

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

**Combined Audited
Financial Statements**

**For The Years Ended
October 31, 2008 and 2007**



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, 2008 and 2007 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, 2008 and 2007, and the changes in their 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.

February 3, 2009

Strength in Numbers

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
October 31, 2008 and 2007**

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325,056	\$ 299,159
Investments	2,112,924	3,250,047
Accounts receivable	242,052	128,001
Pledges receivable, net	1,605,576	1,373,859
Due from Endowment Fund	1,658,585	1,531,209
Prepaid expenses	1,053,710	973,812
Inventory	161,322	162,596
Total current assets	7,159,225	7,718,683
Noncurrent pledges receivable, net	315,500	148,300
Property and equipment, net	23,417,287	23,966,086
Endowment	23,799,918	36,040,539
 TOTAL ASSETS	 \$ 54,691,930	 \$ 67,873,608
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 1,000,000	\$ 500,000
Accounts payable and accrued expenses	1,617,878	1,822,261
Due to Endowment Fund	109,917	155,614
Deferred revenue, tickets	398,646	460,731
Deferred revenue, program and other revenues	406,921	508,669
Current portion of long-term debt	89,192	84,587
Total current liabilities	3,622,554	3,531,862
Long-term debt, less current portion	1,667,581	1,755,930
Total liabilities	5,290,135	5,287,792
Net assets:		
Unrestricted:		
Undesignated	4,260,076	17,459,991
Net property and equipment	21,660,514	22,125,569
Total unrestricted	25,920,590	39,585,560
Temporarily restricted	3,572,601	3,197,671
Permanently restricted	19,908,604	19,802,585
Total net assets	49,401,795	62,585,816
 TOTAL LIABILITIES AND NET ASSETS	 \$ 54,691,930	 \$ 67,873,608

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, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
Plays	\$ 15,796,842	\$ -	\$ -	\$ 15,796,842	\$ 15,487,517	\$ -	\$ -	\$ 15,487,517
Other events	338,012	-	-	338,012	271,627	-	-	271,627
Educational programs	225,079	-	-	225,079	222,725	-	-	222,725
Publications	284,836	-	-	284,836	266,345	-	-	266,345
Concessions	311,723	-	-	311,723	311,526	-	-	311,526
Investment income (loss)	(295,167)	-	-	(295,167)	215,557	-	-	215,557
Support from Endowment Fund	1,578,596	-	-	1,578,596	1,494,061	-	-	1,494,061
Other	518,768	-	-	518,768	455,924	-	-	455,924
Total operating revenue	<u>18,758,689</u>	<u>-</u>	<u>-</u>	<u>18,758,689</u>	<u>18,725,282</u>	<u>-</u>	<u>-</u>	<u>18,725,282</u>
Operating expenses:								
Plays and education	18,002,040	-	-	18,002,040	17,051,948	-	-	17,051,948
Marketing and audience services	4,080,481	-	-	4,080,481	3,867,810	-	-	3,867,810
General and administration	2,684,825	-	-	2,684,825	2,382,352	-	-	2,382,352
Membership and fundraising	1,441,861	-	-	1,441,861	1,404,312	-	-	1,404,312
Total operating expenses	<u>26,209,207</u>	<u>-</u>	<u>-</u>	<u>26,209,207</u>	<u>24,706,422</u>	<u>-</u>	<u>-</u>	<u>24,706,422</u>
Loss from operations	<u>(7,450,518)</u>	<u>-</u>	<u>-</u>	<u>(7,450,518)</u>	<u>(5,981,140)</u>	<u>-</u>	<u>-</u>	<u>(5,981,140)</u>
Support:								
Memberships	3,333,381	466,418	-	3,799,799	3,003,475	521,120	-	3,524,595
Gifts and grants	1,294,026	1,794,400	-	3,088,426	1,182,653	1,120,755	-	2,303,408
Support groups	205,100	-	-	205,100	205,325	-	-	205,325
Net assets released from restrictions:								
Satisfaction of program restrictions	1,764,375	(1,764,375)	-	-	1,539,428	(1,539,428)	-	-
Total support	<u>6,596,882</u>	<u>496,443</u>	<u>-</u>	<u>7,093,325</u>	<u>5,930,881</u>	<u>102,447</u>	<u>-</u>	<u>6,033,328</u>
Income (loss) from current endeavors	(853,636)	496,443	-	(357,193)	(50,259)	102,447	-	52,188

