

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

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**Combined Audited  
Financial Statements**

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**For The Years Ended  
October 31, 2009 and 2008**



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 subsidiary (OSF Solutions, LLC) and Oregon Shakespeare Festival Endowment Fund (nonprofit corporations) as of October 31, 2009 and 2008 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 subsidiary and Oregon Shakespeare Festival Endowment Fund as of October 31, 2009 and 2008, 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 2, 2010

*Strength in Numbers*

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

**COMBINED STATEMENTS OF FINANCIAL POSITION  
October 31, 2009 and 2008**

	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,039,683	\$ 325,056
Investments	3,975,069	2,112,924
Accounts receivable	137,918	242,052
Pledges receivable, net	1,940,293	1,605,576
Due from Endowment Fund	1,479,594	1,658,585
Prepaid expenses	929,260	1,053,710
Inventory	169,565	161,322
Total current assets	9,671,382	7,159,225
Noncurrent pledges receivable, net	422,000	315,500
Property and equipment, net	22,453,717	23,417,287
Endowment	23,881,404	23,799,918
 TOTAL ASSETS	 \$ 56,428,503	 \$ 54,691,930
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Line of credit	\$ -	\$ 1,000,000
Accounts payable and accrued expenses	2,208,992	1,617,878
Due to Endowment Fund	9,167	109,917
Deferred revenue, tickets	371,911	398,646
Deferred revenue, program and other revenues	353,318	406,921
Current portion of long-term debt	94,054	89,192
Total current liabilities	3,037,442	3,622,554
Long-term debt, less current portion	1,572,553	1,667,581
Total liabilities	4,609,995	5,290,135
Net assets:		
Unrestricted:		
Undesignated	1,722,331	1,194,847
Board Designated	9,656,501	9,280,039
Net property and equipment	20,787,110	21,660,514
Total unrestricted	32,165,942	32,135,400
Temporarily restricted	8,119,812	5,821,925
Permanently restricted	11,532,754	11,444,470
Total net assets	51,818,508	49,401,795
 TOTAL LIABILITIES AND NET ASSETS	 \$ 56,428,503	 \$ 54,691,930

See notes to financial statements.

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

**COMBINED STATEMENTS OF ACTIVITIES  
For the years ended October 31, 2009 and 2008**

	2009			2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenue:</b>							
Plays	\$ 17,098,086	\$ -	\$ -	\$ 17,098,086	\$ -	\$ -	\$ 15,796,842
Other events	250,342	-	-	250,342	-	-	338,012
Educational programs	213,112	-	-	213,112	-	-	225,079
Publications	234,742	-	-	234,742	-	-	284,836
Concessions	334,688	-	-	334,688	-	-	311,723
Investment income (loss)	87,303	-	-	87,303	-	-	(295,167)
Support from Endowment Fund	1,476,226	-	-	1,476,226	-	-	1,578,596
Other	615,213	-	-	615,213	-	-	518,768
Total operating revenue	<u>20,309,712</u>	<u>-</u>	<u>-</u>	<u>20,309,712</u>	<u>-</u>	<u>-</u>	<u>18,758,689</u>
<b>Operating expenses:</b>							
Plays and education	18,844,684	-	-	18,844,684	-	-	18,002,040
Marketing and audience services	3,938,461	-	-	3,938,461	-	-	4,080,481
General and administration	2,551,518	-	-	2,551,518	-	-	2,684,825
Membership and fundraising	1,225,532	-	-	1,225,532	-	-	1,441,861
Total operating expenses	<u>26,560,195</u>	<u>-</u>	<u>-</u>	<u>26,560,195</u>	<u>-</u>	<u>-</u>	<u>26,209,207</u>
Loss from operations	<u>(6,250,483)</u>	<u>-</u>	<u>-</u>	<u>(6,250,483)</u>	<u>-</u>	<u>-</u>	<u>(7,450,518)</u>
<b>Support:</b>							
Memberships	3,145,438	375,036	-	3,520,474	466,418	-	3,799,799
Gifts and grants	950,516	4,682,471	-	5,632,987	1,794,400	-	3,088,426
Support groups	78,050	-	-	78,050	-	-	205,100
Net assets released from restrictions:							
Satisfaction of program restrictions	2,345,533	(2,345,533)	-	-	(1,764,375)	-	-
Total support	<u>6,519,537</u>	<u>2,711,974</u>	<u>-</u>	<u>9,231,511</u>	<u>496,443</u>	<u>-</u>	<u>7,093,325</u>
Income (loss) from current endeavors	269,054	2,711,974	-	2,981,028	496,443	-	(357,193)

See notes to financial statements.

