

**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, 2013 and 2012**

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## INDEPENDENT AUDITOR'S REPORT

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Principal

Tyee Carr, CPA  
Principal

Dennis C. Johnson, CPA  
of counsel

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

We have audited the accompanying combined financial statements of Oregon Shakespeare Festival Association and subsidiary and Oregon Shakespeare Festival Endowment Fund ( nonprofit corporations), which comprise the combined statements of financial position as of October 31, 2013 and 2012, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Oregon Shakespeare Festival Association and subsidiary and Oregon Shakespeare Festival Endowment Fund as of October 31, 2013 and 2012, and 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 Jacobson, P.C.*

Portland, Oregon  
February 4, 2014

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

**COMBINED STATEMENTS OF FINANCIAL POSITION  
October 31, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,260,718	\$ 1,580,854
Investments	7,322,874	3,777,249
Accounts receivable	179,953	115,644
Pledges receivable, net	778,809	5,600,078
Due from Endowment Fund	1,466,591	1,376,430
Prepaid expenses	1,238,826	1,230,414
Inventory	157,282	162,605
Total current assets	12,405,053	13,843,274
Noncurrent pledges receivable, net	5,091,800	658,485
Property and equipment, net	28,289,698	22,771,161
Endowment Fund	31,181,405	28,262,390
TOTAL ASSETS	\$ 76,967,956	\$ 65,535,310
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,730,949	\$ 2,516,645
Due to Endowment Fund	320,644	307,844
Deferred revenue, tickets	387,648	443,851
Deferred revenue, program and other revenues	536,300	458,731
Construction line of credit	5,459,945	-
Current portion of long-term debt	101,510	110,918
Total current liabilities	9,536,996	3,837,989
Long-term debt, less current portion	884,808	1,252,569
Total liabilities	10,421,804	5,090,558
Net assets (deficit):		
Unrestricted:		
Undesignated	(328,060)	255,637
Board designated	13,391,583	12,118,670
Net property and equipment	21,843,435	21,407,674
Total unrestricted	34,906,958	33,781,981
Temporarily restricted	19,909,516	14,960,026
Permanently restricted	11,729,678	11,702,745
Total net assets	66,546,152	60,444,752
TOTAL LIABILITIES AND NET ASSETS	\$ 76,967,956	\$ 65,535,310

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF ACTIVITIES  
For the years ended October 31, 2013 and 2012**

	2013			2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenue:</b>								
Plays	\$ 19,720,559	\$ -	\$ -	\$ 19,720,559	\$ 18,309,793	\$ -	\$ -	\$ 18,309,793
Other events	227,868	-	-	227,868	178,270	-	-	178,270
Educational programs	256,721	-	-	256,721	256,059	-	-	256,059
Publications	302,559	-	-	302,559	261,022	-	-	261,022
Concessions	357,982	-	-	357,982	333,971	-	-	333,971
Investment income (loss)	(97,235)	91,568	-	(5,667)	109,139	58,754	-	167,893
Support from Endowment Fund	1,346,594	-	-	1,346,594	1,292,213	-	-	1,292,213
Other	591,317	-	-	591,317	614,671	-	-	614,671
Income related to beam break (Note 17)	-	-	-	-	3,312,823	-	-	3,312,823
Total operating revenue	<u>22,706,365</u>	<u>91,568</u>	<u>-</u>	<u>22,797,933</u>	<u>24,667,961</u>	<u>58,754</u>	<u>-</u>	<u>24,726,715</u>
<b>Support:</b>								
Memberships	3,575,297	395,146	-	3,970,443	3,477,221	352,662	-	3,829,883
Gifts and grants	1,571,557	5,733,435	-	7,304,992	1,191,032	5,181,860	-	6,372,892
Support groups	132,385	-	-	132,385	100,000	-	-	100,000
Net assets released from restrictions:								
Satisfaction of time and purpose restrictions	3,589,507	(3,589,507)	-	-	3,577,462	(3,577,462)	-	-
Total support	<u>8,868,746</u>	<u>2,539,074</u>	<u>-</u>	<u>11,407,820</u>	<u>8,345,715</u>	<u>1,957,060</u>	<u>-</u>	<u>10,302,775</u>
Total operating revenue and support	<u>31,575,111</u>	<u>2,630,642</u>	<u>-</u>	<u>34,205,753</u>	<u>33,013,676</u>	<u>2,015,814</u>	<u>-</u>	<u>35,029,490</u>
<b>Operating expenses:</b>								
Plays and education	23,114,184	-	-	23,114,184	22,237,192	-	-	22,237,192
Marketing and audience services	4,509,929	-	-	4,509,929	4,247,822	-	-	4,247,822
General and administration	3,117,451	-	-	3,117,451	2,960,309	-	-	2,960,309
Membership and fundraising	1,491,977	-	-	1,491,977	1,294,290	-	-	1,294,290
Total operating expenses	<u>32,233,541</u>	<u>-</u>	<u>-</u>	<u>32,233,541</u>	<u>30,739,613</u>	<u>-</u>	<u>-</u>	<u>30,739,613</u>
Income (loss) from current endeavors	(658,430)	2,630,642	-	1,972,212	2,274,063	2,015,814	-	4,289,877

*Continued*

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF ACTIVITIES  
For the years ended October 31, 2013 and 2012**

