

# Shaw Festival Theatre Endowment Foundation

Financial statements  
December 31, 2018



# Independent auditor's report

To the Members of  
**Shaw Festival Theatre Endowment Foundation**

## Opinion

We have audited the financial statements of **Shaw Festival Theatre Endowment Foundation** [the "Endowment Foundation"], which comprise the statement of financial position as at December 31, 2018 and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2018 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.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.



### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **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 24, 2019

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



# Shaw Festival Theatre Endowment Foundation

## Statement of financial position

As at December 31

	2018 \$	2017 \$
<b>Assets</b>		
Cash and cash equivalents	155,914	75,653
Accounts receivable [note 9]	387,356	70,082
Advance to Shaw Festival Theatre, Canada [note 8[a]]	1,184,190	850,476
Investments, fair value [note 3]	24,914,064	25,241,053
Investments, cost [note 3a]	—	750,000
	<b>26,641,524</b>	<b>26,987,264</b>
<b>Liabilities and fund balances</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	18,609	18,340
<b>Total liabilities</b>	<b>18,609</b>	<b>18,340</b>
<b>Fund balances</b>		
Unrestricted Fund	19,465	17,548
Restricted Fund	1,108,203	1,005,671
Endowment Fund [note 4]	25,495,247	25,945,705
<b>Total fund balances</b>	<b>26,622,915</b>	<b>26,968,924</b>
	<b>26,641,524</b>	<b>26,987,264</b>

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	
	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$
<b>Revenue</b>								
Donations	—	—	635,000	900,000	936,346	957,185	1,571,346	1,857,185
Grants	—	—	—	—	1,111,666	279,712	1,111,666	279,712
Investment income (loss), net of investment management fees <i>[notes 3[b] and 4]</i>	—	227,085	(39,417)	807,008	(1,897,000)	1,477,546	(1,936,417)	2,511,639
	—	227,085	595,583	1,707,008	151,012	2,714,443	746,595	4,648,536
<b>Expenses</b>								
Administration <i>[note 8[b]]</i>	242,128	226,667	—	—	—	—	242,128	226,667
<b>Excess (deficiency) of revenue over expenses before distributions</b>	(242,128)	418	595,583	1,707,008	151,012	2,714,443	504,467	4,421,869
<b>Distributions</b>								
Shaw Festival Theatre, Canada <i>[note 8[a]]</i>	—	—	850,476	1,995,526	—	—	850,476	1,995,526
<b>Excess (deficiency) of revenue over expenses and distributions for the period</b>	(242,128)	418	(254,893)	(288,518)	151,012	2,714,443	(346,009)	2,426,343
Fund balances, beginning of period	17,548	17,130	1,005,671	94,189	25,945,705	24,431,262	26,968,924	24,542,581
Interfund transfers <i>[note 7]</i>	244,045	—	357,425	1,200,000	(601,470)	(1,200,000)	—	—
<b>Fund balances, end of period</b>	19,465	17,548	1,108,203	1,005,671	25,495,247	25,945,705	26,622,915	26,968,924

See accompanying notes

## Shaw Festival Theatre Endowment Foundation

### Statement of cash flows

	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses and distributions for the period	(346,009)	2,426,343
Changes in non-cash working capital balances related to operations		
Accounts receivable	(317,274)	(13,832)
Advance to Shaw Festival Theatre, Canada	(333,714)	(54,950)
Accounts payable and accrued liabilities	269	(19,403)
<b>Cash (used in) provided by operating activities</b>	<b>(966,728)</b>	<b>2,338,158</b>
<b>Investing activities</b>		
Net decrease (increase) in investments	1,076,989	(2,347,886)
<b>Cash provided by (used in) investing activities</b>	<b>1,076,989</b>	<b>(2,347,886)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>80,261</b>	<b>(9,728)</b>
Cash and cash equivalents, beginning of period	75,653	85,381
<b>Cash and cash equivalents, end of period</b>	<b>155,914</b>	<b>75,653</b>

See accompanying notes

# Shaw Festival Theatre Endowment Foundation

## Notes to financial statements

December 31, 2018

### 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 previous fiscal period as compared to the twelve-month fiscal period ended on December 31, 2018. 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 [“OAEF”] and Canadian Arts and Heritage Sustainability Fund [“CAHCIF”] as noted below.

The OAEF reports resources received under the program with the requirement that the original capital contribution be maintained in perpetuity, invested and distributions made as permitted in the grant agreements [note 5].

The CAHCIF, Endowment Incentives Component reports resources received under the program with the requirement that the capital contribution matched be maintained in perpetuity, invested and distributions made as permitted in the grant agreements [note 6].

## **Shaw Festival Theatre Endowment Foundation**

### **Notes to financial statements**

December 31, 2018

#### **Revenue recognition**

The Endowment Foundation follows the restricted fund method of accounting for contributions, which include grants, bequests and other donations. Contributions are recognized 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 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.