Continued

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

**COMBINED STATEMENTS OF ACTIVITIES, Continued  
For the years ended October 31, 2009 and 2008**

	2009			2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income (loss) from current endeavors Brought forward	269,054	2,711,974	-	2,981,028	(853,636)	496,443	-	(357,193)
Net loss from OSF Solutions	(70,581)	-	-	(70,581)	-	-	-	-
Contributions for capitalized expenditures and (release of restrictions)	30,000	(30,000)	-	-	91,039	(91,039)	-	-
Costume rental business, net	(15,949)	-	-	(15,949)	(24,318)	-	-	(24,318)
Other funds, net activity	-	(827)	-	(827)	19,443	(20,431)	-	(988)
Depreciation on assets funded by restricted gifts and grants	(557,944)	-	-	(557,944)	(557,944)	-	-	(557,944)
Capital campaign and Endowment Fund contributions	72,290	-	88,284	160,574	86,439	-	26,680	113,119
Endowment Fund investment income	577,774	801,683	-	1,379,457	(4,520,176)	(6,132,913)	-	(10,653,089)
Contributions of gift annuities	-	61,574	-	61,574	-	58,084	-	58,084
Change in value of gift annuities	-	51,749	-	51,749	-	(73,509)	-	(73,509)
Transfers and amounts appropriated for expenditures	500,000	(500,000)	-	-	-	-	-	-
Endowment support to Festival	(677,960)	(798,266)	-	(1,476,226)	(668,408)	(910,188)	-	(1,578,596)
Endowment expenses	(96,142)	-	-	(96,142)	(109,587)	-	-	(109,587)
Change in net assets	30,542	2,297,887	88,284	2,416,713	(6,537,148)	(6,673,553)	26,680	(13,184,021)
Reclassification of prior years earnings as required by UPMIFA (Note 15)	-	-	-	-	(9,297,807)	9,297,807	-	-
<b>Net assets:</b>								
Beginning of year	<u>32,135,400</u>	<u>5,821,925</u>	<u>11,444,470</u>	<u>49,401,795</u>	<u>47,970,355</u>	<u>3,197,671</u>	<u>11,417,790</u>	<u>62,585,816</u>
End of year	<u>\$ 32,165,942</u>	<u>\$ 8,119,812</u>	<u>\$ 11,532,754</u>	<u>\$ 51,818,508</u>	<u>\$ 32,135,400</u>	<u>\$ 5,821,925</u>	<u>\$ 11,444,470</u>	<u>\$ 49,401,795</u>

*Concluded*

See notes to financial statements.

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

**COMBINED STATEMENTS OF CASH FLOWS  
For the years ended October 31, 2009 and 2008**

	2009	2008
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,416,713	\$ (13,184,021)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,129,493	1,142,580
Allowance for uncollectible pledges	9,000	(9,465)
Net realized/unrealized (gain)loss on investments	(37,684)	484,607
Contributions restricted for permanent endowment	(371,824)	(288,913)
Net (increase) decrease in Endowment Fund	180,338	12,418,394
(Increase) decrease in:		
Accounts and pledges receivable	(346,083)	(503,503)
Due to/ due from Endowment Fund	78,241	(173,073)
Other current assets	116,207	(78,624)
Increase (decrease) in:		
Accounts payable and accrued expenses	591,114	(204,383)
Deferred revenue	(80,338)	(163,833)
Net cash provided by (used in) operating activities	3,685,177	(560,234)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	2,813,819	2,025,088
Purchase of investments	(4,638,280)	(1,372,572)
Additions to property and equipment	(165,923)	(593,781)
Net cash provided by (used in) investing activities	(1,990,384)	58,735
<b>Cash flows from financing activities:</b>		
Proceeds from (payments on) line of credit	(1,000,000)	500,000
Payments on long-term debt	(90,166)	(83,744)
Contributions restricted for investment in permanent endowment	371,824	288,913
Transfers to Endowment Fund	(261,824)	(177,773)
Net cash provided by (used in) financing activities	(980,166)	527,396
Net increase in cash and cash equivalents	714,627	25,897
<b>Cash and cash equivalents:</b>		
Beginning of year	325,056	299,159
End of year	\$ 1,039,683	\$ 325,056
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 100,503	\$ 119,678

See notes to financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
October 31, 2009 and 2008**

**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 2012. 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, 2009 and 2008 were \$1,476,226 and \$1,578,596, respectively, which represents 5% of the average Endowment Fund investments.

OSF Solutions, LLC (Solutions) is a single member limited liability company wholly owned by the Festival. The company was established to develop and market arts oriented software.

**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 between the Festival and the Endowment Fund as of October 31, 2009 and 2008 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. Solutions has been consolidated with the Festival and all intercompany transactions have been eliminated.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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, and commercial bonds. 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 SUBSIDIARY  
AND  
OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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 SUBSIDIARY  
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OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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. 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 SUBSIDIARY  
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OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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 \$179,000 and \$192,000 are reported as prepaid expenses at October 31, 2009 and 2008, respectively. Total advertising expense approximated \$703,000 and \$809,000 for the years ended October 31, 2009 and 2008, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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 and net income from Solutions). 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 accounting principles generally accepted in the United States of America 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.