	2013			2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income (loss) from current endeavors								
Brought forward	(658,430)	2,630,642	-	1,972,212	2,274,063	2,015,814	-	4,289,877
Executive Director transition expenses	(2,911)	-	-	(2,911)	(235,678)	-	-	(235,678)
Costume rental business, net	6,206	-	-	6,206	2,598	-	-	2,598
Other funds, net activity	-	(4,819)	-	(4,819)	-	(4,944)	-	(4,944)
Depreciation on assets funded by restricted gifts and grants	(507,319)	-	-	(507,319)	(525,590)	-	-	(525,590)
Capital campaign contributions and earnings	-	1,719,016	-	1,719,016	-	3,231,800	-	3,231,800
Capital campaign contributions released from restriction	1,014,518	(1,014,518)	-	-	-	-	-	-
Endowment activities:								
Endowment Fund contributions	22,033	-	26,933	48,966	518,708	-	36,582	555,290
Endowment Fund investment income	1,957,312	2,355,325	-	4,312,637	1,013,200	1,235,656	-	2,248,856
Change in value of gift annuities	-	(5,381)	-	(5,381)	-	(17,492)	-	(17,492)
Endowment support to Festival	(615,819)	(730,775)	-	(1,346,594)	(590,974)	(701,239)	-	(1,292,213)
Endowment expenses	(90,613)	-	-	(90,613)	(98,305)	-	-	(98,305)
Change in net assets	1,124,977	4,949,490	26,933	6,101,400	2,358,022	5,759,595	36,582	8,154,199
<b>Net assets:</b>								
Beginning of year	33,781,981	14,960,026	11,702,745	60,444,752	31,423,959	9,200,431	11,666,163	52,290,553
End of year	<u>\$ 34,906,958</u>	<u>\$ 19,909,516</u>	<u>\$ 11,729,678</u>	<u>\$ 66,546,152</u>	<u>\$ 33,781,981</u>	<u>\$ 14,960,026</u>	<u>\$ 11,702,745</u>	<u>\$ 60,444,752</u>

*Concluded*

See notes to combined 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, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 6,101,400	\$ 8,154,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,246,413	1,101,786
Loss on disposal of property and equipment	33,307	1,035
Allowance for uncollectible pledges	(1,398)	(5,091)
Net realized/unrealized (gain) loss on investments	218,622	(36,018)
Contributions restricted for capital improvements	(3,287,797)	(775,167)
Contributions restricted for permanent endowment	(26,933)	(36,582)
Net increase in Endowment Fund	(3,499,703)	(1,325,091)
(Increase) decrease in:		
Accounts and pledges receivable	325,043	(3,964,155)
Due to/ due from Endowment Fund	(77,361)	56,538
Other current assets	(3,089)	(140,473)
Increase (decrease) in:		
Accounts payable and accrued expenses	214,304	229,718
Deferred revenue	21,366	24,323
Net cash provided by operating activities	1,264,174	3,285,022
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	1,253,587	6,257,133
Purchase of investments	(5,017,834)	(7,097,304)
Additions to property and equipment	(6,798,257)	(1,977,768)
Net cash used in investing activities	(10,562,504)	(2,817,939)
<b>Cash flows from financing activities:</b>		
Proceeds on construction line of credit	5,459,945	-
Payments on long-term debt	(377,169)	(117,781)
Contributions restricted to capital improvements	3,287,797	775,167
Contributions restricted for investment in permanent endowment	26,933	36,582
Transfers to Endowment Fund	580,688	(71,045)
Net cash provided by financing activities	8,978,194	622,923
Net increase (decrease) in cash and cash equivalents	(320,136)	1,090,006
<b>Cash and cash equivalents:</b>		
Beginning of year	1,580,854	490,848
End of year	\$ 1,260,718	\$ 1,580,854
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 61,541	\$ 79,427

See notes to combined financial statements.



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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
October 31, 2013 and 2012**

**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 a nine-month season (from February 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 Thomas 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 July 16, 2017. 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, 2013 and 2012 were \$1,346,594 and \$1,292,213, respectively, which represents 4.8% and 4.9%, respectively, of a three year average of 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. There is currently no activity in this entity.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Combination

The combined financial statements include the accounts of the Festival and the Endowment Fund (collectively, the Organizations). Intercompany transactions and balances between the Festival and the Endowment Fund as of October 31, 2013 and 2012 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.

Basis of Presentation

The accompanying combined 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' net assets 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Investments

Festival investments consist of money market accounts, certificates of deposit, government and commercial bonds, and mutual funds. 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, except for earnings on donor restricted funds for which interest is restricted.

Endowment Fund investments in marketable securities and mutual funds are carried at fair value. Investments in limited partnership interests have been estimated by management (in the absence of readily determinable fair values) based on information provided by fund managers or the general partners.

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.

Promises to Give (Pledges)

Unconditional promises to give (pledges) are recognized as revenue 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. Bequests are recorded as revenue at the time the Organization has an established right to the bequest and the proceeds are measurable.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

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 and other programs applicable to the following performance season.

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.

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.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Donated Assets and Services, Continued

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.

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 \$69,600 and \$64,200 are reported as prepaid expenses at October 31, 2013 and 2012, respectively. Total advertising expense approximated \$314,000 and \$298,000 and are included in total publication, advertising and promotional expenses for the years ended October 31, 2013 and 2012, respectively.

Income Taxes

The Festival and the Endowment Fund are exempt from federal and state taxes on income derived from operations related to the purpose for which they are organized under Section 501(c)(3) of the Internal Revenue Code and applicable state law. The Organizations, at times, have unrelated business income from advertising, Solutions, rental property and certain income from investments. Income taxes are not material to the financial statements and accordingly, are not reported separately in the accompanying financial statements. The Organizations are not private foundations.

The Organization's information and income tax returns for years ended October 31, 2009 and prior are generally no longer subject to examination by tax authorities in its major taxing jurisdictions.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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.

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.

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.

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.

