

Financial statements

Shaw Festival Theatre, Canada

November 30, 2016



Building a better
working world

Independent auditors' report

To the Members of
Shaw Festival Theatre, Canada

Report on the financial statements

We have audited the accompanying financial statements of **Shaw Festival Theatre, Canada**, which comprise the statement of financial position as at November 30, 2016 and the statements of operations, changes in net assets 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, Canada** as at November 30, 2016, 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
January 30, 2017

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Shaw Festival Theatre, Canada

Statement of financial position

As at November 30

	2016 \$	2015 \$
Assets [note 11]		
Current		
Cash and cash equivalents	110,138	329,837
Accounts receivable [notes 15 and 16]	1,469,196	776,701
Other assets [note 3]	879,900	1,051,421
Total current assets	2,459,234	2,157,959
Capital assets, net [note 4]	23,176,555	22,359,107
	25,635,789	24,517,066
Liabilities and net assets		
Current		
Bank loan [note 11]	1,235,000	—
Accounts payable and accrued liabilities [notes 5 and 8]	1,183,297	1,187,982
Deferred revenue [note 6]	1,618,667	1,570,973
Deferred contributions [note 7]	2,304,595	2,473,054
Current portion of long-term debt [note 8]	525,532	5,265
Total current liabilities	6,867,091	5,237,274
Long-term debt [note 8]	3,084,218	2,811,014
Deferred capital contributions [note 9]	12,067,972	12,572,726
Total liabilities	20,019,281	20,621,014
Commitments [note 12]		
Net assets		
Accumulated surplus from operations	2,616,508	2,896,052
Subject to Board restrictions [note 10]	1,000,000	1,000,000
Total net assets	3,616,508	3,896,052
	25,635,789	24,517,066

See accompanying notes

On behalf of the Board:



Governor



Governor

Shaw Festival Theatre, Canada

Statement of operations

Year ended November 30

	2016 \$	2015 \$
Earned revenues		
Ticket sales	14,545,644	14,333,806
Ancillary revenues	2,607,164	2,521,550
	17,152,808	16,855,356
Contributed revenues		
Fundraising <i>[notes 13, 14 and 15]</i>	7,250,380	6,814,562
Grants		
Ontario Arts Council	1,178,430	1,219,400
Canada Council	670,000	670,000
Shaw Festival Theatre Endowment Foundation <i>[note 14]</i>	844,569	791,524
Celebrate Ontario		
Production support	299,750	236,335
Marketing support	68,000	—
Ontario Cultural Attractions Fund, marketing support	105,000	—
Other marketing	50,000	—
Employment and other	60,847	54,520
Amortization of deferred capital contributions <i>[note 9]</i>	533,879	573,442
	11,060,855	10,359,783
Total revenues	28,213,663	27,215,139
Expenses		
Production and artistic	15,249,764	15,762,701
Marketing and sales	4,181,236	3,993,347
Facilities	1,859,100	1,872,263
Ancillary	1,120,563	1,138,891
Administration	3,858,144	3,428,034
Fundraising	1,738,765	1,849,727
Amortization of capital assets	853,054	856,805
Interest <i>[notes 8 and 11]</i>	132,581	73,844
Total expenses	28,993,207	28,975,612
Deficiency of revenue over expenses for the year	(779,544)	(1,760,473)

See accompanying notes

Shaw Festival Theatre, Canada

Statement of changes in net assets

Year ended November 30

	2016		2015	
	Accumulated surplus from operations	Subject to Board restrictions	Total	Total
	\$	\$	\$	\$
Balance, beginning of year	2,896,052	1,000,000	3,896,052	1,656,525
Deficiency of revenue over expenses for the year	(779,544)	—	(779,544)	(1,760,473)
Contribution received for land purchase [notes 9 and 14]	500,000	—	500,000	4,000,000
Balance, end of year	2,616,508	1,000,000	3,616,508	3,896,052

