

Financial statements

The Bata Shoe Museum Foundation

December 31, 2016



Building a better
working world

Independent auditors' report

To the Members of
The Bata Shoe Museum Foundation

We have audited the accompanying financial statements of **The Bata Shoe Museum Foundation**, which comprise the balance sheet as at December 31, 2016, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Bata Shoe Museum Foundation** as at December 31, 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.

Ernst & Young LLP

Toronto, Canada
April 24, 2017

Chartered Professional Accountants
Licensed Public Accountants



The Bata Shoe Museum Foundation

Balance sheet

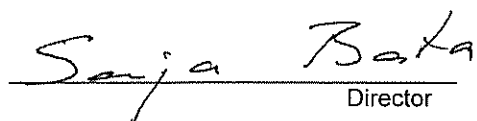
[in Canadian dollars]

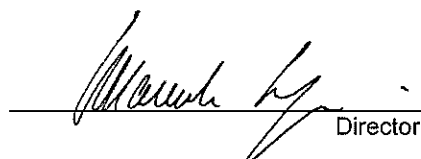
As at December 31

	2016	2015
	\$	\$
Assets		
Current		
Cash and cash equivalents	3,360	84,528
Sundry receivables	64,865	55,082
Museum Store inventory	58,268	54,733
Deferred exhibition costs	200,710	218,748
Other prepaid expenses	30,482	20,946
Total current assets	357,685	434,037
Deferred exhibition costs	195,714	133,264
Investments <i>[note 3]</i>	24,630,493	23,039,799
Capital assets, net <i>[note 4]</i>	4,304,880	4,394,074
	29,488,772	28,001,174
Liabilities and fund balances		
Current		
Accounts payable and accrued liabilities	192,299	207,398
Deferred contributions, current portion <i>[note 5]</i>	802,725	2,460,322
Total current liabilities	995,024	2,667,720
Deferred contributions <i>[note 5]</i>	2,470,339	1,900,000
Deferred capital contributions <i>[note 6]</i>	166,720	198,385
Total liabilities	3,632,083	4,766,105
Commitments <i>[note 12]</i>		
Fund balances		
Operations Fund	—	—
Investment Fund	25,856,689	23,235,069
Total fund balances	25,856,689	23,235,069
	29,488,772	28,001,174

See accompanying notes

On behalf of the Board:


 Director


 Director

The Bata Shoe Museum Foundation

Statement of operations and
changes in fund balances

[in Canadian dollars]

Year ended December 31

	2016			2015
	Operations Fund \$	Investment Fund \$	Total \$	Total \$
Revenue				
Admissions, membership and programs	494,419	—	494,419	447,483
Grants [note 5]	302,623	—	302,623	337,903
Retail	127,133	—	127,133	137,976
Facility rentals	29,897	—	29,897	40,989
Donations [notes 5 and 7]	1,479,445	912,714	2,392,159	1,521,070
Investment income	—	2,070,232	2,070,232	1,337,280
Other	40,885	—	40,885	46,849
	2,474,402	2,982,946	5,457,348	3,869,550
Operating expenses				
Salaries and benefits	1,155,611	—	1,155,611	1,121,698
Activity costs	577,915	—	577,915	789,807
Building occupancy costs	510,633	—	510,633	304,702
Administration	220,921	—	220,921	280,812
Cost of goods sold	67,484	—	67,484	80,154
Education and public programs	78,860	—	78,860	51,728
Facility rental costs	14,690	—	14,690	22,801
Optional costs [note 8]	31,419	—	31,419	15,479
	2,657,533	—	2,657,533	2,667,181
Excess (deficiency) of revenue over expenses before the following	(183,131)	2,982,946	2,799,815	1,202,369
Amortization of capital assets	—	(209,860)	(209,860)	(207,335)
Amortization of deferred capital contributions	—	31,665	31,665	38,845
Excess (deficiency) of revenue over expenses for the year	(183,131)	2,804,751	2,621,620	1,033,879
Interfund transfer	183,131	(183,131)	—	—
Net increase in fund balances for the year	—	2,621,620	2,621,620	1,033,879
Fund balances, beginning of year	—	23,235,069	23,235,069	22,201,190
Fund balances, end of year	—	25,856,689	25,856,689	23,235,069