Subsequent Events

The Organization has evaluated all subsequent events through February 4, 2014, the date the financial statements were available to be issued.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**3. INVESTMENTS**

Investments of the Festival are recorded at fair value and consist of the following at October 31, 2013 and 2012:

	2013	2012
Money market accounts	\$ 203,416	\$ 330,296
Corporate bonds	2,121,616	182,438
Government bonds	1,196,774	-
Mutual funds - fixed income	3,324,136	2,787,561
Corporate stocks	144,128	145,216
Certificates of deposit	332,804	331,738
Total investments	\$ 7,322,874	\$ 3,777,249
Investment income (loss) consists of:		
Interest and dividends	\$ 212,955	\$ 131,875
Net realized/unrealized gain (loss)	(218,622)	36,018
Total investment income (loss)	\$ (5,667)	\$ 167,893

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 certificates of deposit secure an irrevocable letter of credit that Actors' Equity could draw on to meet the actors' payroll if needed.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY  
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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**4. PLEDGES RECEIVABLE**

Pledges receivable at October 31, 2013 and 2012 consist of the following:

Pledges receivable:	2013	2012
Within one year	\$ 798,503	\$ 5,621,170
Within two to five years	4,201,300	667,985
Over five years	900,000	-
Total pledges receivable	5,899,803	6,289,155
Less discount for long-term pledges	9,500	9,500
Less allowance for uncollectible accounts	19,694	21,092
Pledges receivable, net	5,870,609	6,258,563
Less current portion	778,809	5,600,078
Noncurrent portion	\$ 5,091,800	\$ 658,485

Noncurrent pledges are discounted to present value using a rates of between .5% and 2.5% for years ending October 31, 2013 and 2012.

At October 31, 2013 and 2012, approximately 60% and 44% of net pledges receivable are due from two donors, respectively.

**5. PROPERTY AND EQUIPMENT**

Property and equipment at October 31, 2013 and 2012 are summarized by major classes as follows:

	2013	2012
Land	\$ 2,522,374	\$ 2,522,374
Buildings, partially pledged	17,240,034	17,190,335
Leasehold improvements	8,822,633	8,779,076
Construction in process	5,901,003	-
Accumulated depreciation	(8,438,748)	(7,789,886)
Land and buildings, net	26,047,296	20,701,899
Equipment	9,411,070	8,662,069
Accumulated depreciation	(7,168,668)	(6,592,807)
Equipment, net	2,242,402	2,069,262
Property and equipment, net	\$ 28,289,698	\$ 22,771,161

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 depreciated over an estimated useful life of 40 years using the straight-line method.



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**5. PROPERTY AND EQUIPMENT, Continued**

Construction in process consists of a production facility in Talent, Oregon, which is in the final stages of construction at October 31, 2013. Additionally, rehearsal center improvements were in the design phase. Estimated costs committed to complete the production building and the design phase of the rehearsal center approximated \$700,000 at October 31, 2013.

**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:

	2013	2012
<b>ASSETS:</b>		
Investments	\$ 32,772,326	\$ 29,848,733
Due from Festival	356,810	307,844
Property held for sale	11,000	11,000
Gifts of future interests	155,000	155,000
Total assets	\$ 33,295,136	\$ 30,322,577
<b>LIABILITIES:</b>		
Accounts payable	\$ 8,613	\$ 8,000
Due to Festival	1,501,591	1,376,431
Obligations under gift annuities	603,527	675,756
Total liabilities	\$ 2,113,731	\$ 2,060,187
<b>NET ASSETS:</b>		
Unrestricted	\$ 13,391,583	\$ 12,118,670
Temporarily restricted	6,060,144	4,440,975
Permanently restricted	11,729,678	11,702,745
Total net assets	\$ 31,181,405	\$ 28,262,390

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**6. ENDOWMENT FUND, Continued**

Endowment Fund Investments

Investments included in the Endowment Fund consist of the following at October 31, 2013 and 2012:

	2013	2012
Cash and equivalents	\$ 3,504,706	\$ 2,816
Domestic and international equities	23,342,002	17,668,363
Limited partnership interests and other equity securities:		
Investment with minimal liquidation restrictions	1,036,033	6,911,724
Investment with liquidation restrictions	4,889,585	5,265,830
Total investments	\$ 32,772,326	\$ 29,848,733

Investment income consists of:

Interest and dividends	\$ 520,591	\$ 384,081
Net realized/unrealized gain	3,792,046	1,864,775
Total investment income	\$ 4,312,637	\$ 2,248,856

Investments in limited partnerships and other equity securities represent 19% of the Endowment's net assets and 9% of combined net assets at October 31, 2013 (43% of the Endowment's net assets and 20% of combined net assets at October 31, 2012) 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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**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 \$1,050,000 at October 31, 2013.

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. There were no such contributions for the year ended October 31, 2013 or 2012. Funds held in separate accounts are included in the Endowment Fund's investments, are reported at fair market value and totaled \$852,516 and 1,269,612 at October 31, 2013 and 2012, 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 \$603,527 and \$675,756 at October 31, 2013 and 2012, respectively, is calculated using a discount rate of 2.0% and applicable mortality tables. 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.

**7. LINES 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 (3.25% at October 31, 2013 and 2012). The line matures on June 1, 2014 and is secured by assets of the Festival. There were no outstanding advances on the line at October 31, 2013 and 2012.

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**7. LINES OF CREDIT, Continued**

In April 2013, the Festival established a \$5,500,000 construction line of credit with US Bank. Interest on the line is payable monthly at the one month LIBOR rate plus 1.66% (1.85% at October 31, 2013). The line matures on May 1, 2014 and is secured by selected investments of the Endowment. Advances on the line at October 31, 2013 totaled \$5,459,945. All proceeds from the line are limited to construction costs of a new production building. Interest paid on the line during the year ended October 31, 2013 totaled approximately \$32,000 all of which was capitalized to construction in process. Once construction of the building is complete, the line of credit is expected to be converted to a long-term note payable.

