

Financial statements

Shaw Festival Theatre, Canada

December 31, 2017



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 December 31, 2017 and the statements of operations, changes in net assets (deficit) and cash flows for the 13-month 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, Canada** as at December 31, 2017, and the results of its operations and its cash flows for the 13-month 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
February 20, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Shaw Festival Theatre, Canada

Statement of financial position

As at

	December 31, 2017 \$	November 30, 2016 \$
Assets [note 11]		
Current		
Cash	2,878,649	110,138
Accounts receivable [notes 15 and 16]	1,055,384	1,469,196
Other assets [note 3]	1,143,401	879,900
Total current assets	5,077,434	2,459,234
Capital assets, net [note 4]	19,965,526	23,176,555
	25,042,960	25,635,789
Liabilities and net assets		
Current		
Bank loan [note 11]	—	1,235,000
Accounts payable and accrued liabilities [notes 5 and 8[c]]	1,207,896	1,183,297
Deferred revenue [note 6]	4,136,719	1,618,667
Deferred contributions [note 7]	2,170,247	2,304,595
Current portion of long-term debt [note 8]	28,416	525,532
Total current liabilities	7,543,278	6,867,091
Long-term debt [note 8]	1,543,152	3,084,218
Deferred capital contributions [note 9]	17,299,338	12,067,972
Total liabilities	26,385,768	20,019,281
Commitments [note 12]		
Net assets (deficit)		
Accumulated surplus (deficit) from operations	(1,342,808)	2,616,508
Subject to Board restrictions [note 10]	—	1,000,000
Total net assets (deficit)	(1,342,808)	3,616,508
	25,042,960	25,635,789

See accompanying notes

On behalf of the Board:



Governor



Governor

Shaw Festival Theatre, Canada

Statement of operations

	13-month period ended December 31, 2017 \$	Year ended November 30, 2017 \$	Year ended November 30, 2016 \$
	<i>[unaudited]</i>		
Earned revenues			
Ticket sales	14,136,862	14,083,140	14,545,644
Ancillary revenues	2,752,796	2,622,265	2,607,164
	16,889,658	16,705,405	17,152,808
Contributed revenues			
Fundraising			
Fundraising <i>[notes 13 and 15]</i>	7,432,874	6,773,252	7,050,342
Shaw Festival Theatre Endowment Foundation <i>[note 14]</i>	2,195,526	2,195,526	1,044,607
Amortization of deferred capital contributions <i>[note 9]</i>	522,457	532,000	533,879
Total fundraising	10,150,857	9,500,778	8,628,828
Grants			
Ontario Arts Council	1,158,430	1,158,430	1,178,430
Canada Council	1,340,000	1,340,000	670,000
Celebrate Ontario			
Production support	94,317	94,317	299,750
Marketing support	—	—	68,000
Ontario Cultural Attractions Fund, marketing support	—	—	105,000
Other marketing	—	—	50,000
Employment and other	75,858	75,858	60,847
Total grants	2,668,605	2,668,605	2,432,027
Total contributed revenues	12,819,462	12,169,383	11,060,855
Total revenues	29,709,120	28,874,788	28,213,663
Expenses			
Production and artistic	16,036,801	15,386,486	15,089,274
Marketing, sales and audience services	4,902,303	4,346,368	4,341,726
Facilities	1,901,479	1,763,919	1,858,674
Ancillary	1,130,329	1,171,372	1,118,229
Administration	3,711,596	3,382,468	3,852,860
Fundraising	1,778,926	1,734,610	1,738,765
Amortization of capital assets	936,149	862,894	853,054
Interest <i>[notes 8 and 11]</i>	201,767	162,171	140,625
Total expenses	30,599,350	28,810,288	28,993,207
Excess (deficiency) of revenue over expenses before the following	(890,230)	64,500	(779,544)
Loss on sale of capital assets <i>[note 4]</i>	(362,086)	(366,369)	—
Deficiency of revenue over expenses for the period	(1,252,316)	(301,869)	(779,544)

See accompanying notes

Shaw Festival Theatre, Canada

Statement of changes in net assets (deficit)

	13-month period ended December 31, 2017			Year ended November 30, 2016
	Accumulated surplus (deficit) from operations \$	Subject to Board restrictions \$	Total \$	Total \$
Balance, beginning of period	2,616,508	1,000,000	3,616,508	3,896,052
Deficiency of revenue over expenses for the period	(1,252,316)	—	(1,252,316)	(779,544)
Removal of Board restriction <i>[note 10]</i>	1,000,000	(1,000,000)	—	—
Contribution received for land purchase <i>[note 9]</i>	—	—	—	500,000
Transfer to deferred capital contributions <i>[note 14]</i>	(3,707,000)	—	(3,707,000)	—
Balance, end of period	(1,342,808)	—	(1,342,808)	3,616,508