Subsequent Events

The Organization has evaluated all subsequent events through February 2, 2010, the date the financial statements were available to be issued.

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 SUBSIDIARY  
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OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**3. INVESTMENTS**

Investments of the Festival are recorded at fair value and consist of the following at October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Money market accounts	\$ 2,203,324	\$ 1,159,985
Fixed income securities	281,997	654,021
Corporate stocks	40,350	41,093
Certificates of deposit	<u>1,449,398</u>	<u>257,825</u>
Total investments	<u>\$ 3,975,069</u>	<u>\$ 2,112,924</u>

Investment income (loss) consists of:

Interest and dividends	\$ 48,219	\$ 189,440
Net realized/unrealized gain (loss)	<u>39,084</u>	<u>(484,607)</u>
Total investment income (loss)	<u>\$ 87,303</u>	<u>\$ (295,167)</u>

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, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Pledges receivable, due within one year	\$ 1,968,293	\$ 1,624,576
Pledges receivable, due in one to five years	<u>431,500</u>	<u>325,000</u>
Total pledges receivable	2,399,793	1,949,576
Less discount on long-term pledges	9,500	9,500
Less allowance for uncollectible pledges	<u>28,000</u>	<u>19,000</u>
Net pledges receivable	2,362,293	1,921,076
Less current portion	<u>1,940,293</u>	<u>1,605,576</u>
Noncurrent portion	<u>\$ 422,000</u>	<u>\$ 315,500</u>

Noncurrent pledges are discounted to present value using a rate of 2.5% and 3.0% for at October 31, 2009 and 2008, respectively.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**5. PROPERTY AND EQUIPMENT**

Property and equipment are summarized by major classes as follows:

	2009	2008
Land	\$ 1,972,895	\$ 1,972,895
Buildings, partially pledged	16,956,653	16,948,298
Leasehold improvements	8,470,274	8,470,202
Accumulated depreciation	(7,538,204)	(6,905,892)
Land and buildings, net	19,861,618	20,485,503
Equipment	7,741,995	7,592,499
Accumulated depreciation	(5,149,896)	(4,660,715)
Equipment, net	2,592,099	2,931,784
Property and equipment, net	\$ 22,453,717	\$ 23,417,287

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.

**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:

	2009	2008
<b>ASSETS:</b>		
Cash and equivalents	\$ 3,440	\$ 541
Investments	25,825,953	25,438,305
Due from Festival	9,167	109,917
Property held for sale	11,000	477,000
Note and accounts receivable	25,922	12,906
Gifts of future interests	155,000	155,000
Total assets	\$ 26,030,482	\$ 26,193,669

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**6. ENDOWMENT FUND, Continued**

	2009	2008
<b>LIABILITIES:</b>		
Accounts payable	\$ 9,521	\$ 9,162
Due to Festival	1,479,594	1,658,585
Obligations under gift annuities	659,963	726,004
 Total liabilities	 2,149,078	 2,393,751
<b>NET ASSETS:</b>		
Unrestricted	9,656,501	9,280,039
Temporarily restricted	2,692,149	3,075,409
Permanently restricted	11,532,754	11,444,470
 Total net assets	 \$ 23,881,404	 \$ 23,799,918

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2009 and 2008:

	2009	2008
Cash and cash equivalents	\$ 89,952	\$ 104,791
Certificates of deposit	449,645	-
Domestic and international equities	12,712,149	12,059,002
Limited partnership interests and other equity securities:		
Investment with minimal liquidation restrictions	9,617,248	10,297,308
Investments with liquidation restrictions	2,956,959	2,977,204
 Total investments	 \$ 25,825,953	 \$ 25,438,305

Investment income (loss) consists of:

Interest and dividends	\$ 323,507	\$ 746,368
Net realized/unrealized gain (loss)	1,055,950	(11,399,457)
 Total investment income (loss)	 \$ 1,379,457	 \$ (10,653,089)

Investments in limited partnerships and other equity securities represent 53% of the Endowment's net assets and 24% of combined net assets at October 31, 2009 (52% of the Endowment's net assets and 21% of combined net assets at October 31, 2008) 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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**6. ENDOWMENT FUND, Continued**

Endowment Fund Investments, Continued

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.

Commitments for limited partnership investments not yet funded approximate \$2,213,000 at October 31, 2009.

Investment income is reported net of investment fees approximating \$59,000 for 2009 and \$105,000 for 2008. These investment fees do not include fees charged by the private equity fund managers.