**8. LONG-TERM DEBT**

The Festival is obligated on mortgages payable which are secured by real property as follows at October 31, 2013 and 2012:

	2013	2012
Mortgage payable to US Bank in monthly installments of \$7,402 including interest at 3.625% through March 2019; secured by real property.	\$ 435,618	\$ 506,998
Note payable to City of Ashland in annual installments of \$29,302 including interest at 5.58% through November 2026; unsecured. The loan was paid in full on November 15, 2012.	-	280,397
Note payable to an individual in monthly installments of \$5,427 including interest at 7.0% through August 2026; secured by real property.	550,700	576,092
Total long-term debt	986,318	1,363,487
Less current portion	101,510	110,918
Long-term portion	\$ 884,808	\$ 1,252,569

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

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

Future maturities of long-term debt are as follows:

Year ending October 31, 2014	\$	101,510
2015		106,264
2016		111,237
2017		116,523
2018		122,061
Thereafter		428,723
		\$ 986,318

Interest expense totaled \$61,541 for 2013 and \$79,427 for 2012.

**9. RESTRICTIONS AND DESIGNATIONS ON NET ASSETS**

Board Designated Net Assets

At October 31, 2013 and 2012, the Organizations' Boards of Directors and Trustees have designated unrestricted net assets to be included in the Endowment to be used for future operations. (See Note 15, Endowment.)

Temporarily Restricted Net Assets

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

	2013	2012
Funding of future season operations	\$ 6,702,447	\$ 3,413,373
Artistic Opportunities Fund	2,862,137	3,520,569
Gifts of future interests (Note 15)	616,131	588,873
Earnings on permanently restricted funds (Note 15)	5,444,013	3,852,102
Other purpose restricted	4,284,788	3,585,109
Total temporarily restricted net assets	\$ 19,909,516	\$ 14,960,026

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. (See Note 15, Endowment.)

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**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 \$125,000 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 Thomas Theater will be transferred to the City of Ashland.

The Festival leased space for use by the gift shop under a lease agreement through June 30, 2017 with initial rent starting July 2012 at \$6,510 subject to annual increases based on the Consumer Price Index. Monthly rent at October 31, 2013 was \$6,640. The Festival is reimbursed by the gift shop operators on a monthly basis.

The Festival leases classroom space under an agreement with monthly payments of \$2,760 through October 31, 2015.

The Festival leases other facilities for costume storage and rental operations, scene design and the paint shop under agreements with monthly payments ranging from \$675 to \$6,749 per month. As of December 31, 2013 these leases were cancelled.

Rent expense, net of amount reimbursed by the gift shop, approximated \$276,800 during 2013 and \$257,700 during 2012.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**11. LEASE COMMITMENTS, Continued**

Future minimum lease payments are as follows:

	Lease Expense	Sublease income
Year ending October 31, 2014	\$ 172,700	\$ 79,700
2015	133,100	79,700
2016	79,700	79,700
2017	53,100	53,100
Total	\$ 438,600	\$ 292,200

**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 management. The Festival's contributions for the years ended October 31, 2013 and 2012 were approximately \$278,000 and \$206,000, respectively.

**13. RELATED PARTY DISCLOSURE**

Certain board members are business owners in the community. At times, the Festival enters into transactions with companies where board members are key employees or owners. These transactions occur in the normal course of business, were insignificant to the financial statements and disclosed to management as required by the Festival's conflict of interest policy.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**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 \$250,000 (unlimited insurance for certain non-interest bearing accounts through December 31, 2012). The balances, at times, may exceed the federally insured limit. Cash balances in excess of insured limits totaled approximately \$1,513,000 and \$327,000 at October 31, 2013 and 2012, respectively. To limit credit risk, the Organizations place cash equivalents and other short-term investments with high credit quality financial institutions.

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.



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**15. ENDOWMENT, Continued**

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 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:

- (1) The duration and preservation of the Endowment 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

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**15. ENDOWMENT, Continued**

Endowment net asset composition by type of fund as of October 31, 2013 and 2012 is as follows:

	Board Designated	Other Temporarily Restricted	Temporarily Restricted Earnings	Permanently Restricted	Total
<b>October 31, 2013</b>					
Donor-restricted	\$ -	\$ 616,131	\$ 5,444,013	\$ 11,729,678	\$ 17,789,822
Board-designated	13,391,583	-	-	-	13,391,583
Total Funds	<u>\$ 13,391,583</u>	<u>\$ 616,131</u>	<u>\$ 5,444,013</u>	<u>\$ 11,729,678</u>	<u>\$ 31,181,405</u>
<b>October 31, 2012</b>					
Donor-restricted	\$ -	\$ 588,873	\$ 3,852,102	\$ 11,702,745	\$ 16,143,720
Board-designated	12,118,670	-	-	-	12,118,670
	<u>\$ 12,118,670</u>	<u>\$ 588,873</u>	<u>\$ 3,852,102</u>	<u>\$ 11,702,745</u>	<u>\$ 28,262,390</u>

Changes in endowment net assets for the years ended October 31, 2013 and 2012 are as follows:

	Board Designated	Other Temporarily Restricted	Temporarily Restricted Earnings	Permanently Restricted	Total
Endowment net assets -					
October 31, 2011	\$ 11,276,041	\$ 572,951	\$ 3,351,099	\$ 11,666,163	\$ 26,866,254
Investment return:					
Investment income, net of fees	160,415	33,414	190,344	-	384,173
Net appreciation	852,785	-	1,011,898	-	1,864,683
Contributions	518,708	-	-	36,582	555,290
Appropriation of endowment assets					
for expenditure	(689,279)	-	(701,239)	-	(1,390,518)
Other changes	-	(17,492)	-	-	(17,492)
Total changes	<u>842,629</u>	<u>15,922</u>	<u>501,003</u>	<u>36,582</u>	<u>1,396,136</u>
Endowment net assets -					
October 31, 2012	<u>12,118,670</u>	<u>588,873</u>	<u>3,852,102</u>	<u>11,702,745</u>	<u>28,262,390</u>
Investment return:					
Investment income, net of fees	223,148	32,639	264,804	-	520,591
Net appreciation	1,734,164	-	2,057,882	-	3,792,046
Contributions	22,033	-	-	26,933	48,966
Appropriation of endowment assets					
for expenditure	(706,432)	-	(730,775)	-	(1,437,207)
Other changes	-	(5,381)	-	-	(5,381)
Total changes	<u>1,272,913</u>	<u>27,258</u>	<u>1,591,911</u>	<u>26,933</u>	<u>2,919,015</u>
Endowment net assets -					
October 31, 2013	<u>\$ 13,391,583</u>	<u>\$ 616,131</u>	<u>\$ 5,444,013</u>	<u>\$ 11,729,678</u>	<u>\$ 31,181,405</u>

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**15. ENDOWMENT, Continued**

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.

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 4.8% (4.9% in 2012) 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. Beginning in 2012, the Endowment Fund's Board has approved a policy change whereby the distribution rate will be reduced by 0.1% each year through 2016. 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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**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.

**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 of the Festival measured on recurring basis at October 31, 2013 and 2012 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>October 31, 2013</b>				
Investments recorded at fair value:				
Mutual funds-Fixed income	\$ 3,324,136	\$ 3,324,136	\$ -	\$ -
Corporate stocks	144,128	144,128	-	-
Government bonds	1,196,774	1,196,774	-	-
Corporate bonds	2,121,616	2,121,616	-	-
Total fair value investments	<u>6,786,654</u>	<u>\$ 6,786,654</u>	<u>\$ -</u>	<u>\$ -</u>
Other investments:				
Money market accounts	203,416			
Certificates of deposit	332,804			
Total other investments	<u>536,220</u>			
Total invested assets	<u>\$ 7,322,874</u>			
<b>October 31, 2012</b>				
Investments recorded at fair value:				
Mutual funds-Fixed income	\$ 2,787,561	\$ 2,787,561	\$ -	\$ -
Corporate stocks	145,216	145,216	-	-
Corporate bonds	182,438	182,438	-	-
Total fair value investments	<u>3,115,215</u>	<u>\$ 3,115,215</u>	<u>\$ -</u>	<u>\$ -</u>
Other investments:				
Money market accounts	330,296			
Certificates of deposit	331,738			
Total other investments	<u>662,034</u>			
Total invested assets	<u>\$ 3,777,249</u>			

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**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
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**16. FAIR VALUE MEASUREMENTS, Continued**

Fair values of assets and liabilities of the Endowment Funds measured on recurring basis at October 31, 2013 and 2012 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>October 31, 2013</b>				
<b><u>Assets:</u></b>				
Investments recorded at fair value:				
Mutual funds-Equity securities	\$ 12,659,710	\$ 12,659,710	\$ -	\$ -
Mutual funds-Fixed income	8,182,941	8,182,941	-	-
Mutual funds-International	2,499,351	2,499,351	-	-
Limited partnership interests	5,925,618	-	-	5,925,618
Total fair value investments	<u>29,267,620</u>	<u>\$ 23,342,002</u>	<u>\$ -</u>	<u>\$ 5,925,618</u>
Other investments:				
Cash and cash equivalents	<u>3,504,706</u>			
Total invested assets	<u>\$ 32,772,326</u>			
<b><u>Liabilities:</u></b>				
Obligation under gift annuities	<u>\$ (603,527)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (603,527)</u>
<b>October 31, 2012</b>				
<b><u>Assets:</u></b>				
Investments recorded at fair value:				
Mutual funds-Equity securities	\$ 8,657,008	\$ 8,657,008	\$ -	\$ -
Mutual funds-Fixed income	5,670,376	5,670,376	-	-
Mutual funds-International	1,964,841	1,964,841	-	-
Mutual funds-Real estate	1,376,138	1,376,138	-	-
Limited partnership interests	12,177,554	-	-	12,177,554
Total fair value investments	<u>29,845,917</u>	<u>\$ 17,668,363</u>	<u>\$ -</u>	<u>\$ 12,177,554</u>
Other investments:				
Cash and cash equivalents	<u>2,816</u>			
Total invested assets	<u>\$ 29,848,733</u>			
<b><u>Liabilities:</u></b>				
Obligation under gift annuities	<u>\$ (675,756)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (675,756)</u>

- Fair values for debt and equity securities, including government bonds, 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, 2013 and 2012**

**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 using a market approach.
- Fair values of the obligation under gift annuity agreements are determined using an income approach 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:

	2013	2012
Balance at beginning of year	\$ 12,177,554	\$ 15,117,388
Net investment in (sales of) limited partnerships	(6,283,242)	(3,215,519)
Change in value of limited partnerships	31,306	275,685
Balance at end of year	\$ 5,925,618	\$ 12,177,554

Changes in value of limited partnerships is reported in the statements of activities as follows:

	2013	2012
Unrestricted	\$ 14,316	\$ 126,071
Temporarily restricted	16,990	149,614
Change in value of limited partnerships	\$ 31,306	\$ 275,685

Obligation under charitable gift annuities:

	2013	2012
Balance at beginning of year	\$ 675,756	\$ 737,236
New charitable gift annuities received	-	-
Deceased annuitant	(45,666)	(28,281)
Change in value of split-interest agreements	51,047	45,773
Payments to beneficiaries	(77,610)	(78,972)
Balance at end of year	\$ 603,527	\$ 675,756

Change in value of split-interest agreements is reported as temporarily restricted investment income from the Endowment Fund.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
October 31, 2013 and 2012**

