

Financial Statements

**Shaw Festival Theatre Endowment
Foundation**

November 30, 2015



INDEPENDENT AUDITORS' REPORT

To the Members of
Shaw Festival Theatre Endowment Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Shaw Festival Theatre Endowment Foundation**, which comprise the statement of financial position as at November 30, 2015, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of **Shaw Festival Theatre Endowment Foundation** as at November 30, 2015, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 25, 2016

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Shaw Festival Theatre Endowment Foundation

STATEMENT OF FINANCIAL POSITION

As at November 30

	2015	2014
	\$	\$
ASSETS		
Cash and cash equivalents	84,818	115,049
Accounts receivable	63,875	174,981
Advance to Shaw Festival Theatre, Canada [note 7[a]]	844,568	791,524
Investments [note 3]	21,777,149	19,683,330
Funds held in trust at Torys LLP [note 7[c]]	—	5,600,000
	22,770,410	26,364,884
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued liabilities	57,436	28,075
Total liabilities	57,436	28,075
Fund balances		
Unrestricted Fund	6,689	100,111
Restricted Fund	94,189	4,094,189
Endowment Fund [note 4]	22,612,096	22,142,509
Total fund balances	22,712,974	26,336,809
	22,770,410	26,364,884

See accompanying notes

On behalf of the Board:



Anthony Graham
Chair



Lorne Barclay
Vice-Chair

Shaw Festival Theatre Endowment Foundation

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

Year ended November 30

	<u>Unrestricted Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Donations	—	—	—	—	328,614	408,113	328,614	408,113
Grants	—	—	—	—	438,471	471,895	438,471	471,895
Investment income (loss), net of investment management fees <i>[notes 3 and 4]</i>	221,424	237,626	791,524	694,308	(297,498)	932,109	715,450	1,864,043
	221,424	237,626	791,524	694,308	469,587	1,812,117	1,482,535	2,744,051
EXPENSES								
Administration <i>[note 7[b]]</i>	314,846	218,601	—	—	—	—	314,846	218,601
Excess (deficiency) of revenue over expenses before grants	(93,422)	19,025	791,524	694,308	469,587	1,812,117	1,167,689	2,525,450
Grants								
Shaw Festival Theatre, Canada <i>[note 7[a]]</i>	—	—	791,524	694,308	—	—	791,524	694,308
Excess (deficiency) of revenue over expenses and grants for the year before the following	(93,422)	19,025	—	—	469,587	1,812,117	376,165	1,831,142
Transfer to Shaw Festival Theatre, Canada <i>[note 7[c]]</i>	—	—	4,000,000	—	—	—	4,000,000	—
Excess (deficiency) of revenue over expenses, grants and transfers for the year	(93,422)	19,025	(4,000,000)	—	469,587	1,812,117	(3,623,835)	1,831,142
Fund balances, beginning of year	100,111	81,086	4,094,189	660,939	22,142,509	23,763,642	26,336,809	24,505,667
Interfund transfers <i>[note 7[c]]</i>	—	—	—	3,433,250	—	(3,433,250)	—	—
Fund balances, end of year	6,689	100,111	94,189	4,094,189	22,612,096	22,142,509	22,712,974	26,336,809

See accompanying notes

Shaw Festival Theatre Endowment Foundation

STATEMENT OF CASH FLOWS

Year ended November 30

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses, grants and transfers for the year	(3,623,835)	1,831,142
Changes in non-cash working capital balances related to operations		
Accounts receivable	111,106	(57,726)
Advance to Shaw Festival Theatre, Canada	(53,044)	(97,216)
Accounts payable and accrued liabilities	29,361	13,075
Cash provided by (used in) operating activities	(3,536,412)	1,689,275
INVESTING ACTIVITIES		
Net decrease (increase) in investments	(2,093,819)	4,025,774
Funds held in trust at Torys LLP	5,600,000	(5,600,000)
Cash provided by (used in) investing activities	3,506,181	(1,574,226)
Net change in cash and cash equivalents during the year	(30,231)	115,049
Cash and cash equivalents, beginning of year	115,049	—
Cash and cash equivalents, end of year	84,818	115,049

See accompanying notes

Shaw Festival Theatre Endowment Foundation

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

1. PURPOSE OF THE ORGANIZATION

The Shaw Festival Theatre Endowment Foundation [the “Endowment Foundation”] was incorporated under the *Ontario Corporations Act* on November 22, 2002 as a corporation without share capital. The Endowment Foundation receives, accumulates and distributes funds and/or the income therefrom for the benefit of the Shaw Festival Theatre, Canada [the “Theatre”] or other organizations carrying on similar activities.

The Endowment Foundation is a registered charity designated as a public foundation under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada [“CPA Canada”] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below.

Fund accounting

For financial reporting purposes, the accounts of the Endowment Foundation have been classified into the following funds:

The Unrestricted Fund reports unrestricted resources available for any purpose.

The Restricted Fund reports resources that are to be used for specific purposes as specified by the donor or the Board of Directors.