Continued

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, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income (loss) from current endeavors								
Brought forward	(853,636)	496,443	-	(357,193)	(50,259)	102,447	-	52,188
Artistic Director transition expenses	-	-	-	-	(256,256)	-	-	(256,256)
Contributions for capitalized expenditures and (release of restrictions)	91,039	(91,039)	-	-	45,260	31,039	-	76,299
Costume rental business, net	(24,318)	-	-	(24,318)	(60,080)	-	-	(60,080)
Other funds, net activity	19,443	(20,431)	-	(988)	(17,903)	104,752	-	86,849
Depreciation on assets funded by restricted gifts and grants	(557,944)	-	-	(557,944)	(557,944)	-	-	(557,944)
Capital campaign and								
Endowment Fund contributions	24,043	-	89,076	113,119	(3,904)	-	164,771	160,867
Endowment Fund investment income	(10,675,414)	22,325	-	(10,653,089)	6,498,514	22,002	-	6,520,516
Contributions of gift annuities	-	58,084	-	58,084	-	8,715	-	8,715
Change in value of gift annuities	-	(90,452)	16,943	(73,509)	-	(60,759)	325,610	264,851
Transfers	-	-	-	-	350,000	-	(350,000)	-
Endowment support to Festival	(1,578,596)	-	-	(1,578,596)	(1,494,061)	-	-	(1,494,061)
Endowment expenses	(109,587)	-	-	(109,587)	(133,375)	-	-	(133,375)
Change in net assets	(13,664,970)	374,930	106,019	(13,184,021)	4,319,992	208,196	140,381	4,668,569
Net assets:								
Beginning 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>
End of year	<u>\$ 25,920,590</u>	<u>\$ 3,572,601</u>	<u>\$ 19,908,604</u>	<u>\$ 49,401,795</u>	<u>\$ 39,585,560</u>	<u>\$ 3,197,671</u>	<u>\$ 19,802,585</u>	<u>\$ 62,585,816</u>

Concluded

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, 2008 and 2007**

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (13,184,021)	\$ 4,668,569
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,142,580	1,124,839
Net realized/unrealized loss on investments	484,607	28,552
Contributions restricted for permanent endowment	(288,913)	(182,836)
Net (increase) decrease in Endowment Fund	12,418,394	(5,269,232)
(Increase) decrease in:		
Accounts and pledges receivable	(512,968)	247,070
Due to/ due from Endowment Fund	(173,073)	(78,810)
Other current assets	(78,624)	(213,211)
Increase (decrease) in:		
Accounts payable and accrued expenses	(204,383)	(538,454)
Deferred revenue	(163,833)	343,040
Net cash provided by (used in) operating activities	(560,234)	129,527
 Cash flows from investing activities:		
Proceeds from sale of investments	2,025,088	1,445,302
Purchase of investments	(1,372,572)	(1,428,012)
Additions to property and equipment	(593,781)	(1,363,133)
Net cash provided by (used in) investing activities	58,735	(1,345,843)
 Cash flows from financing activities:		
Proceeds from line of credit	500,000	500,000
Payments on long-term debt	(83,744)	(79,592)
Contributions restricted for investment in permanent endowment	288,913	182,836
Transfers to Endowment Fund	(177,773)	(62,185)
Net cash provided by financing activities	527,396	541,059
 Net increase (decrease) in cash and cash equivalents	25,897	(675,257)
 Cash and cash equivalents:		
Beginning of year	299,159	974,416
 End of year	\$ 325,056	\$ 299,159
 Supplemental cash flow information:		
Cash paid during the year for interest	\$ 119,678	\$ 110,428

See notes to financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
October 31, 2008 and 2007**

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 October 2009. 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, 2008 and 2007 were \$1,578,596 and \$1,494,061, 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, 2008 and 2007 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, 2008 and 2007**

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 COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

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 COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

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 Statements 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 Statements 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 COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

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 \$192,000 and \$209,000 are reported as prepaid expenses at October 31, 2008 and 2007, respectively. Total advertising expense approximated \$809,000 and \$768,000 for the years ended October 31, 2008 and 2007, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

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.