**17. BUILDING DAMAGE AND INSURANCE RECOVERIES**

During the year ended October 31, 2011, the main support beam of Angus Bowmer Theater partially collapsed. As a result, certain plays were cancelled or moved to other venues. Tickets were exchanged or refunded based on patron preference. The theater was restored and placed back into service prior to year end. Insurance proceeds received are recorded in the year in which payment has been accepted and received, all of which is the year ended October 31, 2012. Total losses and insurance recovery are summarized as follows:

Year ended October 31, 2011:	
Operating expenses	\$ 877,591
Capitalized expenses	302,162
Lost revenue	<u>2,333,784</u>
	3,513,537
Year ended October 31, 2012:	
Insurance proceeds received	<u>3,312,823</u>
Net estimated unreimbursed costs	<u>\$ 200,714</u>

During the year ended October 31, 2013, smoke from wild fires caused the Festival to cancel selected shows. Management estimates lost revenue related to these cancellations of approximately \$250,000 and plans to file for relief from insurance. At this time, management cannot reasonably estimate how much, if any, will be recovered from insurance.

**18. PENDING LITIGATION**

The Company has been named in a lawsuit claiming that certain areas of the facilities are not in compliance with the Americans with Disabilities Act. The ultimate outcome of this litigation presently cannot be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

**SUPPLEMENTAL INFORMATION**





McDONALD JACOBS

Jake Jacobs, CPA  
Shareholder

Susan J. Marks, CPA  
Shareholder

Mark A. Clift, CPA  
Shareholder

Karin S. Wandtke, CPA  
Shareholder

Sang Ahn, CPA  
Shareholder

Gerard DeBlois Jr., CPA  
Shareholder

Mary Strasdin, CPA  
Shareholder

Jill Oswald  
Shareholder

Anthony Almer, CPA  
Principal

Tyee Carr, CPA  
Principal

Dennis C. Johnson, CPA  
of counsel

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the financial statements of Oregon Shakespeare Festival Association and Oregon Shakespeare Festival Endowment Fund for the years ended October 31, 2013 and 2012, and have issued our report thereon dated February 4, 2014, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplemental information contained in Schedules I through VIII is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*McDonald Jacobs, P.C.*

Portland, Oregon  
February 4, 2014

*Strength in Numbers*

ACCOUNTANTS & CONSULTANTS

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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, 2013  
(With comparative totals for 2012)**

	Plays and Education	Marketing and Audience Services	General and Administration	Membership and Fundraising	2013 Total	2012 Total
Salaries	\$ 12,928,925	\$ 2,228,208	\$ 2,398,009	\$ 672,559	\$ 18,227,701	\$ 17,618,460
Payroll taxes and benefits	3,613,107	629,195	637,653	155,209	5,035,164	4,530,620
Total salaries and related expenses	16,542,032	2,857,403	3,035,662	827,768	23,262,865	22,149,080
Fees for service:						
Legal	-	-	86,024	-	86,024	64,329
Accounting and audit fees	-	-	67,485	-	67,485	64,575
Professional fundraising	-	121,576	-	126,695	248,271	92,531
Other fees - play commissions	123,715	-	-	-	123,715	186,651
Other fees - miscellaneous	14,589	147,601	84,578	38,272	285,040	406,790
Publications, advertising and promotion	453	592,019	-	93,708	686,180	678,616
Office expenses:						
Supplies	40,661	127,888	54,774	45,451	268,774	258,625
Telephone	21,742	11,046	92,244	2,194	127,226	114,036
Postage and mailing	6,327	73,074	13,203	89,531	182,135	171,523
Photocopying	32,084	1,507	4,576	4,302	42,469	44,654
Training	1,000	7,865	92,447	1,708	103,020	175,886
Sundry equipment	26,138	1,283	55,410	-	82,831	172,491
Credit card fees	-	473,207	-	69,615	542,822	490,212
In-kind expense	7,515	31,335	12,930	14,683	66,463	86,897
Information technology	-	-	134,989	-	134,989	124,796
Royalties	897,103	-	-	-	897,103	648,934
Travel and cultivation	476,630	4,569	43,070	100,315	624,584	608,603
Interest	-	-	4,369	-	4,369	18,119
Other expenses:						
Costumes	272,539	-	-	-	272,539	292,917
Scenery	324,990	-	-	-	324,990	319,049
Properties	95,635	-	-	-	95,635	108,536
Lighting	101,945	-	-	-	101,945	108,442
Sound	28,466	-	-	-	28,466	20,047
Music	34,162	-	-	-	34,162	14,138
Other production materials	12,972	-	-	-	12,972	11,870
Miscellaneous	554,575	29,894	182,447	39,806	806,722	735,094
Housing	828,516	-	-	-	828,516	798,363
	<u>20,443,789</u>	<u>4,480,267</u>	<u>3,964,208</u>	<u>1,454,048</u>	<u>30,342,312</u>	<u>28,965,804</u>
Occupancy:						
Depreciation	654,616	8,896	54,326	11,376	729,214	566,318
Insurance	413,626	5,621	34,327	7,188	460,762	513,839
Rental of space	195,958	-	15,000	-	210,958	208,095
Repairs and maintenance	-	-	86,847	-	86,847	100,610
Utilities	291,827	-	111,621	-	403,448	384,947
Allocation of plant and other costs	1,114,368	15,145	(1,148,878)	19,365	-	-
Total occupancy	<u>2,670,395</u>	<u>29,662</u>	<u>(846,757)</u>	<u>37,929</u>	<u>1,891,229</u>	<u>1,773,809</u>
Total operating expenses	23,114,184	4,509,929	3,117,451	1,491,977	32,233,541	30,739,613
Depreciation - restricted	472,493	-	15,259	19,567	507,319	525,590
Total expenses	<u>\$ 23,586,677</u>	<u>\$ 4,509,929</u>	<u>\$ 3,132,710</u>	<u>\$ 1,511,544</u>	<u>\$ 32,740,860</u>	<u>\$ 31,265,203</u>

