)
Due to/ due from Endowment Fund	(78,810)	(294,465)
Other current assets	(213,211)	(102,935)
Increase (decrease) in:		
Accounts payable and accrued expenses	(538,454)	574,828
Deferred revenue	343,040	(103,198)
Net cash provided by operating activities	129,527	827,122
 Cash flows from investing activities:		
Proceeds from sale of investments	1,445,302	2,912,431
Purchase of investments	(1,428,012)	(1,367,288)
Additions to property and equipment	(1,363,133)	(1,874,283)
Net cash used in investing activities	(1,345,843)	(329,140)
 Cash flows from financing activities:		
Proceeds from line of credit	500,000	-
Payments on long-term debt	(79,592)	(62,441)
Contributions restricted for investment in permanent endowment	182,836	187,939
Transfers to Endowment Fund	(62,185)	(176,086)
Net cash provided by (used in) financing activities	541,059	(50,588)
 Net increase (decrease) in cash and cash equivalents	(675,257)	447,394
 Cash and cash equivalents:		
Beginning of year	974,416	527,022
 End of year	\$ 299,159	\$ 974,416
 Supplemental cash flow information:		
Cash paid during the year for interest	\$ 110,428	\$ 71,464

See notes to financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
October 31, 2007 and 2006**

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, theatre 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, 2007 and 2006 were \$1,494,061 and \$1,345,572, 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, 2007 and 2006 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, 2007 and 2006**

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

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, 2007 and 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income (Loss) from Current Endeavors

To facilitate comparisons of annual operating results with the Festival's general operating budget for the year, Festival management has chosen to group like accounts on the Statement of Activities as "Current Endeavors". Summary totals in the unrestricted column for operating revenue, operating expenses, and support can thus be readily compared with the adopted budget totals and the "income (loss) from current endeavors" figure can be compared and contrasted with the budgeted net gain or loss for the year. In 2007, one time transition expenses to accommodate the overlap and change in Artistic Directors are broken out separately as a non-recurring item. Miscellaneous non-operating funds designated for specific purposes, including the costume rental business, are summarized and listed below the current endeavors line. Depreciation on assets funded by restricted gifts and grants primarily reflects the depreciation expense on leasehold improvements which were financed through restricted donations. Festival management has chosen not to fund this expense in its annual operating budget but through a reduction in its net assets and to exclude the cost from the total for current endeavors.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 \$209,000 and \$163,000 are reported as prepaid expenses at October 31, 2007 and 2006, respectively. Total advertising expense approximated \$768,000 and \$706,000 for the years ended October 31, 2007 and 2006, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. The Organizations do not have taxable income from unrelated business activities (advertising income). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Organizations are not private foundations.

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, 2007 and 2006**

3. INVESTMENTS

Investments are recorded at fair value and consist of the following at October 31, 2007 and 2006:

	2007	2006
Money market accounts	\$ 469,246	\$ 199,928
Fixed income securities	635,823	902,737
Domestic and international securities	1,847,159	1,899,935
Corporate stocks	42,429	40,350
Certificates of deposit	255,390	252,939
Total investments	\$ 3,250,047	\$ 3,295,889
Investment income consists of:		
Interest and dividends	\$ 244,109	\$ 261,446
Net realized/unrealized gain (loss)	(28,552)	20,632
Total investment income	\$ 215,557	\$ 282,078

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, 2007 and 2006**

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2007 and 2006 consist of the following:

	2007	2006
Pledges receivable, due within one year	\$ 1,402,324	\$ 1,414,795
Pledges receivable, due in one to five years	154,800	306,000
Total pledges receivable	1,557,124	1,720,795
Less discount on long-term pledges	6,500	22,000
Less allowance for uncollectible pledges	28,465	29,865
Net pledges receivable	1,522,159	1,668,930
 Less current portion	 1,373,859	 1,384,930
 Noncurrent portion	 \$ 148,300	 \$ 284,000

Noncurrent pledges are discounted to present value using a rate of 4.35% at October 31, 2007 and 5% at October 31, 2006.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classes as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,972,895	\$ 1,972,895
Buildings, partially pledged	16,736,836	16,651,493
Leasehold improvements	8,521,066	7,663,878
Accumulated depreciation	<u>(6,275,503)</u>	<u>(5,680,043)</u>
Land and buildings, net	<u>20,955,294</u>	<u>20,608,223</u>
Equipment	7,159,315	6,724,984
Accumulated depreciation	<u>(4,148,523)</u>	<u>(3,605,415)</u>
Equipment, net	<u>3,010,792</u>	<u>3,119,569</u>
Property and equipment, net	<u>\$ 23,966,086</u>	<u>\$ 23,727,792</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 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, 2007 and 2006**

