

**THE STRATFORD SHAKESPEAREAN
FESTIVAL of CANADA**

CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012



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BDO Canada LLP
380 Hibernia Street
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Independent Auditors' Report

**To the Members of
The Stratford Shakespearean Festival of Canada:**

We have audited the accompanying consolidated financial statements of The Stratford Shakespearean Festival of Canada, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, changes in net assets, and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, these consolidated financial statements present fairly, in all material respects, the financial position of The Stratford Shakespearean Festival of Canada as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information

Without modifying our opinion, we draw attention to Note 3 to the financial statements which discloses that The Stratford Shakespearean Festival of Canada adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the consolidated statement of financial position as at December 31, 2011 and January 1, 2011, and the consolidated statements of operations, changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Stratford, Ontario
February 27, 2013

THE STRATFORD SHAKESPEAREAN FESTIVAL of CANADA
CONSOLIDATED STATEMENT of FINANCIAL POSITION

	December 31 2012 \$	December 31 2011 (unaudited) \$	January 1 2011 (unaudited) \$
Assets			
Current			
Cash (Note 4)	1,483,323	1,520,450	807,274
Accounts & Pledges Receivable	1,139,416	2,081,682	1,565,022
Government Grants Receivable	59,479	7,746	1,409,837
Inventory	250,052	236,825	231,838
Prepaid Expenses	1,568,721	1,687,548	1,786,855
Marketable Securities (Note 5)	7,185,634	10,592,382	10,031,243
	11,686,625	16,126,633	15,832,069
Receivable from Stratford Shakespearean Festival Endowment Foundation	135,669	299,238	--
Pledges Receivable	848,231	751,328	--
Prepaid Pension Cost (Note 10)	1,719,388	2,003,371	1,605,846
Capital Assets (Note 6)	35,671,002	35,783,791	36,883,787
	50,060,915	54,964,361	54,321,702
Liabilities			
Current			
Accounts Payable & Accrued Liabilities	2,323,160	2,607,313	2,679,962
Unearned Revenue (Note 9)	12,331,412	12,756,997	11,933,739
Payable to Stratford Shakespearean Festival Endowment Foundation	1,167,064	1,167,064	1,167,064
	15,821,636	16,531,374	15,780,765
Unearned Revenue (Note 9)	1,017,377	1,395,110	831,480
Accrued Liabilities	1,506,684	1,445,749	1,350,325
Deferred Capital Contributions (Note 7)	22,652,457	23,134,998	23,954,997
	40,998,154	42,507,231	41,917,567
Net Assets			
Unrestricted	(5,675,172)	(2,195,034)	(5,108,649)
Investment in Capital Assets (Note 8)	13,018,545	12,648,793	12,928,790
Stability - Internally Restricted (Note 17)	--	--	2,978,148
Pension - Restricted (Note 10)	1,719,388	2,003,371	1,605,846
	9,062,761	12,457,130	12,404,135
	50,060,915	54,964,361	54,321,702

Approved on behalf of the Board of Governors:




(The accompanying notes are an integral part of these financial statements.)

THE STRATFORD SHAKESPEAREAN FESTIVAL of CANADA
CONSOLIDATED STATEMENT of CHANGES in NET ASSETS
for the year ended December 31

	2012					2011 (unaudited)
	Unrestricted \$	Investment in Capital Assets \$	Stability - Internally Restricted \$	Pension - Restricted \$	Total \$	Total \$
Net Assets, Beginning of Year	(2,195,034)	12,648,793	--	2,003,371	12,457,130	12,404,135
Transfers	(1,482,673)	1,482,673	--	--	--	--
	283,983	--	--	(283,983)	--	--
Net (Loss) Revenue	(2,281,448)	(1,112,921)	--	--	(3,394,369)	52,995
Net Assets, End of Year	(5,675,172)	13,018,545	--	1,719,388	9,062,761	12,457,130

(The accompanying notes are an integral part of these financial statements.)