The investment income earned on the balances of these permanently restricted net assets is temporarily restricted until appropriated for expenditure. Based on the enactment of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), \$9,297,807 of net assets previously recorded as unrestricted has been reclassified as temporarily restricted. The balance was transferred to temporarily restricted net assets in accordance with UPMIFA and *Financial Accounting Standard 958-205, Endowments of Not-for-Profit Organizations*.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**6. ENDOWMENT FUND, Continued**

Endowment Fund Gift Annuities

The Endowment Fund has received several gift annuities and has been named as a beneficiary to a charitable remainder unitrust. Under the terms of the annuity agreements, the Endowment Fund will pay out specified amounts periodically over the lives of the annuitants. When terminated, the balance in the annuity account is available to be placed in the Endowment Fund's permanently restricted net assets. The portion of the gift annuity attributable to the present value of the future benefits to be received by the Endowment Fund is recorded in the statement of activities as a temporarily restricted contribution in the period the annuity is established. Such contributions totaled \$61,574 for the year ended October 31, 2009 and \$58,084 for the year ended October 31, 2008. Funds held in separate accounts are included in the Endowment Fund's investments, are reported at fair market value and totaled \$1,225,887 and \$1,200,245 at October 31, 2009 and 2008, respectively.

On an annual basis, the Endowment Fund re-determines its obligation for payments to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$659,963 and \$726,004 at October 31, 2009 and 2008, respectively, is calculated using a discount rate of 3.2% (2.5% for 2008) and applicable mortality tables. The calculation of the present value of the estimated future payments as of October 31, 2008 is based on the methodology used to determine the state minimum reserve requirements and is not in accordance with generally accepted accounting principles (GAAP). The difference in the present value calculations has been determined to be immaterial to the financial statements as a whole. Beginning with the year ended October 31, 2009, the Endowment Fund is using a GAAP method to compute the obligation. The difference from the change of method is not material to the financial statements. Based on the annuities having similar characteristics, management has used a single discount rate at the end of the fiscal year to determine the obligation for all annuities.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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 higher of the bank's prime rate or 4.5% (4.5% and 2.5% at October 31, 2009 and 2008, respectively). The line matures on June 1, 2010 and is secured by assets of the Festival. There were no outstanding advances on the line at October 31, 2009. Advances on the line totaled \$1,000,000 at October 31, 2008.

The Festival has a \$250,000 stand-alone revolving line of credit with People's Bank. Interest on the line is payable monthly at a fixed rate of 3.25%. The line matures on June 25, 2010 and is secured by specific assets of the Festival. There were no advances on the line outstanding at October 31, 2009 or 2008.

**8. LONG-TERM DEBT**

The Festival is obligated on mortgages payable which are secured by real property as follows:

	2009	2008
Mortgage payable to US Bank in monthly installments of \$7,813 including interest at 4.74% through March 2019; secured by real property.	\$ 706,025	\$ 766,190
Note Payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured.	317,146	328,137
Note Payable to an individual in monthly installments of \$5,427 including interest at 7.0% through August 2026; secured by real property.	643,436	662,446
	1,666,607	1,756,773
Less current portion	94,054	89,192
	\$ 1,572,553	\$ 1,667,581

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**8. LONG-TERM DEBT, Continued**

Future maturities of long-term debt are as follows:

Year ending October 31,		
2010	\$	94,054
2011		99,192
2012		104,617
2013		110,350
2014		116,407
Thereafter		<u>1,141,987</u>
	\$	<u>1,666,607</u>

Total interest expense (including interest netted against rental income and interest on the line of credit) totaled \$100,503 for 2009 and \$118,055 for 2008.

**9. RESTRICTIONS ON NET ASSETS**

Temporarily Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
NEA challenge grant	\$ -	\$ 500,000
Funding of future season operations	5,106,292	2,394,318
Gifts of future interests	525,698	343,028
Earnings on permanently restricted funds	2,166,451	2,232,381
Other purpose restricted	<u>321,371</u>	<u>352,198</u>
Total temporarily restricted net assets	<u>\$ 8,119,812</u>	<u>\$ 5,821,925</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 were required to be maintained in a term cash reserve in the Endowment Fund for a period of ten years after the grant end date. The restriction expired as of October 31, 2009.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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.

**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 limit of \$1,000,000.

**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 2011 and 2013. Monthly payments total \$1,380.

Total rent expenses approximated \$94,500 during 2009 and \$89,500 during 2008.

Future minimum lease payments are as follows:

October 31, 2010	\$	97,500
2011		87,500
2012		89,400
2013		84,400
2014		33,750

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**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. Beginning November 1, 2008, employer contributions were suspended, but were restarted during the fiscal year. The Festival's contributions for the years ended October 31, 2009 and 2008 were approximately \$153,600 and \$325,700, respectively.