See accompanying notes

Shaw Festival Theatre, Canada

Statement of cash flows

Year ended November 30

	2016 \$	2015 \$
Operating activities		
Deficiency of revenue over expenses for the year	(779,544)	(1,760,473)
Add (deduct) non-cash items		
Amortization of capital assets	853,054	856,805
Amortization of deferred capital contributions	(533,879)	(573,442)
	<u>(460,369)</u>	<u>(1,477,110)</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	(692,495)	(390,094)
Other assets	171,521	89,000
Accounts payable and accrued liabilities	(4,685)	193,387
Deferred revenue	47,694	(95,293)
Deferred contributions	(168,459)	91,514
Cash used in operating activities	<u>(1,106,793)</u>	<u>(1,588,596)</u>
Investing activities		
Purchase of capital assets	(1,670,502)	(5,495,363)
Cash used in investing activities	<u>(1,670,502)</u>	<u>(5,495,363)</u>
Financing activities		
Proceeds from bank loan	1,235,000	—
Contributions received for:		
Capital asset purchases	29,125	115,821
Land purchases	500,000	4,000,000
Proceeds from long-term debt	800,000	2,811,014
Repayment of long-term debt	(6,529)	—
Cash provided by financing activities	<u>2,557,596</u>	<u>6,926,835</u>
Net decrease in cash and cash equivalents during the year	(219,699)	(157,124)
Cash and cash equivalents, beginning of year	329,837	486,961
Cash and cash equivalents, end of year	<u>110,138</u>	<u>329,837</u>

See accompanying notes

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

1. Description of organization

Shaw Festival Theatre, Canada [the "Theatre"] is a Canadian cultural institution operating to create intellectually challenging and entertaining theatre. The Theatre is incorporated without share capital under the laws of Ontario. The Theatre is a registered Canadian charitable organization and, as such, is exempt from income taxes under the *Income Tax Act* (Canada).

The financial statements of the Theatre do not include the net assets and results of operations of the Shaw Festival Theatre Endowment Foundation [the "Foundation"] [note 14] and Shaw Festival Foundation [note 15], as they are independent legal entities. The Foundation and Shaw Festival Foundation, at their discretion, provide funds to the Theatre each year.

During 2015, the Theatre set up a new, wholly owned holding company, Shaw Anchorage Land Limited, for the sole purpose of holding acquired land [notes 4 and 8]. Shaw Anchorage Land Limited is a for profit organization incorporated under the *Business Corporations Act* (Ontario) and has been consolidated in these financial statements.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below.

Revenue recognition

Ticket sales are recognized as revenue in the year in which the related performances occur. Advance ticket sales for the following year are included in deferred revenue. The Theatre includes a capital fee of \$3.50 on tickets sold over \$35.00. This amount is recorded in ticket sales on the statement of operations. The fee is used to provide ongoing state of good repair capital upgrades to the Theatre's infrastructure.

Ancillary revenues are recognized at point of sale or when the service has been performed.

The Theatre follows the deferral method of accounting for contributions, which include donations and government grants. Grants, bequests and donations related to specific events or programs are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recognized in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital asset.

Externally restricted capital contributions for land are recorded as a direct increase in net assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and term deposits with maturities of less than three months at the date of acquisition.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

Other assets

Costs directly related to the development of future performance seasons and future productions are presented as other assets when the Theatre can reliably demonstrate that there is a future economic benefit associated with these costs. These costs are expensed over their useful life, which is the year in which the performance season is presented or production is initially staged. Such costs are expensed immediately when there is insufficient evidence that the costs are recoverable. General costs unrelated to specific productions are expensed as incurred.

Capital assets

Purchased capital assets are stated at cost and contributed capital assets are recorded at fair value at the date of contribution. When an estimate of the fair value of a contributed capital asset cannot reasonably be made, the asset is recognized at nominal value. Amortization is provided on a straight-line basis using the following annual rates:

Tangible

Buildings and building improvements	2.5% or 10%
Stage and theatrical equipment	6.5% to 10%
Furniture, equipment and computers	10%
Vehicles	20%

Royalty rights recorded at a nominal amount are not amortized. Art is considered to have permanent value and is not amortized.

Foreign currency translation

The Canadian dollar is the functional currency of the Theatre. Monetary assets and liabilities of the Theatre that are denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the statement of financial position date. Non-monetary assets and liabilities are translated at the historical exchange rates. Revenues and expenses are translated at the average rate for the month during which the transaction occurred. Foreign exchange gains and losses are included in the statement of operations.

Allocation of expenses

The costs of each function include the costs of personnel and other expenses that are directly related to the function. Costs directly related to productions are applied and accounted for based on the accounting policy for other assets. General support, fundraising and other costs are not allocated.

Contributed services and materials

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, volunteer services are not recognized in these financial statements. The Theatre recognizes contributions of materials and services if a fair value can be reasonably estimated and they are used in the normal course of operations and would otherwise have been purchased.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

3. Other assets

Other assets consist of the following:

	2016	2015
	\$	\$
Costs of future productions	444,395	561,068
Prepaid expenses and other	435,505	490,353
	879,900	1,051,421

4. Capital assets

Capital assets consist of the following:

	2016		2015	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Tangible				
Land [notes 1 and 8]	7,972,997	—	7,472,997	—
Buildings and building improvements	28,039,617	14,333,888	27,622,587	13,878,356
Stage and theatrical equipment	4,476,781	3,534,605	4,672,619	3,847,389
Furniture, equipment and computers	2,825,176	2,378,792	3,573,364	3,355,128
Vehicles	150,920	103,657	180,095	143,688
Art	62,005	—	62,005	—
	43,527,496	20,350,942	43,583,667	21,224,561
Less accumulated amortization	(20,350,942)		(21,224,561)	
	23,176,554		22,359,106	
Intangible				
Royalty rights	1	—	1	—
Net book value	23,176,555		22,359,107	

During the year, fully amortized capital assets of \$1,726,673 [2015 – nil] were written off.