3. INVESTMENTS

Investments are recorded at fair value and consist of the following at October 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Money market accounts	\$ 1,159,985	\$ 469,246
Fixed income securities	654,021	635,823
Domestic and international securities	-	1,847,159
Corporate stocks	41,093	42,429
Certificates of deposit	<u>257,825</u>	<u>255,390</u>
Total investments	<u>\$ 2,112,924</u>	<u>\$ 3,250,047</u>
Investment income consists of:		
Interest and dividends	\$ 189,440	\$ 244,109
Net realized/unrealized gain (loss)	<u>(484,607)</u>	<u>(28,552)</u>
Total investment income (loss)	<u>\$ (295,167)</u>	<u>\$ 215,557</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

3. INVESTMENTS, Continued

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.

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Pledges receivable, due within one year	\$ 1,624,576	\$ 1,402,324
Pledges receivable, due in one to five years	<u>325,000</u>	<u>154,800</u>
Total pledges receivable	1,949,576	1,557,124
Less discount on long-term pledges	9,500	6,500
Less allowance for uncollectible pledges	<u>19,000</u>	<u>28,465</u>
Net pledges receivable	1,921,076	1,522,159
Less current portion	<u>1,605,576</u>	<u>1,373,859</u>
Noncurrent portion	\$ <u>315,500</u>	\$ <u>148,300</u>

Noncurrent pledges are discounted to present value using a rate of 3.00% at October 31, 2008 and 4.35% at October 31, 2007.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classes as follows:

	2008	2007
Land	\$ 1,972,895	\$ 1,972,895
Buildings, partially pledged	16,948,298	16,736,836
Leasehold improvements	8,470,202	8,521,066
Accumulated depreciation	(6,905,892)	(6,275,503)
Land and buildings, net	20,485,503	20,955,294
Equipment	7,592,499	7,159,315
Accumulated depreciation	(4,660,715)	(4,148,523)
Equipment, net	2,931,784	3,010,792
Property and equipment, net	\$ 23,417,287	\$ 23,966,086

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 COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

6. ENDOWMENT FUND

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

	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and equivalents	\$ 541	\$ 518
Investments	25,438,305	37,411,367
Due from Festival	109,917	155,614
Property held for sale	477,000	450,000
Note and accounts receivable	12,906	54,387
Gifts of future interests	<u>155,000</u>	<u>155,000</u>
 Total assets	 <u>26,193,669</u>	 <u>38,226,886</u>
LIABILITIES:		
Accounts payable	9,162	8,250
Due to Festival	1,658,585	1,531,209
Obligations under gift annuities	704,033	625,056
Deferred support - gift annuities	<u>21,971</u>	<u>21,832</u>
 Total liabilities	 <u>2,393,751</u>	 <u>2,186,347</u>
NET ASSETS:		
Unrestricted	3,065,229	15,401,826
Temporarily restricted	826,085	836,128
Permanently restricted	<u>19,908,604</u>	<u>19,802,585</u>
 Total net assets	 <u>\$ 23,799,918</u>	 <u>\$ 36,040,539</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 104,791	\$ 101,256
Domestic and international equities	12,059,002	24,308,829
Limited partnership interests and other equity securities	<u>13,274,512</u>	<u>13,001,282</u>
Total investments	<u>\$ 25,438,305</u>	<u>\$ 37,411,367</u>
Investment income (loss) consists of:		
Interest and dividends	\$ 746,368	\$ 615,601
Net realized/unrealized gain (loss)	<u>(11,399,457)</u>	<u>5,904,915</u>
Total investment income (loss)	<u>\$ (10,653,089)</u>	<u>\$ 6,520,516</u>

Investments in limited partnerships and other equity securities represent 52% of the Endowment's net assets and 21% of combined net assets at October 31, 2008 (36% of the Endowment's net assets and 21% of combined net assets at October 31, 2007) 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

6. ENDOWMENT FUND, Continued

Endowment Fund Investments, Continued

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.