**13. RELATED PARTY DISCLOSURE**

Certain board members are business owners in the community. At times, the Organization enters into transactions with companies where board members are key employees or owners. The Festival also maintains investments at a financial institution at which a board member is a key employee. The balances in the investment accounts at October 31, 2009 and 2008 approximated \$3,262,000 and \$1,716,000, respectively. As of November 1, 2009, these investments were transferred to another financial institution where there is no related party. These transactions occur in the normal course of business.

**14. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash balances in several financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (\$250,000 effective October 3, 2008 through December 31, 2013. In addition, effective October 14, 2008 through June 30, 2010, amounts held in noninterest-bearing checking accounts and NOW accounts earning 0.5% or less have unlimited FDIC insurance coverage.) Cash balances in excess of insured limits totaled approximately \$641,000 at October 31, 2009. To limit credit risk, the Organizations place cash equivalents and other short-term investments with high credit quality financial institutions.

The Organization also maintains its investments in brokerage accounts, some of which are insured by the Securities Investor Protection Corporation (SIPC), up to \$500,000 per customer, including \$100,000 for cash and money market balances. The balances, at times, may exceed the insured limits.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**14. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK,  
Continued**

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.

**15. ENDOWMENT**

The Oregon Shakespeare Festival Endowment Fund's endowment consists of funds established for educational programs and operations support. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Oregon Shakespeare Festival Endowment Fund has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Oregon Shakespeare Festival Endowment Fund classifies as permanently restricted net assets (a) the original value of gifts, including subsequent gifts, donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment Fund in a manner consistent with the standard of prudence prescribed by the Act. In accordance with UPMIFA, the Endowment Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**15. ENDOWMENT, Continued**

Interpretation of Relevant Law, Continued

- (1) The duration and preservation of the fund
- (2) The purposes of the Endowment Fund and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Endowment Fund
- (7) The investment policies of the Endowment Fund

Endowment net asset composition by type of fund as of October 31, 2009 and 2008:

	<u>Board Designated</u>	<u>Other Temporarily Restricted</u>	<u>Temporarily Restricted Earnings</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>October 31, 2009:</u>					
Donor-restricted endowment funds	\$ -	\$ 525,698	\$ 2,166,451	\$ 11,532,754	\$ 14,224,903
Board-designated endowment funds	9,656,501	-	-	-	9,656,501
Total funds	<u>\$ 9,656,501</u>	<u>\$ 525,698</u>	<u>\$ 2,166,451</u>	<u>\$ 11,532,754</u>	<u>\$ 23,881,404</u>
<u>October 31, 2008:</u>					
Donor-restricted endowment funds	\$ -	\$ 843,028	\$ 2,232,381	\$ 11,444,470	\$ 14,519,879
Board-designated endowment funds	9,280,039	-	-	-	9,280,039
Total funds	<u>\$ 9,280,039</u>	<u>\$ 843,028</u>	<u>\$ 2,232,381</u>	<u>\$ 11,444,470</u>	<u>\$ 23,799,918</u>

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**15. ENDOWMENT, Continued**

Changes in endowment net assets for the years ended October 31, 2009 and 2008:

	Board Designated	Other Temporarily Restricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - October 31, 2007	\$ 23,786,621	\$ 836,128	\$ -	\$ 11,417,790	\$ 36,040,539
Reclassification based on change in law	(9,297,807)	-	9,297,807	-	-
Restated balance	<u>14,488,814</u>	<u>836,128</u>	<u>9,297,807</u>	<u>11,417,790</u>	<u>36,040,539</u>
Investment return:					
Investment income, net of fees	306,573	22,325	417,470	-	746,368
Net appreciation (depreciation)	(4,826,749)	-	(6,572,708)	-	(11,399,457)
Contributions	89,396	58,084	-	26,680	174,160
Appropriation of endowment assets for expenditure	(668,408)	-	(910,188)	-	(1,578,596)
Other changes	(109,587)	(73,509)	-	-	(183,096)
Total changes	<u>(5,208,775)</u>	<u>6,900</u>	<u>(7,065,426)</u>	<u>26,680</u>	<u>(12,240,621)</u>
Endowment net assets - October 31, 2008	<u>9,280,039</u>	<u>843,028</u>	<u>2,232,381</u>	<u>11,444,470</u>	<u>23,799,918</u>
Investment return:					
Investment income, net of fees	129,733	17,755	176,022	-	323,510
Net appreciation (depreciation)	448,041	-	607,906	-	1,055,947
Contributions	72,790	61,574	-	88,284	222,648
Appropriation of endowment assets for expenditure	(677,960)	-	(798,266)	-	(1,476,226)
Other changes	403,858	(396,659)	(51,592)	-	(44,393)
Total changes	<u>376,462</u>	<u>(317,330)</u>	<u>(65,930)</u>	<u>88,284</u>	<u>81,486</u>
Endowment net assets - October 31, 2009	<u>\$ 9,656,501</u>	<u>\$ 525,698</u>	<u>\$ 2,166,451</u>	<u>\$ 11,532,754</u>	<u>\$ 23,881,404</u>