During 2011, the Theatre received the rights to royalties for productions of certain George Bernard Shaw plays and movies.

5. Government remittances payable

As at November 30, 2016, accounts payable and accrued liabilities include government remittances payable of \$53,612 [2015 – \$65,908].

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

6. Deferred revenue

Deferred revenue consists of the following:

	2016	2015
	\$	\$
Ticket sales	1,598,417	1,543,348
Ancillary	20,250	27,625
	1,618,667	1,570,973

Deferred ticket sales represent proceeds from the sale of tickets for the subsequent season.

Deferred ancillary revenues represent handbook revenue received for the subsequent season.

7. Deferred contributions

Deferred contributions represent grants and donations received by the Theatre in respect of operations for the subsequent season.

	2016	2015
	\$	\$
Balance, beginning of year	2,473,054	2,381,540
Amount of grants and donations received <i>[note 14]</i>	2,885,136	3,063,293
Amount recognized as revenue during the year	(3,053,595)	(2,971,779)
Balance, end of year	2,304,595	2,473,054

8. Long-term debt

On December 30, 2014, the Shaw Festival Theatre 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 is due on November 30, 2024 and bears interest at 3.5% until November 30, 2019, at which time the rate can be renegotiated. The note is secured by a charge on the land. Interest on the note for the year amounted to \$28,000 [2015 – \$19,983], was paid in November and included in interest expense in the statement of operations.

On October 19, 2015, the Foundation provided a \$2,000,000 promissory note to the Theatre. The note bears interest at 3.5% and is repayable in three instalments on December 15 in 2016, 2017 and 2018. The payment due on December 15, 2016 was extended into 2017. The instalments are \$500,000, \$750,000 and \$750,000, respectively. The note is secured by a charge on the land. During the year, interest of \$70,000 [2015 – \$8,247] was accrued on the note and is to be paid on December 15. This amount was included in accounts payable and accrued liabilities at year end.

The Theatre has a vehicle term loan, which matures on February 17, 2019 and bears interest at a rate of 3.02%. The loan is repayable in blended monthly installments of \$439. An amount of \$11,440 [2015 – \$16,279] was outstanding as at November 30, 2016, of which \$4,839 [2015 – \$5,265] is the current portion.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

On October 31, 2016, the Theatre acquired property in Niagara-on-the-Lake at 178 Victoria Street. The property's purpose is to provide subsidized housing for the Theatre's non-resident artists and creative people during each season. The property is included in capital assets at its acquired cost of \$1,052,283 [land \$500,000 and buildings \$552,283]. Bank financing with an interest rate of 3.55%, a 10% prepayment option and blended monthly payments of \$4,025 over 300 months was provided for \$800,000 of the acquisition cost. An amount of \$798,310 was outstanding as at November 30, 2016, of which \$20,693 is the current portion.

9. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenues in the statement of operations.

	2016 \$	2015 \$
Balance, beginning of year	12,572,726	13,030,347
Amortization of deferred capital contributions	(533,879)	(573,442)
Contributions received for capital asset purchases	29,125	115,821
Balance, end of year	12,067,972	12,572,726

During 2016, the Theatre entered into a contribution agreement with Canadian Heritage. Included in the agreement is an amount of \$500,000 for the acquisition of the 178 Victoria Street property [note 8]. The full amount of the grant has been allocated to land and is recorded as a direct increase to net assets.

As at November 30, 2016, unspent deferred capital contributions were \$35,432 [2015 – \$20,000].

10. Net assets subject to Board restrictions

Net assets subject to Board restrictions represent amounts received by the Theatre that have been restricted for specific purposes by the Board of Governors. In 2009, the Board of Governors approved the transfer of \$1,000,000 to net assets subject to Board restrictions. In 2014, the Board approved the use of net assets subject to Board restrictions as operating working capital.

11. Credit facilities

At year end, the Theatre had in place a \$1,700,000 revolving demand operating facility, which bears interest at prime plus 1.2% [2015 – 1.2%]. This facility can be drawn by way of bank overdraft or operating loans. As at November 30, 2016, \$1,235,000 [2015 – nil] has been drawn on this operating facility. In addition, the Theatre had in place a \$1,300,000 operating facility, which was available from June 29, 2016 to November 11, 2016. All other terms for this facility are consistent with the revolving line of credit.