See accompanying notes

The Bata Shoe Museum Foundation

Statement of cash flows

[in Canadian dollars]

Year ended December 31

	2016	2015
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	2,621,620	1,033,879
Add (deduct) items not involving cash		
Reinvested investment income	(2,114,202)	(1,337,280)
Amortization of capital assets	209,860	207,335
Amortization of deferred capital contributions	(31,665)	(38,845)
	<u>685,613</u>	<u>(134,911)</u>
Net change in non-cash working capital balances related to operations <i>[note 9]</i>	<u>(1,169,623)</u>	<u>4,115,827</u>
Cash provided by (used in) operating activities	<u>(484,011)</u>	<u>3,980,916</u>
Investing activities		
Net change in investments	523,508	(3,903,869)
Additions to capital assets	(120,666)	(171,654)
Cash provided by (used in) investing activities	<u>402,842</u>	<u>(4,075,523)</u>
Net decrease in cash and cash equivalents during the year	(81,168)	(94,607)
Cash and cash equivalents, beginning of year	84,528	179,135
Cash and cash equivalents, end of year	<u>3,360</u>	<u>84,528</u>

See accompanying notes

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

1. Incorporation, operations and income tax status

The Bata Shoe Museum Foundation [the "Foundation"], which was incorporated without share capital under the *Canada Corporations Act*, has continued under the *Canada Not-for-profit Corporations Act*.

The Foundation owns and operates the Bata Shoe Museum [the "Museum"] located in Toronto, Ontario.

The Foundation is a registered charity within the meaning of the *Income Tax Act* (Canada) and is exempt from income taxes.

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 summarized below.

Fund accounting

The Foundation uses two funds to record its transactions. The Operations Fund includes the resources and transactions that are administered by the Foundation's management. The Investment Fund includes other resources and activities as considered appropriate by the Board of Directors.

If the Board of Directors determines that an amount from the Investment Fund should be made available for the operations of the Museum, the amount is recorded as an interfund transfer from the Investment Fund to the Operations Fund.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with maturities of less than three months from the date of acquisition. Cash and short-term investments that meet the definition of cash equivalents that are managed for investing rather than liquidity purposes are included in long-term investments.

Financial instruments

Investments are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Other financial instruments, including sundry receivables and accounts payable and accrued liabilities, are recorded at amortized cost, net of provisions for impairment.

Museum Store inventory

Museum Store inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

Deferred exhibition costs

Costs directly related to the development of future exhibitions are presented as assets when the Museum can reliably demonstrate that there is a future economic benefit associated with these costs. These costs are expensed over their useful life, which is generally the period over which the exhibition runs. Such costs are expensed immediately when there is insufficient evidence that the costs are recoverable.

Collections

Additions to artifacts and library collections that are purchased are recorded as expenses in the period in which they are incurred. Additions that are donated are not recorded in the financial statements.

Capital assets

Purchased capital assets are recorded at acquisition cost. Contributed capital assets are recorded at fair value at the date of the contribution. Amortization is determined using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Building improvements	7 – 20 years
Museum equipment	3 – 5 years
Computer equipment	3 – 5 years

Revenue recognition

The Foundation follows the deferral method of accounting for contributions, which include grants, bequests and other donations. Grants and bequests are recorded in the accounts 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 when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Sales and services revenue is recognized at point of sale or when the service has been provided.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statement of operations and changes in fund balances.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect on the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars using the rates of exchange in effect as at the balance sheet date. Translation gains and losses are recorded in the statement of operations and changes in fund balances.