Return Objectives and Risk Parameters

Oregon Shakespeare Festival Endowment Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Endowment Fund must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**15. ENDOWMENT, Continued**

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Oregon Shakespeare Festival Endowment Fund has a policy of appropriating for distribution each year between 4% and 7%, set by agreement between the Endowment Fund and the Festival. The current distribution rate is set at 5% of its Endowment Fund's average fair value over the prior 37 months through the fiscal year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Endowment Fund considered the long-term expected return on its endowment. Accordingly, over the long term, the Endowment Fund expects the current spending policy to allow its endowment to grow at a rate consistent with the market, less distributions, annually. This is consistent with the Endowment Fund's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**16. FAIR VALUE MEASUREMENTS**

Assets and liabilities recorded at fair value in the combined statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

**Level 1:** Unadjusted quoted prices in active markets for identical assets and liabilities.

**Level 2:** Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**16. FAIR VALUE MEASUREMENTS, Continued**

**Level 3:** Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values of assets and liabilities measured on recurring basis at October 31, 2009 and 2008 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>October 31, 2009:</u>				
Assets:				
Investments - certificates of deposit	\$ 1,899,043	\$ -	\$ 1,899,043	\$ -
Investments - fixed income and equity securities	13,034,496	13,034,496	-	-
Investments - limited partnership interests	12,574,207	-	-	12,574,207
Pledges receivable after one year	422,000	-	-	422,000
Liabilities:				
Obligation under gift annuities	(659,963)	-	-	(659,963)
Total	<u>\$ 27,269,783</u>	<u>\$ 13,034,496</u>	<u>\$ 1,899,043</u>	<u>\$ 12,336,244</u>

October 31, 2008:

Assets:				
Investments - certificates of deposit	\$ 257,825	\$ -	\$ 257,825	\$ -
Investments - fixed income and equity securities	12,754,116	12,754,116	-	-
Investments - limited partnership interests	13,274,512	-	-	13,274,512
Pledges receivable after one year	315,500	-	-	315,500
Liabilities:				
Obligation under gift annuities	(726,004)	-	-	(726,004)
Total	<u>\$ 25,875,949</u>	<u>\$ 12,754,116</u>	<u>\$ 257,825</u>	<u>\$ 12,864,008</u>

- Fair values for certificates of deposit and cash equivalents are based on amounts as reported by the financial institutions that hold the funds.
- Fair values for debt and equity securities are determined by reference to quoted market prices and other relevant information generated by market transactions.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2009 and 2008**

**16. FAIR VALUE MEASUREMENTS, Continued**

- Fair values for limited partnership interests are calculated at the partnership's percentage interest in the total fair value of the limited partnerships.
- Fair values for pledges receivable after one year are reflected at the present value of the estimated future cash flows using a 3% discount rate.
- Fair values of the obligation under gift annuity agreements are determined by calculating the present value of the future distributions to be made using published life expectancy tables and applicable discount rates.

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Investments - Limited partnership interests:

	2009	2008
Balance at beginning of year	\$ 13,274,512	\$ 13,001,282
Net investment in (sales of) limited partnerships	(178,337)	3,615,287
Change in value of limited partnerships	(521,968)	(3,342,057)
Balance at end of year	\$ 12,574,207	\$ 13,274,512

Pledges receivable in more than one year:

	Pledges receivable	Discount	Net
Balance - October 31, 2007	\$ 154,800	\$ (6,500)	\$ 148,300
Change in value of pledges outstanding	-	(3,000)	(3,000)
Additional pledges due in more than one year	325,000	-	325,000
Pledges reclassified as due within one year	(154,800)		(154,800)
Balance - October 31, 2008	325,000	(9,500)	315,500
Change in value of pledges outstanding	-	-	-
Additional pledges due in more than one year	431,500	-	431,500
Pledges reclassified as due within one year	(325,000)	-	(325,000)
Balance - October 31, 2009	\$ 431,500	\$ (9,500)	\$ 422,000

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**16. FAIR VALUE MEASUREMENTS, Continued**

Obligation under charitable gift annuities:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 726,004	646,888
New charitable gift annuities received	61,574	58,084
Change in value of split-interest agreements	(38,975)	111,484
Payments to beneficiaries	<u>(88,640)</u>	<u>(90,452)</u>
Balance at end of year	<u>\$ 659,963</u>	<u>726,004</u>

**17. RESTATEMENT OF 2008 FINANCIAL STATEMENTS**

During the year ended October 31, 2009, the Endowment Fund determined that certain contributions included in permanently restricted net assets totaling \$8,464,134 were not donor restricted, but board designated. The 2008 financial statements were restated to reflect net assets previously classified as permanently restricted as board designated. The effect of the restatement had no impact on the change in net assets.