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>2007</u>	<u>2006</u>
ASSETS:		
Cash and equivalents	\$ 518	\$ 584
Investments	37,411,367	32,204,265
Due from Festival	155,614	53,679
Property held for sale	450,000	-
Note and accounts receivable	54,387	192,367
Gifts of future interests	<u>155,000</u>	<u>279,390</u>
 Total assets	 <u>38,226,886</u>	 <u>32,730,285</u>
LIABILITIES:		
Accounts payable	8,250	8,088
Due to Festival	1,531,209	1,350,464
Obligations under gift annuities	625,056	641,413
Deferred support - gift annuities	<u>21,832</u>	<u>21,198</u>
 Total liabilities	 <u>2,186,347</u>	 <u>2,021,163</u>
NET ASSETS:		
Unrestricted	15,401,826	10,180,748
Temporarily restricted	836,128	866,170
Permanently restricted	<u>19,802,585</u>	<u>19,662,204</u>
 Total net assets	 <u>\$ 36,040,539</u>	 <u>\$ 30,709,122</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2007 and 2006:

	2007	2006
Cash and cash equivalents	\$ 101,256	\$ 661,453
Domestic and international equities	24,308,829	22,874,049
Limited partnership interests and other equity securities	13,001,282	8,668,763
Total investments	\$ 37,411,367	\$ 32,204,265
Investment income consists of:		
Interest and dividends	\$ 615,601	\$ 625,184
Net realized/unrealized gains	5,904,915	4,208,418
Total investment income	\$ 6,520,516	\$ 4,833,602

Investments in limited partnerships and other equity securities represent 21% and 15% of net assets at October 31, 2007 and 2006, respectively, and have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners. As disclosed in the audited financial statements of the limited partnerships:

The investments in limited partnerships are accounted for at estimated fair value, calculated at the Partnership's percentage interest in the total fair value of the limited partnerships. These partnerships may hold investments in publicly traded securities that may be subject to selling restrictions and limitations or held in escrow. These securities were valued by the general partners of the partnerships and may be discounted from market prices. The partnerships also hold securities which are not currently traded in a public market and are subject to restrictions on resale. These investments are carried by the partnerships at estimated fair value as determined by the general partners of the partnerships after giving consideration to operating results, financial conditions, recent sales prices of issuers' securities and other pertinent information. Because of the uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. The limited partnerships may also have risk associated with their concentration in certain geographic regions and in certain industries.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments, Continued

Commitments for limited partnership investments not yet funded approximate \$2,789,000 at October 31, 2007.

Investment income is reported net of investment fees approximating \$95,000 for 2007 and \$70,000 for 2006.

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 \$8,715 for the year ended October 31, 2007 and \$54,973 for the year ended October 31, 2006. Funds held in separate accounts totaled \$1,047,918 at October 31, 2007 and \$991,765 at October 31, 2006 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 \$646,888 and \$662,611 at October 31, 2007 and 2006, 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

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, 2008 and is secured by assets of the Festival. Advances on the line totaled \$500,000 at October 31, 2007. There were no advances on the line at October 31, 2006. The balance on the line at October 31, 2007 was subsequently paid on December 13, 2007.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

8. LONG-TERM DEBT

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

	2007	2006
Mortgage payable to US Bank in monthly installments of \$7,813, including interest at 4.74% through March 2019; secured by real property.	\$ 821,561	\$ 874,442
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	338,499	348,362
Note Payable to an individual in monthly installments of \$5,427 including interest at 7.0% through August 2026; secured by real property	680,457	697,305
	1,840,517	1,920,109
Less current portion	84,587	80,226
	\$ 1,755,930	\$ 1,839,883
Future maturities are:		
Year ending October 31,		
2008	\$ 84,587	
2009	89,192	
2010	94,055	
2011	99,192	
2012	104,617	
Thereafter	1,368,874	
	\$ 1,840,517	

Total interest expense (including interest netted against rental income) totaled \$112,050 for 2007 and \$71,464 for 2006.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

9. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets

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

	2007	2006
NEA challenge grant	\$ 500,000	\$ 500,000
Funding of future season operations	2,017,875	1,915,428
Gifts of future interests	336,128	366,170
Other purpose restricted	343,668	207,877
Total temporarily restricted net assets	\$ 3,197,671	\$ 2,989,475

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.

Permanently Restricted Net Assets

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.

Effective for the year ended October 31, 2007, a grant for \$350,000 previously restricted to the permanent endowment by the National Endowment for the Arts was amended to remove the permanent restriction designation. A transfer of \$350,000 from permanently restricted net asset to unrestricted net assets is reflected on the statement of activities.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

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. 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. 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 2008 and 2011. Monthly payments total \$1,321.