See accompanying notes

Shaw Festival Theatre, Canada

Statement of cash flows

	13-month period ended December 31, 2017 \$	Year ended November 30, 2016 \$
Operating activities		
Deficiency of revenue over expenses for the period	(1,252,316)	(779,544)
Add (deduct) non-cash items		
Amortization of capital assets	936,149	853,054
Amortization of deferred capital contributions	(522,457)	(533,879)
Loss on sale of capital assets	362,086	—
	<u>(476,538)</u>	(460,369)
Changes in non-cash working capital balances related to operations		
Accounts receivable	413,812	(692,495)
Other assets	(263,501)	171,521
Accounts payable and accrued liabilities	24,599	(4,685)
Deferred revenue	2,518,052	47,694
Deferred contributions	(134,348)	(168,459)
Cash provided by (used in) operating activities	<u>2,082,076</u>	(1,106,793)
Investing activities		
Purchase of capital assets	(2,580,489)	(1,670,502)
Cash used in investing activities	<u>(2,580,489)</u>	(1,670,502)
Financing activities		
Proceeds from bank loan	—	1,235,000
Repayment of bank loan	(1,235,000)	—
Proceeds from sale of capital assets	4,493,283	—
Contributions received for:		
Capital asset purchases	2,046,823	29,125
Land purchases	—	500,000
Proceeds from long-term debt	41,318	800,000
Repayment of long-term debt	(2,079,500)	(6,529)
Cash provided by financing activities	<u>3,266,924</u>	2,557,596
Net increase (decrease) in cash during the period	<u>2,768,511</u>	(219,699)
Cash, beginning of period	110,138	329,837
Cash, end of period	<u>2,878,649</u>	110,138

See accompanying notes

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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 [note 8[b]]. Shaw Anchorage Land Limited is a for-profit organization incorporated under the *Business Corporations Act* (Ontario) and has been consolidated in these financial statements.

During the period ended December 31, 2017, the Theatre 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 12-month fiscal period ended November 30, 2016. As a result of the change in year-end, the audited information contained in these financial statements is not comparable to previously reported periods and as such, the unaudited 12-month information for the year ended November 30, 2017 has been included in the statement of operations for information.

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" and Part II of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Private Enterprises" of which Part III does not apply, 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.

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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.

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%

Amortization of capital assets begins when they are put into use.

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 an 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

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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.

3. Other assets

Other assets consist of the following:

	December 31, 2017	November 30, 2016
	\$	\$
Costs of future productions	698,450	527,506
Prepaid expenses and inventories	444,951	352,394
	1,143,401	879,900

4. Capital assets

Capital assets consist of the following:

	December 31, 2017		November 30, 2016	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Tangible				
Land [notes 1 and 8]	3,127,329	—	7,972,997	—
Buildings and building improvements	28,028,768	14,906,044	28,039,617	14,333,888
Stage and theatrical equipment	4,415,490	3,512,160	4,476,781	3,534,605
Furniture, equipment and computers	2,744,342	2,425,399	2,825,176	2,378,792
Vehicles [note 8]	197,340	107,404	150,920	103,657
Art	62,005	—	62,005	—
	38,575,274	20,951,007	43,527,496	20,350,942
Less accumulated amortization	20,951,007		20,350,942	
	17,624,267		23,176,554	
Capital assets not yet in use	2,341,258		—	
Intangible				
Royalty rights	1		1	
Net book value	19,965,526		23,176,555	

During the period, fully amortized capital assets of \$336,084 [November 30, 2016 – \$1,726,673] were written off.

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

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

In December 2014, the Theatre purchased land from LAIS Hotel Properties Limited ["LAIS"] under an agreement between the Theatre and LAIS that LAIS will retain the right to repurchase the property for a purchase price of \$4,507,000 in the event that the Theatre does not build a theatre on the site. During the period, the Theatre made the decision to not build a theatre on the site and sold the property back to LAIS on November 28, 2017. As a result of this sale, the Theatre removed capitalized costs related to the land in the amount of \$4,845,668 from capital assets, which resulted in a loss of \$338,668 recorded within the loss on sale of capital assets line in the statement of operations.

5. Government remittances payable

As at December 31, 2017, accounts payable and accrued liabilities include government remittances payable of \$75,890 [November 30, 2016 – \$53,612].

6. Deferred revenue

Deferred revenue consists of the following:

	December 31, 2017	November 30, 2016
	\$	\$
Ticket sales	4,077,211	1,598,417
Ancillary	59,508	20,250
	4,136,719	1,618,667

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

Deferred ancillary revenues represent advances received for touring performances in the subsequent season.