**SUPPLEMENTAL INFORMATION**



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*Susan J. Marks, CPA*

*Mark A. Clift, CPA*

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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, 2009 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 2, 2010

*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, 2009  
(With comparative totals for 2008)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2009 Total	2008 Total
Salaries	\$ 10,888,564	\$ 1,963,451	\$ 2,001,054	\$ 545,994	\$ 15,399,063	\$ 15,056,286
Payroll taxes and benefits	2,902,767	561,126	534,111	124,146	4,122,150	3,847,003
Total salaries and related expenses	<u>13,791,331</u>	<u>2,524,577</u>	<u>2,535,165</u>	<u>670,140</u>	<u>19,521,213</u>	<u>18,903,289</u>
Accounting and audit fees	-	-	58,561	-	58,561	56,098
Computer expenses	-	-	120,512	-	120,512	144,158
Costumes	293,624	-	-	-	293,624	286,744
Fees, dues and subscriptions	100,787	2,564	-	36,984	140,335	177,186
Insurance	-	-	515,560	-	515,560	378,657
Interest	-	-	23,679	-	23,679	32,562
Lighting	79,996	-	-	-	79,996	80,014
Media and public relations	-	298,578	-	52,452	351,030	444,981
Miscellaneous	1,008,355	438,619	178,221	50,401	1,675,596	1,665,977
Photocopying	28,836	5,888	3,523	2,085	40,332	42,211
Postage and mailing	6,958	92,662	10,535	84,926	195,081	247,839
Printing	1,314	385,112	-	116,533	502,959	549,557
Properties	82,078	-	-	-	82,078	83,814
Repairs and maintenance	-	2,638	136,529	-	139,167	160,420
Royalties	643,665	-	-	-	643,665	413,114
Scenery	241,697	-	-	-	241,697	288,537
Sound	18,464	-	-	-	18,464	17,087
Supplies	14,997	101,669	38,182	64,920	219,768	285,671
Telephone	15,696	7,264	62,508	2,312	87,780	98,600
Training	14,134	3,317	13,723	1,767	32,941	47,383
Travel and cultivation	356,724	9,818	16,573	94,150	477,265	654,806
Utilities	252,474	-	98,804	-	351,278	379,093
Volunteer activities	-	-	39,901	-	39,901	63,122
Subtotal	<u>16,951,130</u>	<u>3,872,706</u>	<u>3,851,976</u>	<u>1,176,670</u>	<u>25,852,482</u>	<u>25,500,920</u>
Depreciation	-	-	557,820	-	557,820	570,907
In-kind expense	5,408	40,269	16,544	16,274	78,495	46,227
Sundry equipment	12,869	-	58,529	-	71,398	91,153
Allocation of occupancy costs	1,875,277	25,486	(1,933,351)	32,588	-	-
Total current endeavors expenses	<u>18,844,684</u>	<u>3,938,461</u>	<u>2,551,518</u>	<u>1,225,532</u>	<u>26,560,195</u>	<u>26,209,207</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>\$ 19,335,447</u>	<u>\$ 3,968,461</u>	<u>\$ 2,569,132</u>	<u>\$ 1,245,099</u>	<u>\$ 27,118,139</u>	<u>\$ 26,767,151</u>

See auditor's report on supplemental information.

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

**SUPPLEMENTAL INFORMATION - SCHEDULE II  
COMBINING STATEMENTS OF NET ASSETS  
October 31, 2009 and 2008**

	2009			2008		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted:						
Undesignated	\$ 22,509,441	\$ -	\$ 22,509,441	\$ 22,855,361	\$ -	\$ 22,855,361
Board designated	-	9,656,501	9,656,501	-	9,280,039	9,280,039
Total unrestricted	22,509,441	9,656,501	32,165,942	22,855,361	9,280,039	32,135,400
Temporarily restricted	5,427,663	2,692,149	8,119,812	2,746,516	3,075,409	5,821,925
Permanently restricted	-	11,532,754	11,532,754	-	11,444,470	11,444,470
 Total net assets	\$ 27,937,104	\$ 23,881,404	\$ 51,818,508	\$ 25,601,877	\$ 23,799,918	\$ 49,401,795

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**OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**  
**SUPPLEMENTAL INFORMATION - SCHEDULE III**  
**STATEMENTS OF FINANCIAL POSITION**  
**October 31, 2009 and 2008**