Future minimum lease payments are as follows:

October 31, 2008	\$	89,500
2009		87,600
2010		90,700
2011		90,700
2012		82,600
Thereafter		114,700

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. 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, 2007 and 2006 were \$328,225 and \$332,281, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
October 31, 2007 and 2006**

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, other investments, 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 is limited with respect to investment balances, 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.

13. 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.

14. RESTATEMENT TO PRIOR YEAR FINANCIAL STATEMENTS

The 2006 financial statements were restated to correct accrued vacation which was underreported by \$74,804 at October 31, 2006 and to recognize a gift annuity contribution of \$51,095, which should have been recorded during the year ended October 31, 2006. The impact of the restatement decreased the change in net assets and total net assets by \$23,709.

In addition, certain 2006 membership expenses were reclassified for comparability with the presentation in the current year financial statements. Marketing and audience services previously reported as \$3,770,837 is restated as \$3,280,481, and membership and fundraising previously reported as \$1,071,934 is restated as \$1,562,290.

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, 2007 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 29, 2008

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, 2007
(With comparative totals for 2006)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2007 Total	2006 Total
Salaries	\$ 10,004,459	\$ 1,904,613	\$ 2,022,266	\$ 540,977	\$ 14,472,315	\$ 13,389,334
Payroll taxes and benefits	2,487,438	452,088	478,865	107,008	3,525,399	3,287,581
Total salaries and related expenses	<u>12,491,897</u>	<u>2,356,701</u>	<u>2,501,131</u>	<u>647,985</u>	<u>17,997,714</u>	<u>16,676,915</u>
Accounting and audit fees	-	-	44,907	-	44,907	45,614
Computer expenses	-	-	102,538	-	102,538	96,433
Costumes	240,529	-	-	-	240,529	259,220
Fees, dues and subscriptions	-	80,903	-	45,910	126,813	98,504
Insurance	-	-	393,115	-	393,115	257,360
Interest	-	-	22,904	-	22,904	19,960
Lighting	68,284	-	-	-	68,284	61,704
Media and public relations	-	310,985	-	69,493	380,478	393,922
Miscellaneous	741,700	400,169	116,029	44,619	1,302,517	1,346,774
Photocopying	34,702	4,092	7,569	2,778	49,141	42,718
Postage and mailing	11,415	97,872	9,817	122,667	241,771	270,816
Printing	983	416,196	-	166,545	583,724	487,578
Properties	103,252	-	-	-	103,252	70,871
Repairs and maintenance	-	2,186	152,881	-	155,067	155,505
Royalties	516,786	-	-	-	516,786	405,883
Scenery	254,698	-	-	-	254,698	247,444
Sound	16,926	-	-	-	16,926	17,186
Supplies	24,827	110,079	59,023	91,692	285,621	263,346
Telephone	15,477	13,644	59,409	2,850	91,380	120,245
Training	16,959	11,937	17,326	2,187	48,409	36,159
Travel and cultivation	312,690	36,279	21,037	169,955	539,961	498,328
Utilities	275,559	-	112,740	-	388,299	362,844
Volunteer activities	-	-	54,390	-	54,390	46,916
Subtotal	<u>15,126,684</u>	<u>3,841,043</u>	<u>3,674,816</u>	<u>1,366,681</u>	<u>24,009,224</u>	<u>22,282,245</u>
Depreciation	-	-	566,895	-	566,895	442,438
In-kind expense	19,270	1,350	5,284	5,096	31,000	37,194
Sundry equipment	35,759	-	63,509	35	99,303	129,672
Allocation of occupancy costs	1,870,235	25,417	(1,928,152)	32,500	-	-
Total current endeavors expenses	<u>17,051,948</u>	<u>3,867,810</u>	<u>2,382,352</u>	<u>1,404,312</u>	<u>24,706,422</u>	<u>22,891,549</u>
Depreciation - restricted	<u>490,763</u>	<u>30,000</u>	<u>17,614</u>	<u>19,567</u>	<u>557,944</u>	<u>542,277</u>
Total expenses	<u>\$ 17,542,711</u>	<u>\$ 3,897,810</u>	<u>\$ 2,399,966</u>	<u>\$ 1,423,879</u>	<u>\$ 25,264,366</u>	<u>\$ 23,433,826</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, 2007 and 2006**

	2007			2006		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted	\$ 24,183,734	\$ 15,401,826	\$ 39,585,560	\$ 25,084,820	\$ 10,180,748	\$ 35,265,568
Temporarily restricted	2,361,543	836,128	3,197,671	2,123,305	866,170	2,989,475
Permanently restricted	-	19,802,585	19,802,585	-	19,662,204	19,662,204
	\$ 26,545,277	\$ 36,040,539	\$ 62,585,816	\$ 27,208,125	\$ 30,709,122	\$ 57,917,247
Total net assets	\$ 26,545,277	\$ 36,040,539	\$ 62,585,816	\$ 27,208,125	\$ 30,709,122	\$ 57,917,247