The Theatre also has in place a \$500,000 revolving demand facility, which bears interest at prime plus 1.2% [2015 – 1.2%] and is only available from September 29 to November 20 inclusive in each year.

In addition, the Theatre has activated \$450,000 of a \$530,000 non-revolving demand credit facility, which bears interest at 1.8%, by way of letters of guarantee as security for obligations to the Canadian Actors' Equity Association during the season.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

The Theatre also has available a \$100,000 non-revolving demand facility by way of letters of guarantee, bearing interest at 2.0%, and letters of credit. No amounts have been drawn on this facility as at November 30, 2016 or 2015.

There is a general security agreement covering all assets of the Theatre in connection with these credit facilities. In addition, a \$10,000,000 freehold mortgage, constituting a second charge on certain Theatre properties, has been provided in support of the borrowings.

12. Commitments

[a] The Theatre is committed to the following operating lease payments for the Court House Theatre, storage facilities, office equipment and automobiles during the next six years:

	\$
2017	245,980
2018	198,422
2019	184,895
2020	42,826
2021	11,376
2022	948
	<u>684,447</u>

[b] The Theatre has entered into various agreements with artists for services to be performed in fiscal 2017, aggregating \$153,428.

13. Fundraising

Donations in-kind of \$25,478 [2015 – \$60,059] were received and recorded in the accounts. These donations include production props and consumable supplies.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

14. Shaw Festival Theatre Endowment Foundation

As at November 30, 2016, the Foundation has total fund balances at market value of approximately \$24,500,000 [2015 – \$22,700,000].

The Governors of the Foundation, at their discretion, can provide support to the Theatre as determined by restrictions on the various funds comprising the net assets.

The Foundation provided the Theatre with a grant of \$844,569 [2015 – \$791,524] in support of 2016 operations, which was received prior to the start of the year and recorded as deferred revenue as at November 30, 2015. In addition, a grant of \$795,526 was received in fiscal 2016 in support of 2017 operations and recorded as deferred revenue as at November 30, 2016 [note 7].

In 2015, the Foundation provided the Theatre with a \$4,000,000 contribution for the purchase of land and provided financing for the land and Theatre operations [note 8].

The Theatre received from the Foundation \$200,038 [2015 – \$211,644] for fundraising and administrative services provided on its behalf. This revenue is included in fundraising on the statement of operations.

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

15. Shaw Festival Foundation

Shaw Festival Foundation is a separate United States not-for-profit organization incorporated under the laws of New York State. Its purpose is to solicit, hold, invest, reinvest and administer any gifts, bequests, grants, contributions, benefits of trusts (but not to act as trustee of any trust) and property of any sort, without limitation as to amount or value, from the public generally; and to expend, contribute, disburse, and otherwise dispose of its money, income and other property by making grants and contributions to, and cooperating with and otherwise voluntarily financially assisting any other corporation, foundation, agency, organization, institution, fund, trust or community chest, whether now existing or hereafter established, organized and operated exclusively for charitable, scientific, literary or educational purposes. Shaw Festival Foundation can issue US tax receipts and is exempt from federal and state income taxes in the United States of America.

The Shaw Festival Foundation provides an annual grant to the Theatre, which is included in fundraising revenue. During 2016, an amount of \$1,361,460 [2015 – \$1,285,000] was granted to the Theatre, of which \$315,240 [2015 – \$450,416] remained outstanding and is included in accounts receivable on the statement of financial position.

16. Accounts receivable

Included in accounts receivable is \$395,000 [2015 – nil] representing the estimated outstanding payments with respect to two [2015 – nil] bequests.

Shaw Festival Theatre, Canada

Notes to financial statements

November 30, 2016

17. Financial instruments

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Theatre is exposed to foreign currency risk with respect to cash and cash equivalents, accounts receivable and accounts payable denominated in foreign currencies because of fluctuations in the relative value of foreign currencies against the Canadian dollar.

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 Theatre is exposed to credit risk with respect to its accounts receivable.

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 Theatre is exposed to interest rate risk with respect to its operating line of credit since the interest rate is linked to the bank's prime rate, which changes from time to time.

Liquidity risk

Liquidity risk is the risk that the Theatre will encounter difficulty in meeting obligations associated with financial liabilities. The Theatre is exposed to the risk that it will encounter difficulty in meeting obligations in connection with its bank loan, long-term debt and accounts payable and accrued liabilities.

18. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2016 financial statements.