7. Deferred contributions

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

	December 31, 2017	November 30, 2016
	\$	\$
Balance, beginning of period	2,304,595	2,473,054
Amount of grants and donations received [note 14]	3,332,783	2,885,136
Amount recognized as revenue during the period	(3,467,131)	(3,053,595)
Balance, end of period	2,170,247	2,304,595

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

8. Long-term debt

[a] Long-term debt consists of the following:

	December 31, 2017		
	Current \$	Long-term \$	Total \$
Foundation promissory note <i>[note 8[c]]</i>	—	750,000	750,000
Bank financing <i>[note 8[e]]</i>	17,983	760,444	778,427
First vehicle term loan <i>[note 8[d]]</i>	5,154	873	6,027
Second vehicle term loan <i>[note 8[d]]</i>	5,279	31,835	37,114
	28,416	1,543,152	1,571,568

	November 30, 2016		
	Current \$	Long-term \$	Total \$
Foundation promissory notes <i>[notes 8[b] and [c]]</i>	500,000	2,300,000	2,800,000
Bank financing <i>[note 8[e]]</i>	20,693	777,617	798,310
First vehicle term loan <i>[note 8[d]]</i>	4,839	6,601	11,440
	525,532	3,084,218	3,609,750

[b] On December 30, 2014, the Shaw Festival Theatre Endowment Foundation provided an \$800,000 promissory note to the Theatre due on November 30, 2024 with interest at 3.5% until November 30, 2019, at which time the rate can be renegotiated. The note was secured by a charge on the land that the Theatre acquired in the town of Niagara-on-the-Lake *[note 4]*. The interest on the note for the period amounted to \$27,846 [November 30, 2016 – \$28,000], was paid in November 2017 and is included in interest expense in the statement of operations. During the period, the Theatre repaid the \$800,000 note payable from the proceeds from sale of the land *[notes 4 and 14]*.

[c] 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. The interest on the note for the period amounted to \$69,161, was paid in December 2017 and is included in interest expense in the statement of operations. Interest for the year ended November 30, 2016 of \$70,000 was included in accounts payable and accrued liabilities. During the period, the Theatre paid the \$500,000 and \$750,000 instalments on the note payable. The final instalment of \$750,000 due on December 15, 2018 was extended to January 15, 2019.

[d] The Theatre has two vehicle term loans:

The first term loan matures on February 27, 2019 and bears interest at a rate of 3.02%. The loan is repayable in blended monthly installments of \$439. An amount of \$6,027 [November 30, 2016 – \$11,440] was outstanding as at December 31, 2017, of which \$5,154 [November 30, 2016 – \$4,839] is the current portion. During the period, interest of \$292 [November 30, 2016 – \$426] was paid and is included in interest expense in the statement of operations.

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

The second term loan was issued during the period and matures on February 9, 2024, and bears interest at a rate of 4.94%. The loan is repayable in blended monthly installments of \$583. An amount of \$37,114 [November 30, 2016 – nil] was outstanding as at December 31, 2017, of which \$5,279 [November 30, 2016 – nil] is the current portion. During the period, interest of \$1,624 [November 30, 2016 – nil] was paid and is included in interest expense in the statement of operations.

- [e] 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. During the period, the terms of the financing were amended to reflect blended monthly payments of \$4,560 over 286 months, interest at 4.77% and no repayment option. An amount of \$778,427 [November 30, 2016 – \$798,310] was outstanding as at December 31, 2017, of which \$17,983 [November 30, 2016 – \$20,693] is the current portion. The interest on the note for the period amounted to \$31,508 [November 30, 2016 – \$2,334], was paid and is included in interest expense in the statement of operations.

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 revenue in the statement of operations.

	December 31, 2017 \$	November 30, 2016 \$
Balance, beginning of period	12,067,972	12,572,726
Amortization of deferred capital contributions	(522,457)	(533,879)
Contributions received for capital asset purchases	2,046,823	29,125
Transfer from net assets <i>[note 14]</i>	3,707,000	—
Balance, end of period	17,299,338	12,067,972

In November 2016, the Theatre entered into a contribution agreement with the Department of Canadian Heritage. Included in the agreement was a contribution of \$500,000 for the acquisition of the 178 Victoria Street property *[note 8]*. During the year ended November 30, 2016, the full amount of the grant was allocated to land and recorded as a direct increase to net assets. As at December 31, 2017, the Theatre has received \$2,502,000 in capital contributions related to this grant.

As at December 31, 2017, unspent deferred capital contributions were \$3,707,000 [November 30, 2016 – \$35,432], related to a contribution from the Foundation *[note 14]*.

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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. At its meeting on May 26, 2017, the Board of Governors approved removing the Board restriction and transferring the \$1,000,000 to accumulated surplus (deficit) from operations.