THE STRATFORD SHAKESPEAREAN FESTIVAL of CANADA
CONSOLIDATED STATEMENT of OPERATIONS
for the year ended December 31

	2012	2011 (unaudited)
	\$	\$
Earned Revenues		
Performance	27,446,637	31,282,920
Ancillary	5,014,445	7,387,834
Financial	874,958	1,153,620
	<u>33,336,040</u>	<u>39,824,374</u>
Contributed Revenues		
Fundraising	12,257,246	12,197,740
Government Grants (Note 11)	5,385,561	4,792,781
Stratford Shakespearean Festival Endowment Foundation	2,333,550	1,742,705
Amortization of Deferred Capital Contributions (Note 7)	1,025,008	1,078,843
	<u>21,001,365</u>	<u>19,812,069</u>
Total Revenues	<u>54,337,405</u>	<u>59,636,443</u>
Operating Expenses		
Production	33,317,317	32,339,224
Marketing & Sales	8,633,191	9,537,081
Facilities	3,313,780	3,457,655
Ancillary	2,836,129	4,639,339
Administration	2,384,179	2,399,418
Amortization of Capital Assets	2,137,929	2,146,937
Fundraising	2,136,260	1,873,554
Education	1,889,169	2,001,180
Financial	1,083,820	1,189,060
	<u>57,731,774</u>	<u>59,583,448</u>
Net (Loss) Revenue for the Year	<u>(3,394,369)</u>	<u>52,995</u>

(The accompanying notes are an integral part of these financial statements.)

THE STRATFORD SHAKESPEAREAN FESTIVAL of CANADA
CONSOLIDATED STATEMENT of CASH FLOWS
for the year ended December 31

	<u>2012</u>	<u>2011</u>
	\$	(unaudited) \$
Operating Activities		
Net (Loss) Revenue for the Year	(3,394,369)	52,995
Amortization of Capital Assets	2,137,929	2,146,937
Amortization of Deferred Capital Contributions	(1,025,008)	(1,078,843)
Change in Prepaid Pension Cost	283,983	(397,525)
	<u>(1,997,465)</u>	<u>723,564</u>
Capital Contributions & Government Grants	542,467	258,844
Net Change in Non-cash Working Capital Balances		
Receivables	793,630	134,103
Inventory	(13,227)	(4,987)
Prepaid Expenses	118,827	99,307
Accounts Payable & Accrued Liabilities	(223,218)	22,775
Unearned Revenue	(803,318)	1,386,888
	<u>(1,582,304)</u>	<u>2,620,494</u>
Investing Activities		
Purchase of Capital Assets	(2,025,140)	(1,046,941)
Redemption (Purchase) of Marketable Securities	3,406,748	(561,139)
	<u>1,381,608</u>	<u>(1,608,080)</u>
Financing Activities		
Net Change in Amounts Due to/from Stratford Shakespearean Festival Endowment Foundation	<u>163,569</u>	<u>(299,238)</u>
Net (Decrease) Increase in Cash & Cash Equivalents During the Year	(37,127)	713,176
Cash & Cash Equivalents, Beginning of Year	<u>1,520,450</u>	<u>807,274</u>
Cash & Cash Equivalents, End of Year	<u><u>1,483,323</u></u>	<u><u>1,520,450</u></u>

(The accompanying notes are an integral part of these financial statements.)

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

1. Statement of Purpose

The Stratford Shakespearean Festival of Canada (“the Festival”) is incorporated, without share capital, under the Corporations Act of Ontario for the purpose of producing and presenting live theatrical performances. It is a not-for-profit organization and is a registered charity under the Income Tax Act of Canada and is exempt from income taxes.

The Stratford Shakespearean Festival Holding Foundation (“the Holding Foundation”) is incorporated, without share capital, under the Corporations Act of Ontario for the purpose of holding and maintaining the major capital assets of the Festival. It is a not-for-profit organization and is a registered charity under the Income Tax Act of Canada and is exempt from income taxes.

The Stratford Shakespearean Festival Endowment Foundation (“the Endowment Foundation”) is incorporated without share capital under the Corporations Act of Canada. Its purpose is to raise funds that are to be maintained permanently and, at the discretion of its Trustees, to make available the income earned on these funds to finance various activities such as artist training, artistic ventures, classical productions and related capital expenditures. It is a not-for-profit organization and is a registered charity under the Income Tax Act of Canada and is exempt from income taxes.

The Stratford Shakespearean Festival of America (“Festival of America”) is incorporated under the laws of the State of Michigan for the purpose of supporting a variety of work at the Festival. Festival of America is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

The Stratford Festival Archives Trust (“Archives Trust”) is incorporated under Ontario Statute as a corporation without share capital for the purpose of maintaining the Archives of the Festival. It is a not-for-profit organization and is a registered charity under the Income Tax Act of Canada and is exempt from income taxes.

2. Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

2. Significant Accounting Policies (continued)

Basis of Consolidation

These financial statements consolidate the assets, liabilities, fund balances, revenues and expenses of the Festival and the Holding Foundation. The Endowment Foundation, Festival of America and the Archives Trust, related organizations over which the Festival management and Board have significant influence but do not exercise control, are not consolidated in these financial statements. Disclosure of the Endowment Foundation and Festival of America's summarized financial activities is made in Note 14. The Archives Trust did not have financial activities in 2011 or 2012.

Cash & Cash Equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents is defined as cash only.

Foreign Currency

At the transaction date, each asset, liability, revenue or expense is translated to Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current year.

Inventory

Inventory is reported at the lower of cost and net realizable value, on the average cost basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40 years
Furnishings, Equipment & Leasehold	
Improvements	5, 10 or 20 years
Computer Hardware & Software	5 years

Revenue Recognition

The Festival follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Performance revenue is recognized as productions are staged. Ancillary and financial revenue are recognized as they are earned.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

2. Significant Accounting Policies (continued)

Deferred Capital Contributions

Donations and government grants received for the purpose of financing capital expenditures are deferred and amortized to revenue on the same basis as the related capital assets.

Contributed Services

Volunteers contribute a significant amount of time each year to assist the Festival in carrying out its activities. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Donations in Kind

The value of donations in kind is not included in the financial statements. The amount is primarily comprised of various forms of advertising, as well as products and services related to the Festival's major fundraising event.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations. In addition, the Festival's management elects that all fixed income securities are to be measured at fair value subsequent to initial recognition, with gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets recorded at cost or amortized cost are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items re-measured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

Employee Future Benefits

The actuarial determination of the accrued benefit obligation for the defined benefit pension plan uses the projected benefit method prorated on service, which includes estimates for future cost escalation. The expected return on the plan assets is calculated on the fair value of those assets. Experience gains/losses are being amortized over 12.8 years. The transitional asset is being amortized, using a straight-line method, over 14 years starting in 2001.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

3. First-time Adoption of Canadian Accounting Standards for Not-for-Profit Organizations

Effective January 1, 2012, the organization adopted the requirements of the new accounting framework, Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO) or Part III of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting. These are the organization's first financial statements prepared in accordance with this framework and the transitional provisions of Section 1501, First-time Adoption have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and mandatory exceptions. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in these financial statements for the year ended December 31, 2011 and in the preparation of an opening ASNPO statement of financial position at the date of transition of January 1, 2011.

The organization issued financial statements for the year ended December 31, 2011 using generally accepted accounting principles prescribed by the CICA Handbook – Accounting Part V - Pre-changeover Accounting Standards. The adoption of ASNPO resulted in no adjustments to the previously reported assets, liabilities, fund balances, excess of revenue over expenses and cash flows of the organization.

The following exemptions were used at the date of transition to Canadian accounting standards for not-for-profit organizations:

Employee future benefits

The organization elected to carry forward its unamortized actuarial gains and losses at the date of transition.

Related party transactions

The organization elected not to restate assets or liabilities related to any transactions with related parties occurring prior to the date of transition to ASNPO which might have been subject to different accounting rules at that time.

4. Cash

As at December 31 cash is held at a chartered bank, earning interest of 0.00% and 1.00%. Bank balances include \$324,472 in US currency.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

5. Marketable Securities

As at December 31 marketable securities are comprised of government and corporate debt instruments with investment ratings from R1-Mid to R1-High and cashable guaranteed investment certificates. These securities have yields between 0.93% and 2.00% with maturities from February 11, 2013 to November 24, 2014. A significant portion of these securities has been purchased using payments received for future performances and other activities as outlined in Note 9 - Unearned Revenue.

6. Capital Assets

As at December 31 capital assets are comprised as follows:

	2012			2011 (unaudited)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	1,319,077	--	1,319,077	1,319,077
Buildings	49,693,018	20,617,226	29,075,792	30,217,909
Furnishings, Equipment & Leasehold Improvements	15,473,502	10,524,118	4,949,384	3,969,132
Computer Hardware & Software	2,752,865	2,426,116	326,749	277,673
	<u>69,238,462</u>	<u>33,567,460</u>	<u>35,671,002</u>	<u>35,783,791</u>

7. Deferred Capital Contributions

Deferred capital contributions represent the unamortized portion of donations and government grants received for the purchase of capital assets. Changes in deferred capital contributions for the year ended December 31 are as follows:

	2012	2011 (unaudited)
	\$	\$
Balance, Beginning of Year	23,134,998	23,954,997
Government Grants – Canadian Heritage	536,876	246,750
Capital Contribution – Endowment Foundation	5,591	12,094
Amortization of Deferred Capital Contributions	<u>(1,025,008)</u>	<u>(1,078,843)</u>
Balance, End of Year	<u>22,652,457</u>	<u>23,134,998</u>

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

8. Investment in Capital Assets

Investment in capital assets represents the unamortized portion of the Festival's purchases of capital assets not funded by donations, government grants and debt. The investment in capital assets as at December 31 is calculated as follows:

	<u>2012</u>	<u>2011</u> (unaudited)
	\$	\$
Net Book Value of Capital Assets (Note 6)	35,671,002	35,783,791
Deferred Capital Contributions (Note 7)	<u>(22,652,457)</u>	<u>(23,134,998)</u>
Investment in Capital Assets	<u><u>13,018,545</u></u>	<u><u>12,648,793</u></u>

Changes in investment in capital assets for the year ended December 31 are as follows:

	<u>2012</u>	<u>2011</u> (unaudited)
	\$	\$
Balance, Beginning of Year	12,648,793	12,928,790
Transfers		
Purchase of Capital Assets	2,025,140	1,046,941
Capital Contributions & Government Grants	(542,467)	(258,844)
Net Revenue		
Amortization of Capital Assets	(2,137,929)	(2,146,937)
Amortization of Deferred Capital Contributions	<u>1,025,008</u>	<u>1,078,843</u>
Balance, End of Year	<u><u>13,018,545</u></u>	<u><u>12,648,793</u></u>

9. Unearned Revenue

As at December 31 unearned revenue is comprised as follows:

	<u>2012</u>	<u>2011</u> (unaudited)
	\$	\$
Current		
Future Performances	5,075,391	5,002,825
Government Grants	3,058,396	3,621,615
Restricted Donations	2,021,431	2,754,457
Gift Certificates & Other	<u>2,176,194</u>	<u>1,378,100</u>
	12,331,412	12,756,997
Long-Term		
Restricted Donations	<u>1,017,377</u>	<u>1,395,110</u>
	<u><u>13,348,789</u></u>	<u><u>14,152,107</u></u>

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA
 NOTES to the CONSOLIDATED FINANCIAL STATEMENTS
 December 31 2012

10. Pension Plans

The Festival sponsors one defined benefit registered pension plan (“the plan”). The plan provides its members with a pension based on final average earnings on service prior to 2008 and on a percentage of contributions for service from 2008 forward. The plan is not indexed. The plan covers full-time and permanent part-time employees. The plan is a contributory plan as both the employees and the Festival make contributions toward the cost of accruing benefits. The employee contributions are fixed by a formula and the Festival makes contributions to the plan as required to ensure that the plan has sufficient assets to pay the promised benefits.

The last funding valuation for the purpose of determining the Festival’s required contributions was performed as at December 31, 2009 and indicated that the plan was in a surplus position on a going concern basis. The next funding valuation is required as at December 31, 2012.

The present value of the accrued benefit obligation was determined using the projected benefit method prorated on service and the Festival’s best estimate assumptions. An accounting valuation was performed as at December 31, 2008 and was then extrapolated to December 31, 2012.

The present value of the accrued benefit obligation as at December 31, and the principal components of changes in present values during the year, are as follows:

	2012	2011
	\$	(unaudited) \$
Present Value of Accrued Benefit		
Obligation, Beginning of Year	9,094,057	6,722,133
Benefits Accrued	786,557	702,450
Interest on Accrued Benefits	477,123	434,945
Actuarial Losses	908,242	1,344,427
Benefits Paid	(270,636)	(109,898)
Present Value of Accrued Benefit		
Obligation, End of Year	<u>10,995,343</u>	<u>9,094,057</u>

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS
December 31 2012

10. Pension Plans (continued)

	2012	2011 (unaudited)
	\$	\$
The calculation of the plan's funded status as at December 31 is as follows:		
Fair Value of Plan Assets	10,559,598	9,451,894
Accrued Benefit Obligation	10,995,343	9,094,057
Funded Status – Plan (Deficit) Surplus	(435,745)	357,837

The reconciliation of the prepaid pension cost recorded in the Consolidated Statement of Financial Position as at December 31 is as follows:

Funded Status – Plan (Deficit) Surplus	(435,745)	357,837
Unamortized Transitional Asset	(77,064)	(119,101)
Unamortized Experience Losses	2,232,197	1,764,635
Prepaid Pension Cost	1,719,388	2,003,371

Net pension expense for the year ended December 31 is comprised as follows:

Current Service Cost	624,456	533,723
Interest on Accrued Benefits	477,123	434,945
Expected Return on Pension Fund Assets	(567,113)	(513,958)
Amortization of Transitional Asset	(42,037)	(42,037)
Amortization of Experience Losses (Gains)	137,862	(6,004)
Net Pension Expense	630,291	406,669

Contributions to the plan for the year ended December 31 are as follows:

Employer Contributions	346,308	804,195
Plan Participants' Contributions	162,101	168,727

The significant actuarial assumptions adopted in measuring the plan's assets and accrued benefit obligation as at December 31 are as follows:

Discount Rate on Liabilities – Beginning of Year	5.0%	6.0%
Discount Rate on Liabilities – End of Year	4.5%	5.0%
Expected Rate of Return on Plan Assets	6.0%	6.0%
Rate of Compensation Increase	3.5%	3.5%

All other pension plans are defined contribution plans and the pension expense for these plans for the year ended December 31 is \$1,037,256 (2011 - \$941,042).

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA
NOTES to the CONSOLIDATED FINANCIAL STATEMENTS
December 31 2012

11. Government Grants

For the year ended December 31 the Festival recognized government grants as follows:

	2012	2011 (unaudited)
	\$	\$
Ontario Arts Council	3,159,621	3,291,838
Canada Council for the Arts	1,000,000	1,000,000
Ontario Ministry of Tourism, Culture and Sport	700,000	--
Canadian Heritage	294,776	429,474
Federal Economic Development Agency	150,000	--
Ontario Trillium Foundation	61,664	71,469
Ontario Tourism Marketing Partnership	19,500	--
	<u>5,385,561</u>	<u>4,792,781</u>

12. Related Party Transactions

For the year ended December 31 the Festival had transactions with related organizations as follows:

	2012	2011 (unaudited)
	\$	\$
Revenues and Recoveries		
Festival of America – Donations	2,252,647	2,144,551
The Endowment Foundation		
– Donations	2,333,550	1,742,705
– Recovery of Fundraising Expenses	(32,895)	182,215
– Recovery of Administrative Expenses	116,898	117,023
– Capital Contributions	5,591	12,094
	<u>4,675,791</u>	<u>4,198,588</u>

The various Stratford organizations transfer funds between themselves from time to time to maximize the Festival's overall effectiveness. These transactions are recorded at the exchange amount, the amount agreed to by the related parties, and is intended to approximate fair value. The resulting balances do not bear interest and have no specific terms of repayment.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA
 NOTES to the CONSOLIDATED FINANCIAL STATEMENTS
 December 31 2012

12. Related Party Transactions (continued)

The Festival also has transactions with members of its Board of Governors or corporations controlled by these individuals. These transactions are entered into on the same terms as if the parties were unrelated. The following transactions occurred during the year:

	2012	2011 (unaudited)
	\$	\$
Expenses		
Marketing and Sales	2,446,102	3,855,738
Facilities	533	36,527
Production	16,270	18,954
	<u>2,462,905</u>	<u>3,911,219</u>

As at December 31, the following amounts were due (to) from these parties:

	2012	2011 (unaudited)
	\$	\$
Accounts Receivable	--	1,003
Accounts Payable	(724)	(19,596)
	<u>(724)</u>	<u>(18,593)</u>

13. Pledges Receivable

For the year ended December 31 the Festival has recognized as revenue \$377,340 (2011 - \$721,537) of pledges that remain unpaid at year end.

THE STRATFORD SHAKESPEAREAN FESTIVAL OF CANADA

NOTES to the CONSOLIDATED FINANCIAL STATEMENTS

December 31 2012

14. Related Organizations

For the year ended October 31 the following information has been obtained from the audited financial statements of the Endowment Foundation:

	2012	2011
	\$	(unaudited) \$
Financial Position		
Assets		
Cash	1,969	6,842
Receivable from the Festival	1,167,064	1,167,064
Pledges & Other Receivables	32,223	133,974
Investments at Market	54,891,008	53,553,412
Total Assets	<u>56,092,264</u>	<u>54,861,292</u>
Liabilities		
Accounts Payable	42,568	45,676
Payable to the Festival	116,411	247,572
Total Liabilities	<u>158,979</u>	<u>293,248</u>
Total Net Assets	<u>55,933,285</u>	<u>54,568,044</u>
Results of Operations		
Donations	216,445	700,222
Investment Income	1,675,261	1,861,544
Unrealized Gain (Loss) on Investments	2,181,279	(702,576)
Grant to the Festival	(2,333,550)	(1,742,705)
Grant to the Holding Foundation	(5,591)	(12,094)
Other Grants & Expenses	(368,603)	(499,982)
	<u>1,365,241</u>	<u>(395,591)</u>
Cash Flow		
Net Revenue (Loss) for the Year	1,365,241	(395,591)
(Gain) Loss on Disposal of Investments	(41,650)	441,007
Unrealized (Gain) Loss on Investments	(2,181,279)	702,576
Changes in Pledges & Other Receivables	101,751	(74,914)
Changes in Payables	(3,108)	19,892
Change in Payable to the Festival	(131,161)	226,120
Net Redemption (Purchase) of Investments	885,333	(912,443)
(Decrease) Increase in Cash	<u>(4,873)</u>	<u>6,647</u>

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14. Related Organizations (continued)

For the year ended October 31 the following information has been obtained from the audited financial statements of Festival of America (in US\$):

	2012	2011
	<u>\$</u>	<u>(unaudited)</u>
	\$	\$
Financial Position		
Assets		
Cash	810,553	861,082
Pledges & Other Receivables	491,489	277,070
Gift Annuity Reserves	<u>69,419</u>	<u>70,719</u>
Total Assets	<u><u>1,371,461</u></u>	<u><u>1,208,871</u></u>
Liabilities		
Accounts Payable	3,402	8,601
Gift Annuity Liabilities	<u>85,156</u>	<u>84,741</u>
Total Liabilities	<u><u>88,558</u></u>	<u><u>93,342</u></u>
Total Net Assets	<u><u>1,282,903</u></u>	<u><u>1,115,529</u></u>
Results of Operations		
Donations & Other Revenues	2,623,335	2,193,878
Grant to the Festival	(2,252,000)	(1,902,000)
Grant to the Endowment Foundation	(131,631)	(266,435)
Other Expenses	<u>(72,330)</u>	<u>(98,699)</u>
	<u><u>167,374</u></u>	<u><u>(73,256)</u></u>
Cash Flow		
Net Revenue (Loss) for the Year	167,374	(73,256)
Changes in Pledges & Other Receivables	(214,419)	515,539
Changes in Value of Annuity Agreements	1,715	8,964
Changes in Payables	<u>(5,199)</u>	<u>3,813</u>
(Decrease) Increase in Cash	<u><u>(50,529)</u></u>	<u><u>455,060</u></u>

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15. Operating Leases

For the year ended December 31 expenses relating to operating leases are \$406,064 (2011 - \$359,444). The Festival is committed to the following operating lease payments for the Tom Patterson Theatre, rehearsal facilities, retail stores, office spaces and residential properties during the next five years:

<u>Year</u>	<u>Total</u>
	\$
2013	427,031
2014	165,417
2015	156,689
2016	170,397
2017	184,292

16. Credit Facilities

As at December 31 the Festival has an unsecured line of credit with a maximum limit of \$3,000,000 (2011 - \$3,000,000) bearing interest at prime. At year end no amounts were drawn against the line of credit. Also outstanding at the year end was a letter of credit in favour of the Canadian Actors' Equity Association in the amount of \$600,000.

17. Internally Restricted Net Assets

The internally restricted net assets entitled "stability" were initially established in 1996 for the purpose of supporting the Festival's operating activities in years of revenue shortfall. In 2011, the remaining balance was transferred to reduce the unrestricted deficit.

18. Management Estimates

The presentation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

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19. **Financial Instrument Risk**

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income investments. Interest rate risk is managed by utilizing short term and highly liquid investments.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its accounts and pledges receivable. Credit risk is the risk that the counterparty to the transaction will not pay. The majority of the organization's pledges receivable are from long-standing members and annual donors, and the organization monitors and follows up on outstanding pledges to ensure their collection.

Market Risk

Market risk is the risk that the value of investments may decline over a period of time due to economic changes or other events that impact large portions of the market. The organization addresses market risk through diversification of its investments in different business sectors and different sizes of investee companies. As well, the organization invests in short-term and highly liquid securities.