Commitments for limited partnership investments not yet funded approximate \$2,719,000 at October 31, 2008.

Investment income is reported net of investment fees approximating \$105,000 for 2008 and \$167,000 for 2007. These investment fees do not include fees charged by the private equity fund managers.

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 \$58,084 for the year ended October 31, 2008 and \$8,715 for the year ended October 31, 2007. Funds held in separate accounts are included in the Endowment Fund's investments, are reported at fair market value and totaled \$1,200,245 and \$1,047,918 at October 31, 2008 and 2007, respectively.

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 \$726,004 and \$646,888 at October 31, 2008 and 2007, 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

7. LINE OF CREDIT

The Festival has a \$1,000,000 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% (3.25% at October 31, 2008 and 6.75% at October 31, 2007). The line matures on April 1, 2009 and is secured by assets of the Festival. Advances on the line totaled \$1,000,000 and \$500,000 at October 31, 2008 and 2007, respectively.

8. LONG-TERM DEBT

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

	2008	2007
Mortgage payable to US Bank in monthly installments of \$7,813, including interest at 4.74% through March 2019; secured by real property.	\$ 766,190	\$ 821,561
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	328,137	338,499
Note Payable to an individual in monthly installments of \$5,427 including interest at 7.0% through August 2026; secured by real property	662,446	680,457
	1,756,773	1,840,517
Less current portion	89,192	84,587
	\$ 1,667,581	\$ 1,755,930

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

8. LONG-TERM DEBT, Continued

Future maturities are of long term debt are as follows:

Year ending October 31,		
2009	\$	89,192
2010		94,055
2011		99,192
2012		104,617
2013		110,350
Thereafter		<u>1,259,367</u>
	\$	<u>1,756,773</u>

Total interest expense (including interest netted against rental income and interest on the line of credit) totaled \$118,055 for 2008 and \$112,050 for 2007.

9. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
NEA challenge grant	\$ 500,000	\$ 500,000
Funding of future season operations	2,394,318	2,017,875
Gifts of future interests	326,085	336,128
Other purpose restricted	<u>352,198</u>	<u>343,668</u>
Total temporarily restricted net assets	<u>\$ 3,572,601</u>	<u>\$ 3,197,671</u>

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

9. RESTRICTIONS ON NET ASSETS, Continued

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.

10. SELF FUNDED HEALTH INSURANCE AND REINSURANCE

The Festival's employee health insurance is self funded. Premiums are calculated annually based on prior year's claims and increasing insurance costs. The Festival is reinsured when claims reach a specific amount. The individual stop loss is \$100,000 and the aggregate stop loss is \$1,300,000 subject to a maximum aggregate benefit of \$1,000,000.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

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.

The Festival leases facilities for costume storage and rental operations under an agreement 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, 2011 and 2013. Monthly payments total \$1,891.

Total rent expenses approximated \$89,500 during 2008 and \$93,000 during 2007.

Future minimum lease payments are as follows:

October 31, 2009	\$	94,500
2010		97,500
2011		87,500
2012		89,500
2013		84,400
Thereafter		33,750

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 employer. 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, 2008 and 2007 were \$324,729 and \$328,225, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
October 31, 2008 and 2007**

13. RELATED PARTY DISCLOSURE

The Festival maintains investments at a financial institution at which a board member is a key employee. The balances in the investment accounts at October 31, 2008 and 2007 approximated \$1,716,000 and \$2,780,000, respectively.

14. 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 in each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position.

Concentrations of credit risk with respect to pledges receivable are limited due to the large number of contributors comprising the Organizations' contributor base and their dispersion across different industries and geographic areas.

SUPPLEMENTAL INFORMATION



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**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

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

Our report on our audit of the basic financial statements of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund for the year ended October 31, 2008 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.