See independent 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, 2013 and 2012**

	2013			2012		
	Festival Association	Endowment Fund	Total	Festival Association	Endowment Fund	Total
Net assets:						
Unrestricted:						
Undesignated	\$ 21,515,375	\$ -	\$ 21,515,375	\$ 21,663,311	\$ -	\$ 21,663,311
Board designated	-	13,391,583	13,391,583	-	12,118,670	12,118,670
Total unrestricted	21,515,375	13,391,583	34,906,958	21,663,311	12,118,670	33,781,981
Temporarily restricted	13,849,372	6,060,144	19,909,516	10,519,051	4,440,975	14,960,026
Permanently restricted	-	11,729,678	11,729,678	-	11,702,745	11,702,745
 Total net assets	\$ 35,364,747	\$ 31,181,405	\$ 66,546,152	\$ 32,182,362	\$ 28,262,390	\$ 60,444,752

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE III**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**October 31, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,260,718	\$ 1,580,854
Investments	7,322,874	3,777,249
Accounts receivable	179,953	115,644
Pledges receivable, net	778,809	5,600,078
Due from Endowment Fund	1,466,591	1,376,430
Prepaid expenses	1,238,826	1,230,414
Inventory	157,282	162,605
Total current assets	12,405,053	13,843,274
Noncurrent pledges receivable, net	5,091,800	658,485
Property and equipment, net	28,289,698	22,771,161
TOTAL ASSETS	\$ 45,786,551	\$ 37,272,920
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,730,949	\$ 2,516,645
Due to Endowment Fund	320,644	307,844
Deferred revenue, tickets	387,648	443,851
Deferred revenue, program and other revenues	536,300	458,731
Construction line of credit	5,459,945	-
Current portion of long-term debt	101,510	110,918
Total current liabilities	9,536,996	3,837,989
Long-term debt, less current portion	884,808	1,252,569
Total liabilities	10,421,804	5,090,558
Net assets (deficit):		
Unrestricted:		
Undesignated	(328,060)	255,637
Net property and equipment	21,843,435	21,407,674
Total unrestricted	21,515,375	21,663,311
Temporarily restricted	13,849,372	10,519,051
Total net assets	35,364,747	32,182,362
TOTAL LIABILITIES AND NET ASSETS	\$ 45,786,551	\$ 37,272,920

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE IV**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**For the years ended October 31, 2013 and 2012**

	2013		2012	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Operating revenue:</b>				
Plays	\$ 19,720,559	\$ -	\$ 19,720,559	\$ -
Other events	227,868	-	227,868	-
Educational programs	256,721	-	256,721	-
Publications	302,559	-	302,559	-
Concessions	357,982	-	357,982	-
Investment income	(97,235)	91,568	(5,667)	58,754
Support from Endowment Fund	1,346,594	-	1,346,594	-
Other	591,317	-	591,317	-
Income related to beam break	-	-	-	-
Total operating revenue	<u>22,706,365</u>	<u>91,568</u>	<u>22,797,933</u>	<u>58,754</u>
<b>Support:</b>				
Memberships	3,575,297	395,146	3,970,443	352,662
Gifts and grants	1,571,557	5,733,435	7,304,992	5,181,860
Support groups	132,385	-	132,385	-
Net assets released from restrictions:				
Satisfaction of time and purpose restrictions	3,589,507	(3,589,507)	-	(3,577,462)
Total support	<u>8,868,746</u>	<u>2,539,074</u>	<u>11,407,820</u>	<u>1,957,060</u>
Total operating revenue and support	<u>31,575,111</u>	<u>2,630,642</u>	<u>34,205,753</u>	<u>2,015,814</u>
<b>Operating expenses:</b>				
Plays and education	23,114,184	-	23,114,184	-
Marketing and audience services	4,509,929	-	4,509,929	-
General and administration	3,117,451	-	3,117,451	-
Membership and fundraising	1,491,977	-	1,491,977	-
Total operating expenses	<u>32,233,541</u>	<u>-</u>	<u>32,233,541</u>	<u>-</u>
Income (loss) from current endeavors	(658,430)	2,630,642	1,972,212	2,015,814
			2,274,063	4,289,877

*Continued*

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE IV**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**For the years ended October 31, 2013 and 2012**

	2013		2012		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Income (loss) from current endeavors Brought forward	(658,430)	2,630,642	1,972,212	2,274,063	4,289,877
Executive Director transition expenses	(2,911)	-	(2,911)	(235,678)	(235,678)
Costume rental business, net	6,206	-	6,206	2,598	2,598
Other funds, net activity	-	(4,819)	(4,819)	-	(4,944)
Depreciation on assets funded by restricted gifts and grants	(507,319)	-	(507,319)	(525,590)	(525,590)
Capital campaign contributions and earnings	-	1,719,016	1,719,016	-	3,231,800
Capital campaign contributions released from restriction	1,014,518	(1,014,518)	-	-	-
Change in net assets	(147,936)	3,330,321	3,182,385	1,515,393	6,758,063
<b>Net assets:</b>					
Beginning of year	21,663,311	10,519,051	32,182,362	20,147,918	25,424,299
End of year	<u>\$ 21,515,375</u>	<u>\$ 13,849,372</u>	<u>\$ 35,364,747</u>	<u>\$ 21,663,311</u>	<u>\$ 32,182,362</u>

