

Shaw Festival Theatre Endowment Foundation

Financial statements
December 31, 2017



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 December 31, 2017, and the statements of operations and changes in fund balances and cash flows for the period 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 December 31, 2017, and the results of its operations and its cash flows for the period 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 16, 2018

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Shaw Festival Theatre Endowment Foundation

Statement of financial position

As at

	December 31, 2017 \$	November 30, 2016 \$
Assets		
Cash and cash equivalents	75,653	85,381
Accounts receivable	70,082	56,250
Advance to Shaw Festival Theatre, Canada [note 7[a]]	850,476	795,526
Investments [note 3]	25,991,053	23,643,167
	26,987,264	24,580,324
Liabilities and fund balances		
Liabilities		
Accounts payable and accrued liabilities	18,340	37,743
Total liabilities	18,340	37,743
Fund balances		
Unrestricted Fund	17,548	17,130
Restricted Fund	1,005,671	94,189
Endowment Fund [note 4]	25,945,705	24,431,262
Total fund balances	26,968,924	24,542,581
	26,987,264	24,580,324

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

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$
Revenue								
Donations	—	—	900,000	—	957,185	314,758	1,857,185	314,758
Grants	—	—	—	—	279,712	328,940	279,712	328,940
Investment income, net of investment management fees [notes 3[b] and 4]	227,085	233,538	807,008	844,568	1,477,546	1,175,468	2,511,639	2,253,574
	227,085	233,538	1,707,008	844,568	2,714,443	1,819,166	4,648,536	2,897,272
Expenses								
Administration [note 7[b]]	226,667	223,097	—	—	—	—	226,667	223,097
Excess of revenue over expenses before distributions	418	10,441	1,707,008	844,568	2,714,443	1,819,166	4,421,869	2,674,175
Distributions								
Shaw Festival Theatre, Canada [note 7[a]]	—	—	1,995,526	844,568	—	—	1,995,526	844,568
Excess (deficiency) of revenue over expenses and distributions for the period	418	10,441	(288,518)	—	2,714,443	1,819,166	2,426,343	1,829,607
Fund balances, beginning of period	17,130	6,689	94,189	94,189	24,431,262	22,612,096	24,542,581	22,712,974
Interfund transfers [note 4]	—	—	1,200,000	—	(1,200,000)	—	—	—
Fund balances, end of period	17,548	17,130	1,005,671	94,189	25,945,705	24,431,262	26,968,924	24,542,581

See accompanying notes

Shaw Festival Theatre Endowment Foundation

Statement of cash flows

	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$
Operating activities		
Excess of revenue over expenses and distributions for the period	2,426,343	1,829,607
Changes in non-cash working capital balances related to operations		
Accounts receivable	(13,832)	7,625
Advance to Shaw Festival Theatre, Canada	(54,950)	49,042
Accounts payable and accrued liabilities	(19,403)	(19,693)
Cash provided by operating activities	2,338,158	1,866,581
Investing activities		
Net increase in investments	(2,347,886)	(1,866,018)
Cash used in investing activities	(2,347,886)	(1,866,018)
Net change in cash during the period	(9,728)	563
Cash and cash equivalents, beginning of period	85,381	84,818
Cash and cash equivalents, end of period	75,653	85,381

See accompanying notes

Shaw Festival Theatre Endowment Foundation

Notes to financial statements

December 31, 2017

1. Purpose of the organization

The Shaw Festival Theatre Endowment Foundation [the “Endowment Foundation”] was incorporated under the *Corporations Act* (Ontario) on November 22, 2002 as a corporation without share capital. The Endowment Foundation’s objectives are to receive, hold and maintain one or more funds and to transfer from time to time all or part of the income therefrom and the capital thereof [unless endowed by the contributor] for the benefit of the Shaw Festival Theatre, Canada [the “Theatre”].

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

During the period ended December 31, 2017, the Endowment Foundation changed its year-end from November 30 to December 31. The information presented in these financial statements includes the thirteen months of the current fiscal period as compared to the twelve-month fiscal period ended on November 30, 2016. As a result, the information contained in these financial statements is not comparable to previously reported periods.

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 Corporations”, 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 presentation 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 Governors.

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 Endowment Foundation’s 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 Cultural Investment Fund, Endowment Incentives Component reports resources received under the program with the requirement that the capital contribution matched 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

December 31, 2017

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 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 securities 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.

Distributions

Distributions by the Endowment Foundation are recorded as an expense when approved by the Board of Governors and all conditions have been met by the grantee.