February 3, 2009

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, 2008
(With comparative totals for 2007)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2008 Total	2007 Total
Salaries	\$ 10,356,036	\$ 1,993,495	\$ 2,148,790	\$ 557,965	\$ 15,056,286	\$ 14,472,315
Payroll taxes and benefits	2,649,641	530,817	550,642	115,903	3,847,003	3,525,399
Total salaries and related expenses	<u>13,005,677</u>	<u>2,524,312</u>	<u>2,699,432</u>	<u>673,868</u>	<u>18,903,289</u>	<u>17,997,714</u>
Accounting and audit fees	-	-	56,098	-	56,098	44,907
Computer expenses	-	-	144,158	-	144,158	102,538
Costumes	286,744	-	-	-	286,744	240,529
Fees, dues and subscriptions	24,900	94,246	-	58,040	177,186	126,813
Insurance	-	-	378,657	-	378,657	393,115
Interest	-	-	32,562	-	32,562	22,904
Lighting	80,014	-	-	-	80,014	68,284
Media and public relations	-	368,256	-	76,725	444,981	380,478
Miscellaneous	1,030,508	415,642	168,171	51,656	1,665,977	1,302,517
Photocopying	29,848	2,916	6,952	2,495	42,211	49,141
Postage and mailing	10,843	104,295	11,370	121,331	247,839	241,771
Printing	981	375,650	-	172,926	549,557	583,724
Properties	83,814	-	-	-	83,814	103,252
Repairs and maintenance	-	2,908	157,512	-	160,420	155,067
Royalties	413,114	-	-	-	413,114	516,786
Scenery	288,537	-	-	-	288,537	254,698
Sound	17,087	-	-	-	17,087	16,926
Supplies	24,739	105,693	63,468	91,771	285,671	285,621
Telephone	16,664	13,068	66,318	2,550	98,600	91,380
Training	13,471	8,672	20,225	5,015	47,383	48,409
Travel and cultivation	453,243	24,621	26,118	150,824	654,806	539,961
Utilities	279,310	-	99,783	-	379,093	388,299
Volunteer activities	-	-	63,122	-	63,122	54,390
Subtotal	<u>16,059,494</u>	<u>4,040,279</u>	<u>3,993,946</u>	<u>1,407,201</u>	<u>25,500,920</u>	<u>24,009,224</u>
Depreciation	-	-	570,907	-	570,907	566,895
In-kind expense	13,584	14,171	16,739	1,733	46,227	31,000
Sundry equipment	34,163	280	56,710	-	91,153	99,303
Allocation of occupancy costs	1,894,799	25,751	(1,953,477)	32,927	-	-
Total current endeavors expenses	<u>18,002,040</u>	<u>4,080,481</u>	<u>2,684,825</u>	<u>1,441,861</u>	<u>26,209,207</u>	<u>24,706,422</u>
Depreciation - restricted	<u>490,763</u>	<u>30,000</u>	<u>17,614</u>	<u>19,567</u>	<u>557,944</u>	<u>557,944</u>
Total expenses	<u>\$ 18,492,803</u>	<u>\$ 4,110,481</u>	<u>\$ 2,702,439</u>	<u>\$ 1,461,428</u>	<u>\$ 26,767,151</u>	<u>\$ 25,264,366</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, 2008 and 2007**

	2008			2007		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted	\$ 22,855,361	\$ 3,065,229	\$ 25,920,590	\$ 24,183,734	\$ 15,401,826	\$ 39,585,560
Temporarily restricted	2,746,516	826,085	3,572,601	2,361,543	836,128	3,197,671
Permanently restricted	-	19,908,604	19,908,604	-	19,802,585	19,802,585
 Total net assets	 \$ 25,601,877	 \$ 23,799,918	 \$ 49,401,795	 \$ 26,545,277	 \$ 36,040,539	 \$ 62,585,816

See auditor's report on supplemental information.

OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND
SUPPLEMENTAL INFORMATION - SCHEDULE III
STATEMENTS OF FINANCIAL POSITION
October 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 541	\$ 518
Investments	25,438,305	37,411,367
Due from Festival	109,917	155,614
Property held for sale	477,000	450,000
Note and accounts receivable	12,906	54,387
Gift of future interests	155,000	155,000
TOTAL ASSETS	\$ 26,193,669	\$ 38,226,886
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 9,162	\$ 8,250
Due to Festival	1,658,585	1,531,209
Obligations under gift annuities	704,033	625,056
Deferred support - gift annuities	21,971	21,832
Total liabilities	2,393,751	2,186,347
Net assets:		
Unrestricted	3,065,229	15,401,826
Temporarily restricted	826,085	836,128
Permanently restricted	19,908,604	19,802,585
Total net assets	23,799,918	36,040,539
TOTAL LIABILITIES AND NET ASSETS	\$ 26,193,669	\$ 38,226,886

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, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	\$ 27,000	\$ -	\$ 89,076	\$ 116,076	\$ -	\$ -	\$ 164,771	\$ 164,771
Interest and dividends	724,043	22,325	-	746,368	593,599	22,002	-	615,601
Net realized/unrealized gain (loss) on investments	(11,399,457)	-	-	(11,399,457)	5,904,915	-	-	5,904,915
Contributions of gift annuity	-	58,084	-	58,084	-	8,715	-	8,715
Change in value of gift annuities	-	(90,452)	16,943	(73,509)	-	(60,759)	325,610	264,851
Release of restrictions	-	-	-	-	350,000	-	(350,000)	-
Total support and revenue	<u>(10,648,414)</u>	<u>(10,043)</u>	<u>106,019</u>	<u>(10,552,438)</u>	<u>6,848,514</u>	<u>(30,042)</u>	<u>140,381</u>	<u>6,958,853</u>
Expenses:								
Support to Festival	1,578,596	-	-	1,578,596	1,494,061	-	-	1,494,061
General and administrative	109,587	-	-	109,587	133,375	-	-	133,375
Total expenses	<u>1,688,183</u>	<u>-</u>	<u>-</u>	<u>1,688,183</u>	<u>1,627,436</u>	<u>-</u>	<u>-</u>	<u>1,627,436</u>
Change in net assets	<u>(12,336,597)</u>	<u>(10,043)</u>	<u>106,019</u>	<u>(12,240,621)</u>	<u>5,221,078</u>	<u>(30,042)</u>	<u>140,381</u>	<u>5,331,417</u>
Net assets:								
Beginning 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>
End of year	<u>\$ 3,065,229</u>	<u>\$ 826,085</u>	<u>\$ 19,908,604</u>	<u>\$ 23,799,918</u>	<u>\$ 15,401,826</u>	<u>\$ 836,128</u>	<u>\$ 19,802,585</u>	<u>\$ 36,040,539</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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Interest and dividends received	\$ 746,368	\$ 615,601
Support to Festival	(1,451,220)	(1,313,316)
Annuity payments	(90,452)	(87,767)
Endowment expenses	(108,672)	(133,213)
Net cash used in operating activities	(903,976)	(918,695)
Cash flows from investing activities:		
Proceeds from sale of investments	6,280,704	3,569,087
Purchase of investments	(5,707,099)	(2,871,274)
Proceeds from note receivable	41,481	37,980
Net cash provided by investing activities	615,086	735,793
Cash flows from financing activities:		
Contributions restricted for permanent endowment	288,913	182,836
Net cash provided by financing activities	288,913	182,836
Net increase (decrease) in cash and cash equivalents	23	(66)
Cash and cash equivalents:		
Beginning of year	518	584
End of year	\$ 541	\$ 518
Reconciliation of the change in net assets to net cash used in operating activities:		
Change in net assets	\$ (12,240,621)	\$ 5,331,417
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized (gain) loss on investments	11,399,457	(5,904,915)
Change in value of gift of future interest	(16,943)	(325,610)
Contributions restricted for permanent endowment	(288,913)	(182,836)
Contributed property	(27,000)	-
Increase (decrease) in:		
Annuity gift receivable	-	100,000
Due to/ due from Festival	173,073	78,810
Accounts payable	912	162
Obligations and deferred support - gift annuities	96,059	(15,723)
Net cash used in operating activities	\$ (903,976)	\$ (918,695)

See auditor's report on supplemental information.