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE III
STATEMENTS OF FINANCIAL POSITION
October 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 518	\$ 584
Investments	37,411,367	32,204,265
Due from Festival	155,614	53,679
Property held for sale	450,000	-
Note and accounts receivable	54,387	192,367
Gift of future interests	155,000	279,390
TOTAL ASSETS	\$ 38,226,886	\$ 32,730,285
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 8,250	\$ 8,088
Due to Festival	1,531,209	1,350,464
Obligations under gift annuities	625,056	641,413
Deferred support - gift annuities	21,832	21,198
Total liabilities	2,186,347	2,021,163
Net assets:		
Unrestricted	15,401,826	10,180,748
Temporarily restricted	836,128	866,170
Permanently restricted	19,802,585	19,662,204
Total net assets	36,040,539	30,709,122
TOTAL LIABILITIES AND NET ASSETS	\$ 38,226,886	\$ 32,730,285

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, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	\$ -	\$ -	\$ 164,771	\$ 164,771	\$ -	\$ -	\$ 76,523	\$ 76,523
Interest and dividends	593,599	22,002	-	615,601	598,583	26,601	-	625,184
Net realized/unrealized gain on investments	5,904,915	-	-	5,904,915	4,208,418	-	-	4,208,418
Contributions of gift annuity	-	8,715	-	8,715	-	54,973	-	54,973
Change in value of gift annuities	-	(60,759)	325,610	264,851	-	(49,936)	-	(49,936)
Release of restrictions	350,000	-	(350,000)	-	-	-	-	-
Total support and revenue	<u>6,848,514</u>	<u>(30,042)</u>	<u>140,381</u>	<u>6,958,853</u>	<u>4,807,001</u>	<u>31,638</u>	<u>76,523</u>	<u>4,915,162</u>
Expenses:								
Support to Festival	1,494,061	-	-	1,494,061	1,345,572	-	-	1,345,572
General and administrative	133,375	-	-	133,375	95,027	-	-	95,027
Total expenses	<u>1,627,436</u>	<u>-</u>	<u>-</u>	<u>1,627,436</u>	<u>1,440,599</u>	<u>-</u>	<u>-</u>	<u>1,440,599</u>
Change in net assets	5,221,078	(30,042)	140,381	5,331,417	3,366,402	31,638	76,523	3,474,563
Net assets:								
Beginning of year	<u>10,180,748</u>	<u>866,170</u>	<u>19,662,204</u>	<u>30,709,122</u>	<u>6,814,346</u>	<u>834,532</u>	<u>19,585,681</u>	<u>27,234,559</u>
End of year	<u>\$ 15,401,826</u>	<u>\$ 836,128</u>	<u>\$ 19,802,585</u>	<u>\$ 36,040,539</u>	<u>\$ 10,180,748</u>	<u>\$ 866,170</u>	<u>\$ 19,662,204</u>	<u>\$ 30,709,122</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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Interest and dividends received	\$ 615,601	\$ 625,184
Support to Festival	(1,313,316)	(1,152,523)
Annuity payments	(87,767)	(77,778)
Endowment expenses	(133,213)	(88,952)
Net cash used in operating activities	(918,695)	(694,069)
Cash flows from investing activities:		
Proceeds from sale of investments	3,569,087	1,375,512
Purchase of investments	(2,871,274)	(904,070)
Proceeds from note receivable	37,980	34,774
Net cash provided by investing activities	735,793	506,216
Cash flows from financing activities:		
Contributions restricted for permanent endowment	182,836	187,939
Net cash provided by financing activities	182,836	187,939
Net increase (decrease) in cash and cash equivalents	(66)	86
Cash and cash equivalents:		
Beginning of year	584	498
End of year	\$ 518	\$ 584
Reconciliation of the change in net assets to net cash used in operating activities:		
Change in net assets	\$ 5,331,417	\$ 3,474,563
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized gain on investments	(5,904,915)	(4,208,418)
Change in value of gift of future interest	(325,610)	-
Contributions restricted for permanent endowment	(182,836)	(187,939)
Increase (decrease) in:		
Annuity gift receivable	100,000	(100,000)
Due to/ due from Festival	78,810	294,465
Accounts payable	162	6,075
Obligations and deferred support - gift annuities	(15,723)	27,185
Net cash used in operating activities	\$ (918,695)	\$ (694,069)

See auditor's report on supplemental information.