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

Contributed materials and services

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

3. Investments

Investments consist of the following:

	2016	2015
	\$	\$
Cash and cash equivalents	680,685	248,190
Bonds	5,381,784	5,402,607
Equities		
Canadian	8,872,245	3,462,883
US	6,275,014	10,593,047
International	3,420,765	3,333,072
	<u>24,630,493</u>	<u>23,039,799</u>

Investments in pooled funds have been allocated among the asset classes based on the underlying investments held in the pooled funds.

4. Capital assets

Capital assets consist of the following:

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,950,000	—	1,950,000
Building	8,672,104	6,950,099	1,722,005
Building improvements	1,026,951	426,739	600,212
Museum equipment	2,108,681	2,091,155	17,526
Computer equipment	330,329	315,192	15,137
	<u>14,088,065</u>	<u>9,783,185</u>	<u>4,304,880</u>

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,950,000	—	1,950,000
Building	8,672,104	6,854,456	1,817,648
Building improvements	919,339	343,426	575,913
Museum equipment	2,099,426	2,080,939	18,487
Computer equipment	326,530	294,504	32,026
	13,967,399	9,573,325	4,394,074

5. Deferred contributions

Deferred contributions represent unspent resources externally restricted for program expenses in future years. Changes in the deferred contributions balance are as follows:

	2016	2015
	\$	\$
Balance, beginning of year	4,360,322	280,338
Amounts received during the year	62,685	4,649,777
Amounts recognized as revenue during the year	(1,149,943)	(569,793)
Balance, end of year	3,273,064	4,360,322
Less: current portion	802,725	2,460,322
	2,470,339	1,900,000

6. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions are as follows:

	2016	2015
	\$	\$
Balance, beginning of year	198,385	237,230
Amounts recognized as revenue during the year	(31,665)	(38,845)
Balance, end of year	166,720	198,385

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

7. Donations

Donations consist of amounts received from the following sources:

	2016		2015	
	Operations Fund \$	Investment Fund \$	Total \$	Total \$
Bata Shoe Foundation	600,000	—	600,000	600,000
Director of the Foundation	—	912,714	912,714	478,369
Bata Trust UK	800,000	—	800,000	300,000
Other	79,445	—	79,445	142,701
	1,479,445	912,714	2,392,159	1,521,070

8. Optional costs

Optional costs consist of the following:

	2016	2015
	\$	\$
Collection <i>[note 10]</i>	6,274	4,369
Other	25,145	11,110
	31,419	15,479

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

9. Statement of cash flows

The net change in non-cash working capital balances related to operations is as follows:

	2016	2015
	\$	\$
Sundry receivables	(9,783)	(2,943)
Museum Store inventory	(3,535)	12,400
Deferred exhibition costs	(44,412)	(80,028)
Other prepaid expenses	(9,536)	(1,140)
Accounts payable and accrued liabilities	(15,099)	107,554
Deferred contributions	(1,087,258)	4,079,984
	<u>(1,169,623)</u>	<u>4,115,827</u>

10. Collection

As at December 31, 2016, the collection of shoes, the value of which is not recorded in the balance sheet, has an estimated insured value of approximately \$36,717,000 [2015 – \$36,463,000]. During the year, collections with an insured value of \$73,300 [2015 – \$84,800] were donated to the Foundation and have not been recorded in the financial statements. In 2016, collection items with a purchased cost of \$9,290 [2015 – \$12,944] have been recorded in the financial statements

11. Financial instruments

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

Foreign currency risk

The Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because of fluctuations in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Foundation is exposed to credit risk in connection with its sundry receivables and its fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in equity income investments and pooled funds that hold fixed income securities because the fair value will fluctuate due to changes in market interest rates.

The Bata Shoe Museum Foundation

Notes to financial statements

[in Canadian dollars]

December 31, 2016

Other price risk

The 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 and pooled funds.

12. Commitments

The Foundation has various leases on office equipment. Future minimum annual lease payments are as follows:

	<u>\$</u>
2017	24,103
2018	24,103
2019	16,990
2020	13,434
2021	2,239
	<u>80,869</u>

13. Comparative financial statements

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