The Endowment Fund reports resources where either external or internal restrictions require that the principal must be permanently maintained and administered in accordance with the organizations’ endowment management policies [note 4], except for the Ontario Arts Endowment Fund and Canadian Arts and Heritage Sustainability Fund as noted below.

The Ontario Arts Endowment Fund reports resources received under the program with the requirement that the original capital contribution be maintained in perpetuity, invested and the investment income be distributed as permitted in the grant agreements [note 5].

The Canadian Arts and Heritage Sustainability Fund reports resources received under the program with the requirement that the original capital contribution be maintained in perpetuity, invested and the investment income be distributed as permitted in the grant agreements [note 6].

Shaw Festival Theatre Endowment Foundation

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

Revenue recognition

The Endowment Foundation follows the restricted fund method of accounting for contributions, which include grants, bequests and other donations. Grants and bequests are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims.

Unrestricted contributions are recognized as revenue in the Unrestricted Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recorded in the Restricted Fund when initially recorded in the accounts. Externally restricted endowment contributions are recognized in the Endowment Fund when initially recorded in the accounts.

Investment income (loss) consists of interest, dividends, distributions from pooled funds, realized and unrealized gains and losses, net of investment management and custodian fees. Investment income (loss) earned on the Endowment Fund or Restricted Fund resources that must be spent on donor-restricted activities is recognized as revenue of the Restricted Fund. Investment income (loss) subject to donor restrictions stipulating that it be added to the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income (loss) earned on Endowment Fund, Restricted Fund and Unrestricted Fund resources is recognized as revenue of the Unrestricted Fund.

Financial instruments

Investments reported at fair value consist of equity instruments quoted in an active market and fixed income securities and equity instruments not quoted in an active market that the Endowment Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations and changes in fund balances in the period during which they are incurred.

Investments in fixed income investments and equity instruments not quoted in an active market not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at cost or amortized cost using the straight-line method, less any provision for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Shaw Festival Theatre Endowment Foundation

NOTES TO FINANCIAL STATEMENTS

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Grants

Grants distributed by the Endowment Foundation are recorded as an expense when approved and all conditions have been met by the grantee.

Contributed materials and services

Contributed materials and services are not recognized in the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with a short term to maturity of approximately three months or less from the date of purchase unless they are held for investment rather than liquidity purposes, in which case they are classified as investments.

3. INVESTMENTS

Investments consist of the following:

	Carrying value	2015		2014	
		\$	%	\$	%
Equities					
Canadian	Fair value	4,813,568	22	3,794,588	19
Foreign	Fair value	8,200,229	38	7,647,391	39
Bonds and debentures					
Canadian government	Fair value	4,646,977	21	6,310,547	32
Canadian corporate	Fair value	1,194,033	5	1,873,083	9
Promissory notes due from Shaw Festival Theatre, Canada [note 7[d]]	Cost	2,836,477	13	—	—
Cash and cash equivalents	Fair value	85,865	1	57,721	1
		21,777,149	100	19,683,330	100

During the year, fees of \$72,886 [2014 – \$91,578] were paid to investment managers and deducted from investment income.

Shaw Festival Theatre Endowment Foundation

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

4. ENDOWMENT FUND

The Endowment Fund consists of amounts whereby the original principal must be maintained in perpetuity and the investment income is used for donor-restricted activities and general support of the Theatre's operations.

The Endowment Fund is represented by the following:

	2015	2014
	\$	\$
Ontario Arts Endowment Fund [note 5]	6,492,784	6,660,709
Canadian Arts and Heritage Sustainability Fund [note 6]	7,340,476	6,959,397
Other Endowments		
Externally endowed, income restricted	8,778,836	8,522,403
	22,612,096	22,142,509

The Endowment Foundation established an investment policy with the objective of protecting the real value of the endowments by limiting the amount of income made available for distribution which allows the reinvestment of income not distributed. The policy is based on the anticipated long-term real rate of return on investments of 3.5% after inflation and allows for a distribution not to exceed 3.5% of the average fair market value of investment assets for the trailing eight quarters, unless determined otherwise by the specific endowment agreements. In addition, the Endowment Foundation has a policy of taking 1% of the average fair market value of endowment net assets for the trailing eight quarters as an amount available for administration costs. In any particular year, should net investment income be insufficient to fund the amount to be made available for distribution or the investment return is negative, the amount that is made available for distribution as required by the *Income Tax Act* (Canada) is recorded as a decrease in the Endowment Fund.

In fiscal 2015, \$715,450 of net investment income was earned on the Endowment Fund. In accordance with the Endowment Foundation's distribution policy, an amount of \$1,012,948 is allowable for distribution. Accordingly, investment income of \$791,524 was recorded in the Restricted Fund and \$221,424 was recorded in the Unrestricted Fund. The deficiency of the net investment income over amounts available for distribution of \$297,498 is shown as an investment loss in the Endowment Fund.