11. Credit facilities

As at December 31, 2017, the Theatre had in place a \$1,700,000 revolving demand operating facility, which bears interest at prime plus 2.7% [November 30, 2016 – prime plus 1.2%]. This facility can be drawn by way of bank overdrafts or operating loans. As at December 31, 2017, no amount [November 30, 2016 – \$1,235,000] has been drawn on this operating facility. In addition, the Theatre had an extension of borrowing up to \$3,000,000 from April 15, 2017 to November 5, 2017. This facility has a restrictive covenant that requires the Theatre to be free of borrowing for a three-week period from December 1, 2017, to February 28, 2018. All other terms for this facility are consistent with the revolving line of credit.

In addition, the Theatre has in place a letter of guarantee for security obligations to the Canadian Actors' Equity Association of \$450,000 through a \$530,000 non-revolving demand credit facility with the Royal Bank. If the guarantee facility is activated, it bears interest at 2.5%. There is an annual fee to keep the letter of guarantee in place.

The Theatre also has available a \$100,000 non-revolving demand facility by way of letters of guarantee, bearing interest at 2.75%, and letters of credit. No amounts have been drawn on this facility as at December 31, 2017 or November 30, 2016.

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 properties of the Theatre, has been provided in support of the borrowings.

Interest on the credit facilities for the period amounted to \$64,787 [November 30, 2016 – \$34,581], was paid and is included in interest expense in the statement of operations.

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:

	\$
2018	259,880
2019	206,858
2020	64,789
2021	28,672
2022	3,361
2023	202
	<u>563,762</u>

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

[b] The Theatre has entered into various agreements with artists for services to be performed in fiscal 2018, aggregating \$340,142.

13. Fundraising

Donations in-kind of \$25,322 [November 30, 2016 – \$25,478] were received during the period ended December 31, 2017 and recorded in the accounts. These donations include production props and consumable supplies.

14. Shaw Festival Theatre Endowment Foundation

As at December 31, 2017, the Foundation has total unaudited fund balances at market value of approximately \$26,983,500 [November 30, 2016 – \$24,541,000] categorized as follows:

	December 31, 2017	November 30, 2016
	\$	\$
	<i>[unaudited]</i>	
Unrestricted funds	18,000	17,000
Restricted funds to be used for specified purposes	250,500	94,000
Endowed funds:		
Ontario Arts Endowment Fund	6,887,000	6,813,000
Canadian Arts and Heritage Sustainability Fund	8,431,500	8,062,000
Other external endowments, income restricted	11,396,500	9,555,000
	26,983,500	24,541,000

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 an annual distribution of \$795,526 [November 30, 2016 – \$844,569] in support of 2017 operations, which was received prior to the start of the year and recorded as deferred contributions as at November 30, 2016. In addition, an annual distribution of \$850,476 was received in fiscal 2017 in support of 2018 operations and recorded as deferred contributions as at December 31, 2017 [note 7].

In 2017, the Foundation provided the Theatre with a special distribution of \$1,200,000 to assist the Theatre's working capital position.

The Theatre received from the Foundation \$200,000 [November 30, 2016 – \$200,038] for fundraising services provided on its behalf. Accounting services are provided for no fee.

In 2015, the Foundation provided the Theatre with a \$4,000,000 contribution for the purchase of land from LAIS and provided financing for the land, to enable the Theatre to build a new theatre. With the Theatre's sale of the property back to LAIS [note 4], the Board of Governors of the Foundation agreed that \$3,707,000 of the proceeds from the sale can be redirected to be used for other capital asset purchases. The amount of \$3,707,000 originally recorded as a contribution for land and an increase to net assets was transferred to deferred capital contributions [note 9] in the statement of changes in net assets. The remaining \$800,000 was to be used to retire the note payable to the Foundation [note 8].

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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.

Shaw Festival Foundation provides an annual contribution to the Theatre, which is included in fundraising revenue. During 2017, an amount of \$1,329,250 [November 30, 2016 – \$1,361,460] was contributed to the Theatre, of which \$124,476 [November 30, 2016 – \$315,240] remained outstanding and is included in accounts receivable on the statement of financial position.

16. Accounts receivable

Included in accounts receivable and fundraising revenue is \$225,460 [November 30, 2016 – \$395,000] representing the estimated outstanding payments with respect to one bequest [November 30, 2016 – two bequests]. Also included in accounts receivable is \$578,999 in group ticket sales for the 2018 season [November 30, 2016 – nil].

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, 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 credit facilities since the interest rate is linked to the bank's prime rate, which changes from time to time.

Shaw Festival Theatre, Canada

Notes to financial statements

December 31, 2017

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 term loans, 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 2017 financial statements.