Contributed materials and services

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

Shaw Festival Theatre Endowment Foundation

Notes to financial statements

December 31, 2017

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 and investment income

[a] Investments consist of the following:

	Carrying value	December 31, 2017		November 30, 2016	
		\$	%	\$	%
Equities					
Canadian	Fair value	8,198,837	32	7,052,979	30
Foreign	Fair value	10,995,144	42	8,732,592	37
Bonds and debentures					
Canadian government	Fair value	3,954,798	15	3,908,954	16
Canadian corporate	Fair value	733,466	3	1,050,865	4
Promissory notes due from Shaw Festival Theatre, Canada [note 7[c]]	Cost	750,000	3	2,870,000	12
Cash and cash equivalents	Fair value	1,358,808	5	27,777	1
		25,991,053	100	23,643,167	100

[b] Investment income, net of investment management fees, consists of the following:

	Period ended December 31, 2017 \$	Year ended November 30, 2016 \$
Realized gains (losses), net	539,998	657,699
Unrealized gains (losses), net	1,264,232	1,077,427
Dividends	605,043	383,946
Interest	224,416	237,787
Total investment income before investment management fees	2,633,689	2,356,859
Investment management fees	(122,050)	(103,285)
	2,511,639	2,253,574

Shaw Festival Theatre Endowment Foundation

Notes to financial statements

December 31, 2017

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:

	December 31, 2017 \$	November 30, 2016 \$
Ontario Arts Endowment Fund <i>[note 5]</i>	6,883,547	6,813,390
Canadian Arts and Heritage Sustainability Fund <i>[note 6]</i>	8,426,998	8,062,428
Other endowments		
Externally endowed, income restricted	10,635,160	9,555,444
	25,945,705	24,431,262

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 that 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 fundraising and 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 2017, \$2,500,156 of net investment income was earned on the Endowment Fund. In accordance with the Endowment Foundation's distribution policy, an amount of \$1,022,610 is allowable for distribution. Accordingly, investment income of \$795,525 was recorded in the Restricted Fund and \$227,085 was recorded in the Unrestricted Fund. The excess net investment income over amounts available for distribution of \$1,477,546 is recorded as investment income in the Endowment Fund.

The Board of Governors of the Endowment Foundation, at a special meeting held on June 1, 2017, resolved to approve a motion to transfer to the Theatre an amount of \$1,200,000 to improve the working capital position for the Theatre. This amount is recorded as part of the distributions of the Theatre *[note 7[a]]*. To facilitate the distribution, \$1,200,000 has been recorded as a transfer from the Endowment Fund to the Restricted Fund, which represents a portion of the appreciation of original capital under each of the respective endowed funds on a pro-rated basis.

In fiscal 2016, \$2,253,574 of net investment income was earned on the Endowment Fund. In accordance with the Endowment Foundation's distribution policy, an amount of \$1,078,106 is allowable for distribution. Accordingly, investment income of \$844,568 was recorded in the Restricted Fund and \$233,538 was recorded in the Unrestricted Fund. The excess net investment income over amounts available for distribution of \$1,175,468 is shown as investment income in the Endowment Fund.

Shaw Festival Theatre Endowment Foundation

Notes to financial statements

December 31, 2017

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 OAEF at December 31 of the preceding year may be used for administering the OAEF. 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.

6. Canadian Arts and Heritage Cultural Investment Fund

Under the Canadian Arts and Heritage Cultural Investment Fund, Endowment Incentives Component ["CAHCIF"], the Endowment Foundation participates in a program whereby it is eligible to receive a contribution from the CAHCIF that matches, subject to a maximum amount, qualifying funds raised for endowment purposes. Under the agreement, the contributions of the CAHCIF 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. The Endowment Foundation applies its policy of taking 1% of the average fair market value of the investment assets for the trailing eight quarters. This amount is recorded as revenue in the Unrestricted Fund.

7. Shaw Festival Theatre, Canada

- [a] During the period ended December 31, 2017, the Endowment Foundation distributed \$1,995,526 [year ended November 30, 2016 – \$844,568] to the Theatre in support of 2017 operating and other specific purposes [note 4]. The distribution is recorded in the statement of operations and changes in fund balances. In addition, a fiscal 2018 distribution of \$850,476 [2017 – \$795,526] was provided to the Theatre as an advance and recorded as advance to Shaw Festival Theatre, Canada on the statement of financial position.
- [b] The Theatre provides fundraising services to the Endowment Foundation. In accordance with a policy adopted in 2010 by the Board of Governors, a 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, fees paid to the Theatre were \$200,000 [November 30, 2016 – \$200,038] and are included in administration expenses on the statement of operations and changes in fund balances.

Shaw Festival Theatre Endowment Foundation

Notes to financial statements

December 31, 2017

- [c] On December 30, 2014, the Endowment Foundation provided a \$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 promissory note had a maturity date of November 30, 2024 and bore interest at 3.5%. The note was secured by a charge on the land. The note can be redeemed by the Theatre prior to maturity in whole or in part without notice or bonus. On November 29, 2017, the Theatre retired the \$800,000 promissory note receivable plus accrued interest in full.

On October 19, 2015, the Endowment Foundation provided a \$2,000,000 promissory note to the Theatre. The promissory note 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. During the period, the Theatre repaid \$500,000 that was due in 2016 and \$750,000 that was due in 2017 plus interest. At the meeting on October 19, 2017, the Board of Governors agreed to amend that the promissory note's final payment is due January 15, 2019. The note can be redeemed prior to maturity in whole or in part by the Theatre without notice or bonus.

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

- [d] 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.