In fiscal 2014, \$1,864,043 of net investment income was earned on the Endowment Fund. In accordance with the Endowment Foundation's distribution policy, an amount of \$931,934 is allowable for distribution. Accordingly, investment income of \$694,308 was recorded in the

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Restricted Fund and \$237,626 was recorded in the Unrestricted Fund. The excess of the net investment income over amounts available for distribution of \$932,109 is recorded in the Endowment Fund.

5. ONTARIO ARTS ENDOWMENT FUND

Pursuant to an agreement with the Ontario Arts Council Foundation ["OACF"], the Endowment Foundation participates in a program whereby it is eligible to receive a contribution from the OACF that matches, subject to a maximum amount, qualifying funds raised. Under the agreement, the contributions of the Ontario Arts Endowment Fund ["OAEF"] and the matching amounts must be capitalized in perpetuity and investment income earned may be transferred to the Theatre for operating purposes. The agreement specifies that the Endowment Foundation use the same distribution policy it has for its own funds for the OAEF. Under the terms of the agreement an annual maximum of 1% of the market value of the fund at December 31 of the preceding year may be used for administering the fund. This amount is recorded as revenue in the Unrestricted Fund. Under the terms of the OACF agreement as amended on August 19, 2014, the Endowment Foundation has the ability to use accumulated funds in excess of the original capital *[note 7[c]]*.

6. CANADIAN ARTS AND HERITAGE SUSTAINABILITY FUND

Under the Canadian Arts and Heritage Sustainability Program ["CAHSP"], the Endowment Foundation participates in a program whereby it is eligible to receive a contribution from the CAHSP that matches, subject to a maximum amount, qualifying funds raised for endowment purposes. Under the agreement, the contributions of the CAHSP and the matching amounts must be capitalized in perpetuity and investment income earned may be transferred to the Theatre for operating purposes. The agreement specifies the grants shall be managed prudently in order to maintain and increase its value and accordingly, the Endowment Foundation has applied its distribution policy to the administration of this fund. In addition, under the terms of the agreement for each grant received, an annual distribution for administration costs is allowed in perpetuity. Up to 2010, these costs could not exceed 1% of each grant received per annum and since 2011, these costs cannot exceed 2% of each grant received per annum. This amount is recorded as revenue in the Unrestricted Fund.

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7. SHAW FESTIVAL THEATRE, CANADA

- [a] During the year, the Endowment Foundation granted \$791,524 [2014 – \$694,308] to the Theatre in support of 2015 operating and other specific purposes. In addition, a fiscal 2016 grant of \$844,568 [2015 – \$791,524] was provided to the Theatre as an advance and recorded as advance to Shaw Festival Theatre, Canada on the statement of financial position and changes in fund balances.
- [b] The Theatre provides certain administrative and fundraising services to the Endowment Foundation. In accordance with a policy adopted in 2010 by the Board, an administrative fee of 1% of the average fair market value of assets for the trailing eight quarters less direct administrative costs incurred by the Endowment Foundation is provided to the Theatre. During the year, administrative fees paid to the Theatre were \$211,644 [2014 – \$187,206], and are included in administration expenses on the statement of operations and changes in fund balances.
- [c] The Board of Governors of the Endowment Foundation, at a special meeting on August 18, 2014, resolved to approve a motion to transfer to the Theatre an amount of up to \$5,600,000 to facilitate the purchase of land in the town of Niagara-on-the-Lake. Total funds of \$5,600,000 were held in trust by Torys LLP until the closing date for the real estate transaction on December 29, 2014.

The contribution of \$4,000,000 consists of a Board-approved transfer of \$3,433,250 from the OAEF, which represents a portion of the appreciation of original capital allowed under the agreement plus an amount of \$566,750 from the Restricted Fund.

- [d] On December 30, 2014, the Endowment Foundation provided an \$800,000 promissory note to the Theatre for the purpose of acquiring land in the town of Niagara-on-the-Lake for future use. The note receivable matures on November 30, 2024 and bears interest at 3.5% until November 30, 2019, at which time the rate can be renegotiated. The note can be redeemed by the Theatre prior to maturity in whole or in part without notice or bonus. The note is secured by a charge on the land.

On October 19, 2015, the Endowment Foundation provided a \$2,000,000 promissory note to the Theatre. The note receivable bears interest at 3.5% and is repayable in three instalments on December 15 in 2016, 2017, and 2018. The instalments are \$500,000, \$750,000, and \$750,000, respectively. The note can be redeemed prior to maturity in whole or in part by the Theatre without notice or bonus. The note is secured by a charge on the land.

Shaw Festival Theatre Endowment Foundation

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

The promissory notes, plus accrued interest, are included in the investment balance *[note 3]* on the statement of financial position.

[e] Transactions with the Theatre are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

8. FINANCIAL INSTRUMENTS

The Endowment Foundation is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Endowment Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Interest rate risk

The Endowment Foundation is exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Endowment Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities.

9. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2015 financial statements.