*Concluded*

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ASSOCIATION AND SUBSIDIARY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE V**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended October 31, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 3,182,385	\$ 6,758,063
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,246,413	1,101,786
Loss on disposal of property and equipment	33,307	1,035
Allowance for uncollectible pledges	(1,398)	(5,091)
Contributions restricted for capital improvements	(3,287,797)	(775,167)
Net realized/unrealized gain on investments	218,622	(36,018)
(Increase) decrease in:		
Accounts and pledges receivable	325,043	(3,964,155)
Due to/ due from Endowment Fund	(77,361)	56,538
Other current assets	(3,089)	(140,473)
Increase (decrease) in:		
Accounts payable and accrued expenses	214,304	229,718
Deferred revenue	21,366	24,323
Net cash provided by operating activities	1,871,795	3,250,559
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	1,253,587	6,257,133
Purchase of investments	(5,017,834)	(7,097,304)
Additions to property and equipment	(6,798,257)	(1,977,768)
Net cash used in investing activities	(10,562,504)	(2,817,939)
<b>Cash flows from financing activities:</b>		
Proceeds from construction line of credit	5,459,945	-
Payments on long-term debt	(377,169)	(117,781)
Contributions restricted for capital improvements	3,287,797	775,167
Net cash provided by financing activities	8,370,573	657,386
Net increase (decrease) in cash and cash equivalents	(320,136)	1,090,006
<b>Cash and cash equivalents:</b>		
Beginning of year	1,580,854	490,848
End of year	\$ 1,260,718	\$ 1,580,854
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 61,541	\$ 79,427

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**  
**SUPPLEMENTAL INFORMATION - SCHEDULE VI**  
**STATEMENTS OF FINANCIAL POSITION**  
**October 31, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Investments	\$ 32,772,326	\$ 29,848,733
Due from Festival	356,810	307,844
Property held for sale	11,000	11,000
Gift of future interests	155,000	155,000
TOTAL ASSETS	\$ 33,295,136	\$ 30,322,577
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 8,613	\$ 8,000
Due to Festival	1,501,591	1,376,431
Obligations under gift annuities	603,527	675,756
Total liabilities	2,113,731	2,060,187
 Net assets:		
Unrestricted	13,391,583	12,118,670
Temporarily restricted	6,060,144	4,440,975
Permanently restricted	11,729,678	11,702,745
Total net assets	31,181,405	28,262,390
TOTAL LIABILITIES AND NET ASSETS	\$ 33,295,136	\$ 30,322,577

See independent auditor's report on supplemental information.



**OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**  
**SUPPLEMENTAL INFORMATION - SCHEDULE VII**  
**STATEMENTS OF ACTIVITIES**  
**For the years ended October 31, 2013 and 2012**

	2013			2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue:</b>							
Contributions	\$ 22,033	\$ -	\$ 26,933	\$ 48,966	\$ -	\$ 36,582	\$ 555,290
Interest and dividends	223,148	297,443	-	520,591	223,758	-	384,173
Net realized/ unrealized gain on investments	1,734,164	2,057,882	-	3,792,046	1,011,898	-	1,864,683
Change in value of gift annuities	-	(5,381)	-	(5,381)	(17,492)	-	(17,492)
Release of restrictions:							
Appropriated for expenditure	730,775	(730,775)	-	-	(701,239)	-	-
Total support and revenue	<u>2,710,120</u>	<u>1,619,169</u>	<u>26,933</u>	<u>4,356,222</u>	<u>516,925</u>	<u>36,582</u>	<u>2,786,654</u>
<b>Expenses:</b>							
Support to Festival	1,346,594	-	-	1,346,594	-	-	1,292,213
General and administrative	90,613	-	-	90,613	-	-	98,305
Total expenses	<u>1,437,207</u>	<u>-</u>	<u>-</u>	<u>1,437,207</u>	<u>-</u>	<u>-</u>	<u>1,390,518</u>
Change in net assets	1,272,913	1,619,169	26,933	2,919,015	516,925	36,582	1,396,136
<b>Net assets:</b>							
Beginning of year	<u>12,118,670</u>	<u>4,440,975</u>	<u>11,702,745</u>	<u>28,262,390</u>	<u>3,924,050</u>	<u>11,666,163</u>	<u>26,866,254</u>
End of year	<u>\$ 13,391,583</u>	<u>\$ 6,060,144</u>	<u>\$ 11,729,678</u>	<u>\$ 31,181,405</u>	<u>\$ 4,440,975</u>	<u>\$ 11,702,745</u>	<u>\$ 28,262,390</u>

See independent auditor's report on supplemental information.

**OREGON SHAKESPEARE FESTIVAL ENDOWMENT FUND**  
**SUPPLEMENTAL INFORMATION - SCHEDULE VIII**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended October 31, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities:</b>		
Interest and dividends received	\$ 520,591	\$ 384,173
Support to Festival	(1,221,434)	(1,217,307)
Annuity payments	(77,610)	(78,972)
Endowment expenses	(90,000)	(100,385)
Net cash used in operating activities	(868,453)	(1,012,491)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	1,424,045	2,734,131
Purchase of investments	(555,592)	(2,145,487)
Net cash provided by investing activities	868,453	588,644
<b>Cash flows from financing activities:</b>		
Contributions restricted or designated for permanent endowment	-	423,847
Net cash provided by financing activities	-	423,847
Net change in cash and cash equivalents	-	-
<b>Cash and cash equivalents:</b>		
Beginning of year	-	-
End of year	\$ -	\$ -
<b>Reconciliation of the change in net assets to net cash used in operating activities:</b>		
Change in net assets	\$ 2,919,015	\$ 1,396,136
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized gain on investments	(3,792,046)	(1,864,683)
Contributions restricted for permanent endowment	-	(423,847)
Increase (decrease) in:		
Due to/due from Festival	76,194	(56,537)
Accounts payable	613	(2,080)
Obligations and deferred support - gift annuities	(72,229)	(61,480)
Net cash used in operating activities	\$ (868,453)	\$ (1,012,491)

See independent auditor's report on supplemental information.