	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,440	\$ 541
Investments	25,825,953	25,438,305
Due from Festival	9,167	109,917
Property held for sale	11,000	477,000
Note and accounts receivable	25,922	12,906
Gift of future interests	155,000	155,000
TOTAL ASSETS	\$ 26,030,482	\$ 26,193,669
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 9,521	\$ 9,162
Due to Festival	1,479,594	1,658,585
Obligations under gift annuities	659,963	726,004
Total liabilities	2,149,078	2,393,751
Net assets (deficit):		
Unrestricted:		
Board designated	9,656,501	9,280,039
Temporarily restricted	2,692,149	3,075,409
Permanently restricted	11,532,754	11,444,470
Total net assets	23,881,404	23,799,918
TOTAL LIABILITIES AND NET ASSETS	\$ 26,030,482	\$ 26,193,669

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, 2009 and 2008

	2009			2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue:</b>								
Contributions	\$ 72,790	\$ -	\$ 88,284	\$ 161,074	\$ 89,396	\$ -	\$ 26,680	\$ 116,076
Interest and dividends	129,733	193,777	-	323,510	306,573	439,795	-	746,368
Net realized/unrealized gain (loss) on investments	448,041	607,906	-	1,055,947	(4,826,749)	(6,572,708)	-	(11,399,457)
Contributions of gift annuity	-	61,574	-	61,574	-	58,084	-	58,084
Change in value of gift annuities	-	51,749	-	51,749	-	(73,509)	-	(73,509)
Release of restrictions:								
Appropriated for expenditure	798,266	(798,266)	-	-	910,188	(910,188)	-	-
Other time restrictions	500,000	(500,000)	-	-	-	-	-	-
Total support and revenue	<u>1,948,830</u>	<u>(383,260)</u>	<u>88,284</u>	<u>1,653,854</u>	<u>(3,520,592)</u>	<u>(7,058,526)</u>	<u>26,680</u>	<u>(10,552,438)</u>
<b>Expenses:</b>								
Support to Festival	1,476,226	-	-	1,476,226	1,578,596	-	-	1,578,596
General and administrative	96,142	-	-	96,142	109,587	-	-	109,587
Total expenses	<u>1,572,368</u>	<u>-</u>	<u>-</u>	<u>1,572,368</u>	<u>1,688,183</u>	<u>-</u>	<u>-</u>	<u>1,688,183</u>
Change in net assets	376,462	(383,260)	88,284	81,486	(5,208,775)	(7,058,526)	26,680	(12,240,621)
Reclassification of prior years earnings as required by UPMIFA	-	-	-	-	(9,297,807)	9,297,807	-	-
<b>Net assets:</b>								
Beginning of year	<u>9,280,039</u>	<u>3,075,409</u>	<u>11,444,470</u>	<u>23,799,918</u>	<u>23,786,621</u>	<u>836,128</u>	<u>11,417,790</u>	<u>36,040,539</u>
End of year	<u>\$ 9,656,501</u>	<u>\$ 2,692,149</u>	<u>\$ 11,532,754</u>	<u>\$ 23,881,404</u>	<u>\$ 9,280,039</u>	<u>\$ 3,075,409</u>	<u>\$ 11,444,470</u>	<u>\$ 23,799,918</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, 2009 and 2008**

	2009	2008
<b>Cash flows from operating activities:</b>		
Interest and dividends received	\$ 323,510	\$ 746,368
Support to Festival	(1,655,217)	(1,451,220)
Annuity payments	(88,640)	(90,452)
Endowment expenses	(95,783)	(108,672)
Net cash used in operating activities	(1,516,130)	(903,976)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	(1,667,236)	6,280,704
Purchase of investments	2,335,535	(5,707,099)
Proceeds from sale of property held for sale	466,000	-
Proceeds from note receivable	12,906	41,481
Net cash provided by investing activities	1,147,205	615,086
<b>Cash flows from financing activities:</b>		
Contributions restricted for permanent endowment	371,824	288,913
Net cash provided by financing activities	371,824	288,913
Net increase (decrease) in cash and cash equivalents	2,899	23
<b>Cash and cash equivalents:</b>		
Beginning of year	541	518
End of year	\$ 3,440	\$ 541
<b>Reconciliation of the change in net assets to net cash used in operating activities:</b>		
Change in net assets	\$ 81,486	\$ (12,240,621)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized (gain) loss on investments	(1,055,947)	11,399,457
Change in value of gift of future interest	-	(16,943)
Contributions restricted for permanent endowment	(371,824)	(288,913)
Contributed property	-	(27,000)
Increase (decrease) in:		
Other assets	(25,922)	-
Due to/due from Festival	(78,241)	173,073
Accounts payable	359	912
Obligations and deferred support - gift annuities	(66,041)	96,059
Net cash used in operating activities	\$ (1,516,130)	\$ (903,976)

See auditor's report on supplemental information.