#### **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.



## Shaw Festival Theatre Endowment Foundation

### Notes to financial statements

December 31, 2018

#### 3. Investments and investment income

[a] Investments consist of the following:

	Carrying value	2018		2017	
		\$	%	\$	%
Equities					
Canadian	Fair value	7,224,325	29	8,198,837	32
Foreign	Fair value	10,226,681	41	10,995,144	42
Bonds and debentures					
Canadian government	Fair value	3,833,305	15	3,954,798	15
Canadian corporate	Fair value	1,037,627	4	733,466	3
Cash and cash equivalents					
Cash	Fair value	53,312	<1	53,906	<1
Cash equivalents	Fair value	2,538,814	10	1,304,902	5
		<b>24,914,064</b>	<b>100</b>	<b>25,241,053</b>	<b>97</b>
Promissory notes due from Shaw Festival Theatre, Canada [note 7(c)]	Cost	—	—	750,000	3
		<b>24,914,064</b>	<b>100</b>	<b>25,991,053</b>	<b>100</b>

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

	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$
Realized gains (losses), net	654,330	539,998
Unrealized gains (losses), net	(3,308,049)	1,264,232
Dividends	620,154	605,043
Interest	220,375	224,416
Total investment income (loss) before investment management fees	(1,813,190)	2,633,689
Investment management fees	(123,227)	(122,050)
	<b>(1,936,417)</b>	<b>2,511,639</b>

## Shaw Festival Theatre Endowment Foundation

### Notes to financial statements

December 31, 2018

#### 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:

	2018	2017
	\$	\$
Ontario Arts Endowment Fund [note 5]	6,142,333	6,883,547
Canadian Arts and Heritage Sustainability Fund [note 6]	8,546,033	8,426,998
Other endowments		
Externally endowed, income restricted	10,806,881	10,635,160
	<b>25,495,247</b>	<b>25,945,705</b>

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 2018, an investment loss of \$1,897,000 was earned in the Endowment Fund. In accordance with the Endowment Foundation's distribution policy, an amount of \$1,094,521 is allowable for distribution and in a year of loss is recorded as a transfer from the endowment fund. Accordingly, the amount made available for spending of \$850,476 was transferred from the Endowment Fund to the Restricted Fund and the 1% made available for fundraising and administrative costs of \$244,045 was transferred from the Endowment Fund to the Unrestricted Fund [note 7].

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 shown as investment income in the Endowment Fund.

## **Shaw Festival Theatre Endowment Foundation**

### **Notes to financial statements**

December 31, 2018

#### **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 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, 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.

## Shaw Festival Theatre Endowment Foundation

### Notes to financial statements

December 31, 2018

#### 7. Interfund transfers

Transfers between funds consist of the following:

	Unrestricted Fund		Restricted Fund		Endowment Fund	
	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$	Year ended December 31, 2018 \$	Period ended December 31, 2017 \$
Allocation of investment income in accordance with Board policy [note 4]	244,045	—	850,476	—	(1,094,521)	—
Transfer for matching gifts [below]	—	—	(493,051)	—	493,051	—
Board approved transfers [below]	—	—	—	1,200,000	—	(1,200,000)
	<b>244,045</b>	—	<b>357,425</b>	1,200,000	<b>601,470</b>	(1,200,000)

Certain gifts within the restricted fund have been designated by the contributor to be used as matching contributions, to the extent allowed, for the Endowment Foundation to receive contributions in accordance with the agreement with the Canadian Arts and Heritage Cultural Investment Fund [note 6]. In 2018, \$493,051 was transferred from the restricted fund to the endowment fund for this purpose.

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 8[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.

#### 8. Shaw Festival Theatre, Canada

[a] During the year ended December 31, 2018, the Endowment Foundation distributed \$850,476 [Period ended December 31, 2017 – \$1,995,526] to the Theatre in support of 2018 operating and other specific purposes [note 7]. The distribution is recorded in the statement of operations and changes in fund balances. In addition, a fiscal 2019 distribution of \$1,184,190 [2018 – \$850,476] 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 \$214,000 [2017 – \$200,000] 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, 2018

[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. 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 was repayable in three instalments on December 15 in 2016, 2017, and 2018 and bore interest at 3.5%. The instalments were \$500,000, \$750,000, and \$750,000, respectively. 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. On December 14, 2018, the Theatre retired the note receivable plus accrued interest in full.

Subsequent to year end, the Endowment Foundation provided a \$750,000 promissory note to the Theatre. The note bears interest at 4% and is repayable in five instalments on December 15, 2019, December 15, 2020, December 15, 2021, December 15, 2022 and December 15, 2023 for the final payment for the balance of principal and interest.

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.

#### 9. Accounts receivable

Included in accounts receivable are donations receivable of \$350,350 [2017 – \$ 37,549].

#### 10. 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.

#### 11. Comparative financial statements

Certain comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2018 financial statements.